

NASBA Annual Meeting 2017
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Remarks As Prepared for Delivery

Good morning Chairman Lodden. Thank you so much for inviting me to speak. It's always good to see you. I had the distinct pleasure of speaking to all of you last year, and I am thrilled to have that opportunity again. As you may recall, I am the Chairman of AICPA until January 31st, 2018. On February 1st, our 105th Chairman Eric Hanson's term will begin. As I look back over the last 12 months, I feel a great sense of pride. Together we successfully launched the next-generation CPA Exam, released three exposure drafts to update the UAA and saw several states adopt key UAA provisions.

Having worked with outgoing Chair Ted Lodden and now working with incoming Chair Ted Long, I can see the amazing work that our organizations are accomplishing together. I'm inspired by how much opportunity we have together in the year ahead.

As I think about our profession's success and growth, three questions come to mind for us to consider moving forward:

1. How can we leverage and embrace the rapid changes in technology?
2. How can we continue to attract the best and brightest talent to our profession?
3. How can the AICPA and NASBA continue to work together to ensure that CPAs continue to provide high-quality services that serve the public?

First, let's look at technology.

From drones, to artificial intelligence, to augmented reality, to blockchain, the CPA profession looks almost unrecognizable from when most of us sat for the exam and started our careers. Barry Melancon, AICPA's CEO, likes to say that the profession will be unrecognizable 10 years from now. I can tell you, that this is absolutely true from where I sit at Oracle.

When I started my term as AICPA chairman, I said that our ability to embrace technology will determine whether it is our greatest threat or biggest opportunity. We are standing at the intersection of Anticipation and Preparation and I am absolutely certain that we are making technology a tremendous opportunity for our profession.

Tomorrow, you will hear a panel on blockchain, a technology I don't think any of us predicted evolving this quickly. The idea behind blockchain first emerged in 2008. In the last few years, it has grown exponentially. Most of us learned about blockchain because of how it supports digital currencies like Bitcoin, but the profession is starting to explore how to use it to support core services around financial reporting, auditing and tax.

And that can't happen soon enough. Companies like Microsoft and PayPal already accept blockchain-based digital currencies as payment, Oracle recently launched a blockchain cloud service, and nations like Sweden and Bahrain are looking at how they can issue a national digital currency based upon blockchain technology.

Along with these advances, we've been hearing a lot about how blockchain has the potential to facilitate a higher value audit. Imagine a world where all transactions for a company occur on the blockchain, creating immutable information. Such a scenario would enable auditors to verify large amounts of routine data automatically, allowing them to instead focus on more complex transactions and controls.

This technology could change the way we audit in the future. The immediate need is identifying standards and regulations surrounding the use of blockchain technologies and currencies by both the profession and by our clients.

For example, while the IRS treats digital currencies like Bitcoin as property, CPAs still need additional guidance on acceptable valuation and documentation, charitable contributions, retirement accounts and more.

The AICPA is working on a letter to the IRS asking for such guidance, and we will continue to work to get the information our members and their clients or organizations need to appropriately comply with IRS rules.

At the same time, FASB said it is considering whether to develop accounting standards related to recognizing, measuring and disclosing digital currencies. Is Bitcoin a cash and cash equivalent? A financial instrument? Intangible asset? Inventory? As companies start using digital currencies, our profession will be the trusted resource for answers. We'll monitor developments in this area and assist practitioners with understanding and implementing any new standards.

While the growing digital world is exciting, it also presents a higher risk of fraud and data theft, and the profession has a critical role to play in this brave new world. From my own experience at Oracle, I know that securing the IT environment is critically important to any organization. IT security breaches come from all over. From phishing to ransomware, from insider hacks to international attacks, businesses big and small are facing cyberthreats every single day.

Attacks like WannaCry and Petya impacted millions of people worldwide. The Equifax breach affected nearly half the U.S. population, plus people in Canada and the U.K. As a result, organizations are facing increasing pressure to demonstrate that they are managing cybersecurity threats and that they have effective processes in place to safeguard personal information and respond to these types of attacks.

Here's where our profession steps in. CPAs have a long history in auditing information technology controls, so we are best positioned to help protect investors, vendors, consumers and businesses – everyone with a digital footprint. The profession is taking a leadership role and is providing the advisory and assurance services our clients and organizations need to assess and mitigate IT threats.

In fact, on Wednesday, Barry Melancon is doing a cybersecurity webcast with Shark Tank star Robert Herjavec. You can sign up for free for the webcast at webcasts.com/cybershark.

In working with the NASBA leadership team, I have learned many things. One of those lessons came from our work on the UAA with regard to the importance of a common language on complex issues, and that is exactly what the AICPA developed earlier this year: a common language for reporting on cybersecurity risk management.

Our framework is a new solution for cybersecurity engagements. It gives a unified platform that will strengthen cyber risk programs across all kinds of industries, in all size organizations and businesses.

Our competence, expertise and regulatory oversight make CPAs the obvious choice to provide an independent assessment of an organization's cybersecurity program. As new technologies continue to change the way the world does business, we have a huge opportunity to position our profession as the market-wide go-to for cybersecurity program assessment.

Technology isn't only changing the services that we provide but also the way we provide them. Together with Rutgers University, the AICPA is working on a research initiative to demonstrate how integration of data analytics into the audit process can lead to a more effective and efficient audit.

I was excited to hear that NASBA hosted researchers with the RADAR project at its regional meetings in June and that you learned how experts from across the profession and academia are exploring new techniques for assessing risk and gathering audit evidence. We'll definitely keep you updated on our progress and hope you will do the same.

Technology is changing the work our clients do today, so we must transform, too. Robotics, virtual reality and artificial intelligence are already here. They will continue to impact how we do business, and we must continue to leverage them as an opportunity.

However technology evolves, I know that we can rise to these market demands and use these advancements to improve and maintain the relevance of our services.

These new technologies make our profession more exciting than ever. They also present an opportunity to show the next generation not only our innovative ideas but also that we are committed to meeting the evolving needs of the public.

We can show students the high level of service and the deep value that technology allows CPAs to provide.

Imagine if someone had come to your college career day and talked about using a drone in an audit of inventory, or using intelligent automation in the audit process. For students who have never known a world without the internet, integration of technology in our profession is not an option – it is essential.

However, while cool technology will get us in the door with the new generations, after that, it's still about the good old-fashioned relationship-building that we grew up with.

We know that one of the biggest factor in young people deciding to take the CPA exam is if they know someone who is a CPA. As I've been saying throughout my time as AICPA chairman, we must all be willing to be mentors. Everyone in this room is in a position to help a young accounting student realize his or her potential.

What if every accounting major left school with an existing relationship with their state board of accountancy and their state CPA society? Working together, the AICPA, NASBA and state CPA societies could make that happen.

We also must be aware that the education environment is changing. Not all accounting students come from traditional four-year universities. A growing number of future CPAs start out in community colleges, and we want to tap into that talent pool. Having attended community college for part of my education myself, our initiatives to reach out to that population are close to my heart.

I decided to become a CPA in third grade and never gave up that dream. Although I had already completed my bachelor's and master's degrees and was working in IT, I was still determined to become a CPA. I chose to attend community college to get the courses and education I needed to achieve that goal.

That's why I am thrilled that the AICPA is working to increase scholarships and other resources for community college students to bridge the gap for those transferring from two-year to four-year programs.

In addition to our work in community colleges, we also have the opportunity to engage talent from a wider array of demographic and economic backgrounds. The profession must raise its visibility to those who may have been overlooked historically. To expand our search for the best and brightest, we've been working hard to develop and enhance the profession's diversity and inclusion. Here are our three important goals:

1. Increase communication and awareness of accounting the profession and its many opportunities as a career option in diverse communities,

2. Increase support of school-based programs for students pursuing accounting, auditing, tax and other core services of the profession, and
3. Increase the number of minorities who sit for and pass the CPA exam.

These are big goals, and they are necessary goals. Very importantly, they require a partnership. NASBA's work on diversity and inclusion, such as programs to increase the diversity of your leadership and volunteer base, underscores how important it is to work together.

That brings me to the third issue I want to highlight today: the collaboration between our two organizations. This collaboration is critical for many reasons, a key one being that a strong regulatory framework supports the foundation of our profession.

As we recognize the changes heading toward us, the work of the state boards becomes even more important.

A big reason CPAs can grow into areas like cybersecurity is because the public trusts us. They know that we are a profession built on quality, competency and integrity with rigorous standards and regulation.

Together, NASBA and the AICPA have worked to create an environment that both protects the public and ensures CPAs are equipped to provide the services the public needs.

One example is the comprehensive definition of attest. I would like to extend a huge congratulations on the success of 47 states that have adopted it. This achievement was an important joint effort. The comprehensive definition of attest ensures the public knows that the professional performing their attest service has the necessary education, expertise and licensing structure – a combination available only from a CPA.

As you are aware, the AICPA is also working to make sure CPAs have the tools necessary to provide the services the public needs through its Enhancing Audit Quality Initiative, or EAQ. EAQ maintains our commitment to the public interest through research into the factors driving audit quality and the development of programs and resources to support firms' quality improvement.

Through this research-based, data-driven initiative, we have discovered several interesting factors about audit quality. For example, our research into single audits found that the size of a firm's single audit practice – not firm size – has a strong correlation to quality.

The more single audits a firm performed every year, regardless of firm size, the more likely a given single audit was to conform to professional standards.

Governmental Audit Quality Center membership was also a factor driving single audit quality in the study. Firms that are members were noted to have twice the rate of conformity with

professional standards, and quality center members who performed 11 or more single audits annually had a 100 percent conformity rate.

Finally, and as you would expect, the qualifications of a firm's engagement partner made a difference. Engagement partners who had more experience and training had fewer instances of non-conformity in the study.

Now, let's think of this data in context of how the profession is evolving.

New technology and new market needs mean that CPA firms can become experts in niche areas and provide high levels of service on specialized topics. For example, we have members who work exclusively in areas like employee benefit plan audits, tax compliance and personal financial planning.

Our research seems to support this trend, indicating that specialization may benefit audit quality. When the public can identify a CPA firm that fits their specific needs – a firm that has specialized experience in a niche area – everyone wins.

One way that the AICPA is supporting specialization is through our joint efforts with NASBA on CPA firm mobility. Firm mobility allows consumers to identify businesses that specialize in the exact type of audit they need – even if that firm is across state lines. This particularly helps small firms who specialize, it could enhance audit quality and it helps protect the public interest.

Now, almost half the country – 22 states – have adopted language from the UAA that allows CPA firms to provide attest services across state lines without having to register in every state in which they provide those services.

Firm mobility is a great example of how we collaborate to meet the evolving needs of the public and the profession. The work we do together on the UAA is one of the most important functions of our relationship. Through it, we can address the changing world around us on a continual basis, while ensuring that we are meeting the needs of the public.

As we look at new technologies, new services and new ways of providing those services, the UAA will continue to serve as a solid framework for regulation and public protection.

I am excited to see how the AICPA and NASBA will continue to work together to address technological innovations, to grow the CPA pipeline and make ways for new talent, and to consider changes in regulatory needs.

The world is changing.

Market needs are changing.

Our client needs are changing.

And the profession stands ready and willing to evolve, too.

By working together, CPAs will continue to enjoy the public's trust as the most respected financial profession.

I want to thank all of you for the opportunity to speak with you today, and I hope you will be here on Wednesday for Barry Melancon's presentation. I am excited for our profession's bright future, with our organizations working together to light the way.

Thank you.