

COMMENTARY

AAA Government and Nonprofit Section Response to the AICPA's Exposure Draft and Invitation to Comment Related to the Uniform CPA Examination

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ABSTRACT: During December 2019, the AICPA released *Maintaining the Relevance of the Uniform CPA Examination: An Exposure Draft and Invitation to Comment* based on a practice analysis conducted during 2019. Among the proposed changes to the CPA Exam, the level of governmental accounting content tested in the Financial Accounting and Reporting (FAR) section of the CPA exam would be reduced, with the potential removal of governmental accounting material altogether. The following is the comment letter submitted to the AICPA on behalf of the Government and Nonprofit (GNP) Section of the American Accounting Association.

Data Availability: Information about *Maintaining the Relevance of the Uniform CPA Examination: An Exposure Draft and Invitation to Comment* is available at: <https://www.aicpa.org/content/dam/aicpa/becomeacpa/cpaexam/downloadabledocuments/2019-practice-analysis-report.pdf>.

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The views expressed in this comment letter are those of Suzanne L. Lowensohn, Brian P. McAllister, and Tammy R. Waymire. While the letter sought and incorporated feedback from the GNP Section, the comment letter does not reflect an official position of the American Accounting Association or of the GNP Section.

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I. INTRODUCTION

On behalf of the American Accounting Association's (AAA) Government and Nonprofit (GNP) Section, we thank the AICPA and the Board of Examiners for the opportunity to comment on its December 2019 Exposure Draft and Invitation to Comment (ITC). The AAA GNP Section comprises approximately 350 academics interested in government and not-for-profit accounting, auditing, research, and education. As such, we are gravely concerned with the proposal to remove accounting for state and local governments from the Financial Accounting and Reporting (FAR) section of the CPA Exam.

The ITC's *Issue Description* suggests removal of accounting for state and local governments from the FAR section of the CPA Exam for three reasons: (1) the specialized nature of external financial reporting for state and local government, (2) the limited applicability of this content to a large majority of newly licensed CPAs (nICPAs), and (3) the FAR Area IV has minimal impact on a candidate's overall score (15 percent maximum) and the CPA Exam more generally and broadly assesses critical thinking, risk assessment, problem solving, and professional skepticism skills that are foundational to anyone who is working on a GAGAS engagement. The ITC asks: Given the considerations above, should accounting for state and local governments continue to be assessed on the CPA Exam? Please provide your rationale.

We *strongly disagree* with the AICPA's suggestion to remove accounting for state and local governments from the CPA Exam. The elimination of state and local government accounting from the Exam would result in a singular focus on only one of the three U.S. standard setters, the FASB. The financial reporting standards issued by the other two U.S. standard setters (GASB and FASAB) would be completely ignored. In addition, state and local governments represent a sector of the economy that is important to us all and, as such, is applicable to CPAs, whether newly licensed or not (Points 1 and 2 above). Furthermore, governmental accounting represents an important element of student understanding of financial accounting, offering a way to build critical thinking skills by demonstrating articulation across different bases of accounting (Point 3). Our position is supported by the following evidence:

1. Licensed CPAs serve the public interest by working directly for and auditing government entities, as well as participating as engaged citizens in their local communities. There are over 90,000 local government entities ([U.S. Census Bureau 2017](#)), and approximately 8 percent of accountants in the U.S. work for a government entity ([Bureau of Labor Statistics 2020](#)). There are approximately 2,000 audit firms registered as members of the Government Audit Quality Center. The magnitude of the sector (government spending in the U.S. is approximately 38 percent of gross domestic product [[OECD 2015](#)]) demands appropriately educated accountants, auditors, and engaged citizens to ensure the public interest.

The 50 state governments in the U.S. each have an audit agency that employs auditors that are required (34 of the 50) or are encouraged to have professional licenses ([NASACT 2018](#)). These centralized state audit agencies are responsible for financial statement audits, performance audits, investigations, attestation engagements, and other accounting and review services for local governments and state agencies. In a significant number of states, these centralized audit agencies are exclusively responsible

for the financial statement audits of state agencies and/or local governments. In some other states, these agencies employ licensed CPAs to oversee or review audits conducted by external CPA firms.

The AICPA's focus appears to be on newly licensed CPAs (nICPAs) who go to work for Big 4 firms, rather than those who go work for non-Big 4 firms, industry, and government. Licensing should serve to provide all graduates with a foundation that will serve them well regardless of their initial career placement and beyond their entry into the accounting profession. We point out that recent graduates (in the process of testing or newly licensed) may go to work for a centralized state audit agency or other government entity, and those who go to work for a public accounting firm are often assigned to government audits in their first year, particularly if they are hired outside of the corporate audit cycle. As governmental accounting professors, it is a refrain we frequently hear from recent graduates—that they were assigned to a governmental audit as one of their first engagements. Furthermore, given the significant historical turnover rates in public accounting firms, the misplaced emphasis on initial career placement ignores the need to prepare licensed CPAs for their subsequent position, which is likely to be in industry or government.

2. Governmental audit quality has been a major concern to the AICPA, the U.S. Government Accountability Office (GAO), and the accounting profession. In March 1987, the AICPA issued its *Report of the Task Force on the Quality of Audits of Governmental Units*. The Task Force considered governmental financial statement audits, as well as audits of federal funds, and recommended the 5 E's—Education, Engagement, Evaluation, Enforcement, and Exchange information. During this time period, the AICPA's Task Force on Content Validity approved an increase of government and nonprofit (GNP) content from 10 percent to 25 percent of the accounting practice and theory sections of the CPA Exam, as well as inclusion of governmental publications as part of the list of publications that CPA Exam candidates should study. In the past decade, the percentage of governmental coverage has dropped to a range of 5 to 15 percent, with complete removal of governmental content identified as a possibility. The relation between the 5 E's and governmental audit quality has been empirically established ([Lowensohn and Reck 2004](#)). The marginalization of governmental accounting knowledge will therefore likely refuel issues of audit quality in this large sector of the U.S. economy.
3. Removal of governmental topics from the CPA Exam will reduce curricular offerings at colleges and universities. Theoretically, curricular decisions should be made based on a broader set of factors beyond licensing requirements. Practically, resource constraints and the emphasis on CPA Exam pass rates will undoubtedly cause some universities to eliminate their GNP course(s). This will not only reduce the number of nICPAs hired as governmental accountants and auditors with knowledge of government accounting, but it will also limit student exposure to not-for-profit topics that are often taught in tandem with governmental topics. Many nICPAs either go to work for not-for-profit organizations or for CPA firms with not-for-profit practice units. Coverage of governmental and not-for-profit accounting is often limited to one course, which may be the source of inspiration for some students to consider governmental and not-for-profit career paths ([Martin and Waymire 2017](#)). Removing GNP material from the CPA Exam will have the trickle-down effect of reducing the Education part of the 5 E's for both governmental and not-for-profit accounting.

If colleges and universities eliminate their GNP courses, we can expect fewer Ph.D.

candidates in the field, which will have an adverse effect on government and not-for-profit academic research. The natural extension of fewer teaching opportunities within GNP means that fewer professors will have the incentive to publish in these areas. The tenure-track faculty who research and publish in these sectors are also actively engaged in the profession and policymaking. Preserving the public interest depends critically on the supply of new Ph.D. graduates in this area to teach, research, and serve as resources to practitioners and policymakers.

4. Government and not-for-profit accounting is described by the AICPA as a specialized area of accounting, but we point out that it is the only such area that is defined by sector of the economy, rather than type of accounting (like consolidations, for example). While the AICPA document contends that firms are responsible for training nCPAs in specialized areas, testing of GNP material on the CPA Exam and its coverage in undergraduate and graduate-level courses remains critical for two important reasons. First, it is important for nCPAs to recognize that there is more than one U.S. standard setter. Financial accounting is not the exclusive domain of accounting rules focused on for-profit entities and created by the FASB. Second, the government sector is defined by a fundamental difference in motive, where the emphasis is on mission more so than on profit. This in turn results in significant differences in the accounting standards created by the FASB versus by the GASB and FASAB. Newly licensed CPAs should have at least a baseline exposure to governmental accounting given the collective mission of the FASB and the GASB “to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and to educate stakeholders on how to most effectively understand and implement those standards” (<https://www.accountingfoundation.org/aboutfaf>). For the licensing process to ignore the GASB and the FASAB would be to disregard the stakeholders that depend on government financial reports.

The AICPA’s Practice Analysis document implies that only “understanding of the business” (<https://www.aicpa.org/content/dam/aicpa/becomeacpa/cpaexam/downloadabledocuments/2019-practice-analysis-report.pdf>) is important to nCPAs. Given the size of the government market, linking knowledge of for-profit topics with baseline knowledge of the public sector presents numerous possibilities for the nCPAs. In addition, exposure to GNP accounting topics helps to reinforce financial accounting concepts learned in students’ exposure to for-profit entities. The GNP course provides students with exposure to an alternative organizational structure, more than one basis of accounting required within the same entity, expanded critical thinking skills, and reinforcement of GAAP accounting and financial reporting for for-profit entities. With critical knowledge and skills at the heart of the CPA Exam, the ability of students to translate between the external financial reporting of government entities to that of for-profit entities should be a primary goal. Hence, the GNP class is a natural educational setting for applying, analyzing, and evaluating (higher order learning verbs associated with *Bloom’s Taxonomy*) in an accounting context.

5. We appreciate the AICPA’s emphasis on data analytics and believe that government offers unique data opportunities to explore in GNP accounting classrooms. The faculty in our section are actively engaged in teaching data analytics using resources such as government checkbooks, Federal Audit Clearinghouse data, and the Smart City initiative. The transparency associated with governments makes their data readily available to their citizens, making the GNP course a natural setting for data analytics with real data. In a full analysis of the available data, [Flasher \(2020\)](#) compiles a list of the CAFR, checkbook, and open data portals for U.S. state governments that may be used in teaching government analytics.

II. METHODOLOGY

We commend the AICPA for following a multiple-step approach to the practice analysis. With that said, there are deficiencies in the approach, as well as ambiguity in its description. Our overarching concern related to methodology is the *lack of sufficient government representation in the process*. Without adequate government representation, the consequences related to governmental accounting coverage on the exam could not be adequately deliberated. It is not clear that the representation is proportionate to the total licensed CPAs or nCPAs who work directly for governments or who audit governments. Moreover, any process that seeks to fairly elicit the views of all stakeholders must actively work against ingroup (tendency to show favoritism to similar group members) and outgroup bias (tendency to discount the views of dissimilar group members) to ensure minority viewpoints are sufficiently represented.

We note the following specific deficiencies/concerns with the approach and omission of information:

- The representation from government in Phase 1 is almost entirely absent. Phase 1 firm meetings consisted solely of CPA firms (auditors), with no representation from industry or government and no indication of the level of involvement the selected auditors have with government clients. The Phase 1 focus groups that followed consisted almost entirely of CPA firms (six of eight), with one of the two remaining focus groups representing state regulatory boards, and the other representing all of business, industry, and government. Despite the lack of government representation in Phase 1, there is no indication that participants suggested that state and local government accounting should be considered for elimination from the CPA Exam.
- Phase 2 content rating panels were comprised of direct supervisors of nCPAs, but no additional information is provided about the composition of these panels. Participants' employment (public accounting, industry, or government), role, and experience are not disclosed, but if consistent with Phase 1, the representation of government is insufficient. It is in this stage, where composition of the panels is unclear, where governmental accounting became identified as an area for potential elimination. Even the raters who discounted the value of government accounting as a topic on the CPA Exam seem unsure of their conclusion, given a confidence rating of only 3.1 on a five-point scale.
- Phase 3 confirmation panels also appear to use direct supervisors of nCPAs, although not the same individuals who were involved in Phase 2. There is no discussion of whether a feedback loop was completed to ensure that the views of the participants and recommendations from previous stages are accurately represented. Although the process should have been adjusted at the outset to ensure perceived minority views (we say perceived, as we have demonstrated the significance of the sector and the role of licensed and newly licensed CPAs in it) are adequately heard.

There is clearly a process failure to untangle *importance* from *popularity*, and the results of the *Practice Analysis* must be questioned given the absence of process adjustments to mitigate ingroup and outgroup bias.

III. OUR RECOMMENDATION

Based on the foregoing, we make two statements. First, and most immediately, we believe that the level of testing of governmental material in the blueprint (FAR 24 through 28) should not be reduced as scheduled to begin July 2021. The application skill level of this content is important to

the understanding of the governmental sector and to the demonstration of critical thinking skills. Second, related to the ITC and the longer-term strategy, we believe that it would be destructive to the career paths of nI CPAs and to the public interest to eliminate state and local government accounting from the Uniform CPA Exam. We argue the opposite—that *testing of governmental accounting should be increased*, and we urge the AICPA to consider this as well as *expansion of topics to include the U.S. federal government*, given its economic impact.

We understand to this second point that the AICPA is in a consideration stage and will evaluate responses to the ITC, including our own. We are hopeful that the feedback received from government accounting and auditing stakeholders during the comment period makes the AICPA and the Board of Examiners more aware of the consequences of reducing or eliminating governmental accounting coverage on the CPA Exam. *As academics, we offer our resources as researchers and educators in evaluating the appropriate level of testing of governmental accounting material on the CPA Exam.*

We appreciate your full consideration of our response,

—Government and Nonprofit Section of the American Accounting Association

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