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NASBA BOARD OF DIRECTORS 2009-10 - First Row (left to right): Theodore W. Long, Jr. (OH), Director-at-Large; Sally Flowers (CA), Director-at-Large; David A Costello, President and CEO; Billy M. Atkinson (TX), Chair; Thomas J. Sadler (WA), Past Chair; Michael T. Daggett, Vice Chair; Laurie J. Tish (WA), Pacific Regional Director; Joseph T. Cote, Executive Vice President and COO. **Middle Row (left to right):** Richard Isserman (NY), Director-at-Large; Telford A. Lodden (IA), Central Regional Director; Noel L. Allen, legal counsel; Kathleen J. Smith (NE), Director-at-Large; David D. Duree (TX), Southwest Regional Director; Daniel Sweetwood (NE), Executive Directors' Liaison; Kenneth R. Odom (AL), Southeast Regional Director; Carlos E. Johnson (OK), Southwest Regional Director; Claireen Herting (IL), Great Lakes Regional Director. **Back Row (left to right):** Mark P. Harris (LA), Director-at-Large; Walter C. Davenport (NC), Director-at-Large; Leonard R. Sanchez (NM), Director-at-Large; Harry O. Parsons (NV), Mountain Regional Director; Donald H. Burkett (SC), Middle Atlantic Regional Director; Gaylen R. Hansen (CO), Director-at-Large; Michael Weinschel (CT), Northeast Regional Director.

NASBA Considers Exam Contract Extension

Details of the extension of the NASBA/AICPA Uniform CPA Examination's contract to 2024 were discussed at the October 30 Board of Directors' meeting in Phoenix. Senior Vice President Ken L. Bishop summarized the discussions being held with the AICPA's negotiating team. He pointed out that concerns, raised by those State Boards that had opposed the contract five years ago, have been ironed out in the contract now being worked on. This includes increased control of the Board of Examiners through more appointments to the BOE and alternating whether NASBA or the AICPA selects the BOE chair. Mr. Bishop stressed the important role the BOE plays in the examination process.

As far as extending the contract with Prometric, the examination's current delivery provider, Mr. Bishop explained that, as technology changes are occurring rapidly, NASBA and the AICPA do not want to be prohibited from considering other types of delivery after 2014, when the current contract expires.

The NASBA Board also received a report from the Compliance Assurance

(continued on page 2)

Niemeier Challenges International Standards

Acknowledging that “the inevitable is death, taxes and IFRS,” Charles Niemeier, keynote speaker at NASBA’s Annual Meeting, November 1-4 in Phoenix, questioned why international standards are being supported by U.S. professionals. As a founding member of the Public Company Accounting Oversight Board, Mr. Niemeier observed that a “tremendous opportunity for solving problems” had passed and currently “there are movements afoot to undo the progress made” for standards in the investors’ interests. Mr. Niemeier spoke to 334 meeting attendees, including representatives from 52 State Boards of Accountancy.

Early regulatory gaps, which went back to the laws of the 1930’s, are what led to the Sarbanes-Oxley (SOX) Act of 2002, Mr. Niemeier stated. Accounting and auditing requirements were ceded to the accounting profession itself and, when peer review was established, critics like former SEC Chief Accountant John C. Burton, thought it was “likely to be seen as mutual back scratching.” The skeptics proved right, Mr. Niemeier said, as in 25 years there was never an adverse result on a peer review of a major accounting firm in the United States.

Looking at the forces for globalization, Mr. Niemeier asked, “Who can be against the whole world operating under a single system?” Then he pointed out that differences among countries make the idea unpractical — at least in the short run. People in the U.S. invest to fund their retirement, so there is a stronger interest to insure that investment through more regulation. “Shouldn’t we understand if moving to another set of standards is really in the best interest of investors?” he asked.

Mr. Niemeier questioned the movement to a principles-based system of standards, which are very difficult to enforce. “Verifiability is a very important part of our financial reporting



Charles Niemeier questions why international standards are being supported by U.S. professionals.

process,” he noted and said the most common challenge that auditors face is, “Show me the rules where I can’t do that.”

He called for the establishment of an agenda that is in the best interest of investors, that places a premium on reliability and the disclosure of problems. Mr. Niemeier acknowledged that there are problems in aligning the interests in financial systems and encouraged taking more time to understand the business model and the standards being applied. “Present financial statements need to provide more relevant information,” he stated.

“The markets are actually working well,” Mr. Niemeier said. However, he added, “We shouldn’t ignore the fact that incentives don’t.” He called on everyone to support good financial reporting.

Asked about the challenges being faced by the PCAOB, Mr. Niemeier identified two: performing firm inspections in the international arena and determining how to handle quality control in global networks of auditing firms. ♦

NASBA Considers Exam Contract Extension

(continued from page 1)

Committee, which is considering the peer review process in place in ten other countries. Although there have been gains in the transparency of the AICPA’s peer review program over the last five years, more is needed, Compliance Assurance Committee Chair Mark Harris (LA) explained to the Board. The Committee’s report outlines its concerns and is being submitted to the AICPA’s Peer Review Board for their consideration. Janice L. Gray (OK) has been appointed as the State Boards’ representative on the 20-member Peer Review Board and Alicia J. Foster (MD) and Robert G. Zurich (OH) have been appointed as former State Board members on the AICPA’s 16-member National Peer Review Committee. The NASBA Compliance Assurance Committee’s report recommends: “An external and independent body should be established to design and receive all reports related to oversight.”

Plans to do pilot testing of the administration of the Uniform CPA Examination outside of the United States are moving forward, Mr. Bishop told the Board. Sites that have risk similar to that

found in the U.S. are under consideration. Every candidate will need to pay the domestic fee plus an additional amount for testing outside the U.S. Unlike U.S. candidates, those candidates who opt to take the examination outside the U.S. will need to agree to the invalidation of their scores should a break in security be found, Mr. Bishop said.

President Costello reported on NASBA’s activities over the quarter, including the Forum for International Accounting Regulators, held in San Francisco, CA, September 10-11 which was attended by representatives from more than 20 countries, and the CPE Expo, held in San Antonio, TX, September 21-23. He told the Board NASBA had been named for the fifth time as one of the “best places to work” by the *Nashville Business Journal*.

The Board also received a report from the Education Committee suggesting future research topics. Vice Chair Billy Atkinson (TX) reported on his positive meetings with the leaders of the American Accounting Association and described a proposed joint commission on accounting education. ♦

Chair Sadler Summarizes Year

NASBA 2008-09 Chair Thomas J. Sadler congratulated the State Boards, over 250 NASBA volunteers and NASBA staff on their accomplishments over the past year. He told NASBA's 2009 Annual Meeting, that together, the Boards and NASBA had:

- Increased the number of states passing mobility legislation to 45, with five more on the way.
- Advanced the Accountancy Licensee Database steadily with over 30 states now at some stage of conversion.
- Supported the Compliance Assurance Committee's development of a discussion paper on the state of peer review.
- Represented state boards at over 20 international and federal agencies and forums in San Francisco, London, Vancouver, BC, Washington, DC, and New York.
- Commented in writing and, on numerous occasions in person, on significant exposure drafts and requests for response on regulatory and professional issues.
- Developed a plan for administering the Uniform CPA Examination outside of the United States.
- Administered the 1,000,000th computer-based Uniform CPA Examination in the United States.
- Completed a survey to raise the level of awareness of Boards to what other Boards are doing to enforce compliance with accountancy statutes and rules – a vital step toward developing best enforcement practices.

In regulation:

- NASBA and State Boards were prominently mentioned in the U.S. Government Accountability Office's report on the single audit process.
- NASBA influenced IFAC's Accounting Advisory Group's recommendations to the G-20 Financial Summit.
- NASBA last year inaugurated the Forum of International Accounting Regulators, a unique meeting of international regulators from around the world, and this fall followed up



NASBA 2008-09 Chair Thomas Sadler highlights the accomplishments of the Boards and NASBA for the year.

with a second very successful conference in San Francisco.

- Hosted the Continuing Professional Education Conference to bring Board representatives and course sponsors together to promote high quality CPE.
- Forged a mutual recognition agreement, through the NASBA/AICPA International Qualifications Appraisal Board, with the New Zealand Institute of Chartered Accountants and recommended the MRA to the Boards for their adoption.

Chair Sadler also praised the work of the Center for the Public Trust: "NASBA, to my knowledge, is the only regulatory organization in the world to promote ethics with a proactive forward approach encompassing awards, recognition, dialogue, and conferences – rather than through the rearview mirror of punishment and sanctions."

The complete text of Chair Sadler's presentation, and other handout materials and videos from the 102nd NASBA Annual Meeting, can be found on its Web site, www.nasba.org. ♦



Professor Ira Solomon calls for the 3 Cs: communication, cooperation and coordination.

AAA VP Solomon Recommends 3 Cs

Communication, cooperation and coordination between the American Accounting Association and NASBA, as well as among the individual members of the AAA and the State Boards of Accountancy, were called for by AAA Vice President Ira Solomon at the Annual Meeting. He said all these parties are looking to achieve the same objectives. There are challenges to the traditional definitions of accountancy, as to what is and what is not "accountancy." These include demands for more relevant financial reports, enhanced professional judgement, expanding business reporting, achieving financial literacy for society, and assuring sustainability for the profession. Rethinking of traditionally heavy technical educational programs is needed. Dr. Solomon called for consideration of skill-based learning objectives as programs are developed.

The AAA now wants to broaden its scope from the traditional role of meetings' organizer and journal producer, "to embrace thought leadership as central to its mission," Dr. Solomon stated. It is seeking partners and funding to set up a best practices group, similar to the previous Accounting Horizons or the Pathways Commission, for accounting education and research. He pointed to the Accounting Doctoral Scholars Program as an effort being funded by the profession and created by Deloitte's Bill Ezzell. ♦

Highlights From Inaugural Address

Thank you to all who have contributed their time and energy to the responsibilities of State Boards of Accountancy. I hope you will join me in working together on the key points that your Boards may be addressing this year.* None of these issues are new or revealing to us: They are a continuation or refinement of subjects which we are already actively addressing.



Billy M. Atkinson, CPA

- The Uniform CPA Examination is “Mother Nature”—and you don’t mess with Mother Nature. It continues to be both relevant and foundational to the public we serve and protect. We will complete a renewal of the CPA Examination agreement and move towards an international “i-exam” with appropriate state-based protections. It is very important to us all that the agreement not only preserve the rights of State Boards, but that it results in balanced economics to the CPA Examination candidates and the parties to the agreement, as well as the continuance of quality and reliability of the testing process.
- We continue to support the promulgation and transitional adoption of global accounting standards through both “roadmap” and “convergence” approaches. However, the issues contained in NASBA’s February 19, 2009 comment letter to the SEC must be addressed. No entity is above the virtue of objectivity for public acceptance. Should the SEC reaffirm the “roadmap” and/or the “convergence” approach, we still must deal with the determination of GAAP for non public entities that make up such a large part of “Main Street” financial statements in our states and territories. The related issues will have huge implications for us. Questions to be addressed will include:
 1. Is the FASB (Financial Accounting Standards Board), with its evolution to “rules based” accounting standards for “Wall Street,” really an effective body for development of accounting standards for “Main Street”?
 2. Does the FASB have the public’s confidence? Who really is “the public”?
 3. What are the implications of differential standards for Wall Street vs. Main Street? Will there really be one common body of financial accounting knowledge?
 4. Are we (both State Boards and other regulators) better able to regulate and enforce to rules vs. principles-based standards? Who and what are leading the development of accounting standards...either locally or globally?

We all need to join in these issues which are now on our front door steps.

- NASBA will continue its sponsorship of the Forum of International Accounting Regulators. The Forum’s growing participation and common concerns are fostering dialog on issues important to the goal of consistent global regulation and a level playing field. Expect our international reach to continue strategically and your Global Strategies Committee, under the leadership of Sam Cotterell (ID), to develop new approaches for effective sharing of regulatory issues among countries.
- Both NASBA, and the profession, need to seriously consider deploying uniform ethics independence guidance within the Uniform Accountancy Act, and among the states. I am asking our Ethics and Strategic Professional Issues Committee, under the leadership of Gaylen Hansen (CO), to take stock of the independence rules in our various states and territories today and recommend a UAA revision leading to a singular and consistent independence rule as a benchmark to our states and territories.
- Cooperatively with the AICPA and State Societies, our states have almost completed the grueling task of passing mobility statutes. We now move into the equally challenging period of implementation, which will require patience, skill and a consistent focus on the objectives of mobility versus differential preferences. And we will steadily grow the Accountancy Licensee Database to support

mobility. I have moved the Mobility Task Force into a standing subcommittee of implementation within the UAA Committee to enable more direct communication and coordination. I have confidence that these NASBA members, under the leadership of Laurie Tish (WA), will actively team with the AICPA element of the UAA committee as well as the State Boards and State Societies in addressing these important issues.

- NASBA endorses the Treasury Department’s Advisory Committee on the Auditing Profession’s (ACAP) recommendation for the establishment of a blue-ribbon commission, acceptable to all stakeholders, to comprehensively assess the existing accounting education in the U.S. and make recommendations for changes together with supporting research. Some of the educators involved in the ACAP process appear to now be ready to spearhead such an effort. Informally envisioned is a “COSO” type of national education commission, including five or so individuals with consensus support from the AICPA, American Accounting Association and NASBA, who would be selected to lead this multi-year effort. NASBA is prepared to assist with “seed” funding to initiate this work. Our Education Committee, under the leadership of Mark Harris (LA), as well as Melanie Thompson (TX), is being asked to track and be supportive of this initiative.
- NASBA also supports the ACAP’s recommendation for independence of State Boards of Accountancy -- both financially and operationally -- to enhance the effectiveness of state-based regulation. Our newly created State Board Relevance and Effectiveness Committee will be working to develop model legislation, as an addendum to the UAA, and will reach out to the profession to foster support and assistance in this effort. Any NASBA delegate or associate with a strong interest in this objective is welcome and, indeed, needed to help us. Carlos Johnson (OK) has been specifically selected to chair this committee. NASBA’s Communications Committee, led by Sally Flowers (CA), is building a network of energetic communications officers within our member Boards that will continue to exchange and encourage methods to insure we are not out of sight or out of the minds of our stakeholders.
- Peer review may be entering a major crossroad. Congress has added inspection of auditors of broker-dealers to the PCAOB’s domain. Which public interest entities will be next? NASBA and the AICPA need to carefully assess the effectiveness and public confidence in peer review. Last week, Mark Harris provided the NASBA board with a “State of Peer Review” report that will shortly be available to you. In this recent report, it is obvious that NASBA and the AICPA need to carefully assess the effectiveness and public confidence of practice monitoring. NASBA’s Compliance Assurance Committee has been researching the features of practice monitoring programs and their independent oversight here in the U.S. as well as in other countries. The work continues and Ken Odom (AL) will lead the NASBA Compliance Assurance Committee’s efforts this year.
- On behalf of State Boards, NASBA can be counted on to speak up on matters of significance to the public’s protection. Our enforcement program support to State Boards has reached the documentation and action level, and we continue to nurture coordination among State Boards and those governmental agencies charged similarly with protecting the public. There are no changes in our Regulatory Response Committee’s approach with Rick Isserman’s (NY) leadership. Several committee members have been added to ensure broad perspective to our deliberations of exposure drafts from government agencies and professional bodies. Michael Weinschel (CT) and Harry Parsons (NV) will continue to lead our Enforcement Committee’s efforts to develop a “best practices” manual, investigative and resource support, address the so called “piling on issue,” maintain the Governmental Agency Referral Process, and other related issues.

Indeed there are many efforts in process by our NASBA delegates, associates and staff. I have only touched upon a few in this space and I want to thank the entire NASBA community as well as the other stakeholders in the profession for your incredible willingness to contribute your talents, skills, knowledge and time to the many issues we address today and for tomorrow.

— *Billy M. Atkinson, CPA*
Chair

**The above “Memo” is a condensation of Chair Atkinson’s inaugural address presented on November 3, 2009. The entire text can be found on NASBA’s Web site www.nasba.org*

Baldwin, Dunkum and Treacy Honored

Three contributors to the progress of NASBA were honored at the Annual Meeting: Barton W. Baldwin (NC) was presented the William H. Van Rensselaer Public Service Award; Ellis M. Dunkum (VA) was awarded the NASBA Distinguished Service Award; and William Treacy (TX) received the Lorraine P. Sachs Standard of Excellence Award. Presenting the awards were NASBA Past Chair Welling W. Fruehauf, Chair of the Awards Committee, and NASBA Vice President Emeritus Lorraine P. Sachs.

Mr. Fruehauf said the Van Rensselaer award was being given to Mr. Baldwin in recognition of his leadership as NASBA Chair as well as his work with the Administration and Finance Committee, International Qualifications Appraisal Board, Examination Review Board, Uniform Accountancy Act Committee and many other groups. Mr. Baldwin explained that he had decided to become a CPA at the age of 8, and his work with NASBA had allowed him to combine his passion for auditing with his passion for regulation.

The work done by Mr. Dunkum to establish the Virginia Board of Accountancy as an independent board and his active

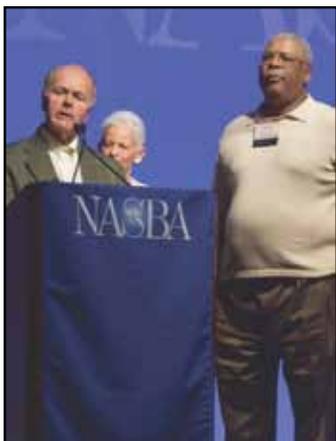


Barton Baldwin is honored with the William H. Van Rensselaer Public Service Award.

participation in many NASBA committees, including the Uniform Accountancy Act Committee and the Government Agency Referral Task Force, were cited by Mr. Fruehauf as achievements leading to Mr. Dunkum's selection for the Distinguished Service Award. The award was received on Mr. Dunkum's behalf by Tyrone Dickerson (VA), as illness prevented Mr. Dunkum from attending.

William Treacy's outstanding work in helping the Texas State Board of Public Accountancy become semi-independent and his leadership of the NASBA/AICPA International Qualifications Appraisal Board, as well as the NASBA Executive Directors Committee, were recognized by Ms. Sachs. In turn, Mr. Treacy praised Ms. Sachs for her three P's (poise, professionalism and propriety) and called her his role model and mentor.

NASBA presents three awards each year. This is only the second year the Sachs Award has been presented, with the Distinguished Service Award being presented annually since 1999, and the Van Rensselaer Award presented since 1989, in honor of NASBA's first full-time Executive Director William H. Van Rensselaer. ♦



Tyrone Dickerson accepts the Service Award for Ellis Dunkum from Welling Fruehauf.

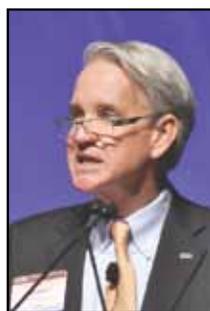


Lorraine Sachs congratulates Bill Treacy for receiving the second Standard of Excellence Award.

AICPA Chair Harris Calls for Commission

A blue ribbon commission, including state regulators, to determine standards for private company financial reporting was endorsed by AICPA Chairman 2009-10 Robert R. Harris in his address to the NASBA Annual Meeting. He reported that at the October AICPA Council meeting, over 85 percent of the AICPA members rated the need for private companies financial reporting standards as a 4 or a 5 on a 1-5 scale.

"The strong currents moving us more and more into the global environment create the risk that we forget how important it is to think locally," Mr. Harris said. "It is that local perspective that we need to maintain as we consider what is best for private companies. Private entities should have the freedom to decide what accounting and reporting framework best suits their objectives and the needs of those who use their financial statements."



Robert Harris

Although the adoption of International Financial Reporting Standards (IFRS) is currently in a holding pattern in the U.S., in other countries adoption is moving ahead, Mr. Harris observed. He said that either the U.S. will ultimately adopt IFRS or both IFRS and U.S. GAAP will coexist, converged or not. Mr. Harris told the State Board representatives: "Whether you agree with the pathway of adoption or convergence, the

accountancy laws and regulations in your state need to reflect the authority of the International Accounting Standards Board (IASB) as a standard setter to ensure that licensees and firms that prepare reports using IFRS can be properly regulated." ♦

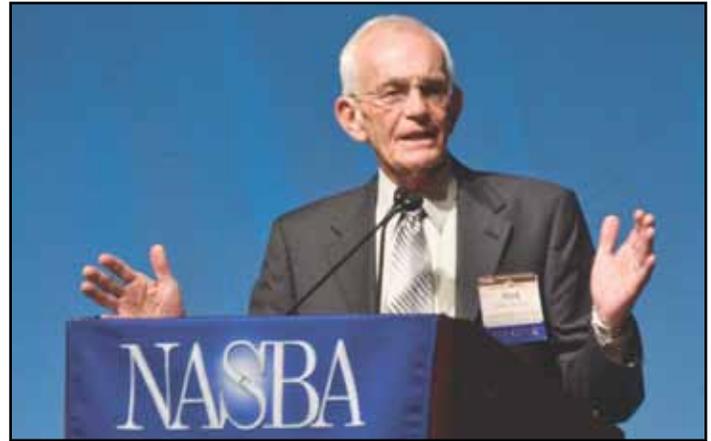
3 Boards Report on Dramatic Year

Unusual developments at the Connecticut, New York and Washington Boards were summarized for the Annual Meeting audience by David Guay (CT), Mary Beth Nelligan-Goodman (NY) and Richard C. Sweeney (WA).

Connecticut Board Executive Director Guay described his agency's struggle for survival. "The emphasis was not on the quality of the Board's work, but on taxpayer funding," he reported. He thanked NASBA for the credible outside assistance it provided, including research, advice, testimony and examples of what other states had done. He advised Boards that the private relationships their Board members have with decision makers can be very important for a Board's survival. The Connecticut Board survived, but Mr. Guay cautioned, "It is never over: A battle won today could be easily restaged."

Ms. Nelligan-Goodman, NY Board staff member, reported that since July 2009 the New York Board has been implementing the state's new accountancy law, which was last changed 60 years ago. Ms. Nelligan-Goodman explained that significantly the new law "...redefines 'public practice.' It says if you are a CPA in New York, then you are regulated by the State Board." It also mandates peer review as of January 2012. The new law contains language mirroring that of the Public Company Accounting Oversight Board to permit the Board to act on settlement agreements with federal agencies where the party "neither admits nor denies" guilt. The Board may now act on a referral without going through an entire investigation.

The Washington State Board of Accountancy's 24 months of litigation involving compliance with the state's public records



Rick Sweeney summarizes the Washington State Board's litigation involving compliance with the state's public records act.

act were summarized by Washington Board Executive Director Sweeney. To satisfy one request under the act, the Board produced 40,000 copies. "If you miss one piece of information, then you have to pay all the plaintiff's attorney's fees," he stated. "The attorneys are shifting the cost of legal discovery to the taxpayers of Washington," he observed. Making a business decision based on how high potential costs might be, the Washington Board settled with the plaintiff for \$500,000. Within four days of that settlement, the Board received another public records request. Mr. Sweeney warned the Annual Meeting attendees that Boards need a responsibly designed records retention schedule and a digitized electronic retrieval system to meet their public disclosure responsibilities. His detailed report to the Boards can be found on www.nasba.org in the meetings documents section. ♦

Educators Say IFRS is Being Taught

Accounting programs are already covering International Financial Reporting Standards, a three-member panel of educators told NASBA's Annual Meeting. Brigham Young University Professor Kevin D. Stocks said his school's board of advisers has made IFRS part of the curriculum, comparing them to U.S. rules. CUNY Baruch College Dean John A. Elliott said the large accounting firms are putting out material in support of IFRs, but as no date certain has been established for US adoption of IFRS, textbook materials are being produced more slowly than he would like. Stanford University Professor Mary E. Barth, who was part of the IASB and stated she is committed to global conversion to international standards, said she supports teaching GAAP and IFRS as a coordinated whole.

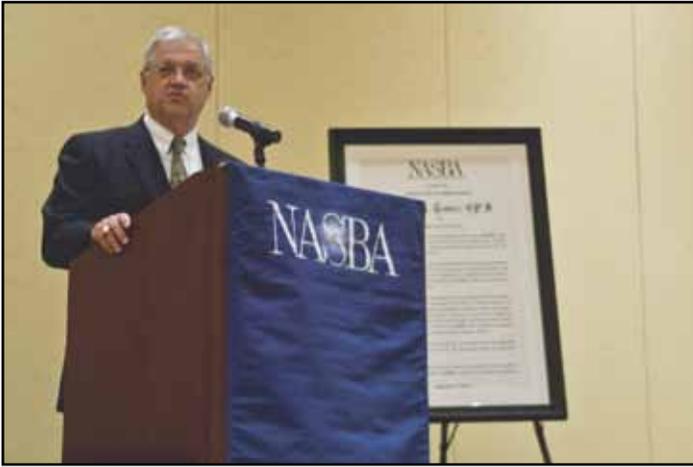
Panel Moderators NASBA Vice Chair Billy M. Atkinson and University of Northern Colorado Assistant Professor Karen F. Turner also questioned the three educators about the 150-hour requirement, on-line learning, finding qualified faculty and related topics. An on-line introductory basic accounting course has been found to be extremely effective at BYU, but that format has not

been elevated to other levels because of the lack of interaction, Dr. Stocks stated. At Stanford there are electronic pieces of learning, but the business school does not do distance learning per se, Dr. Barth said. The State University of New York offers a degree program via distance learning, Dean Elliott reported. At Baruch they have a hybrid course that uses some distance learning and some teamwork.

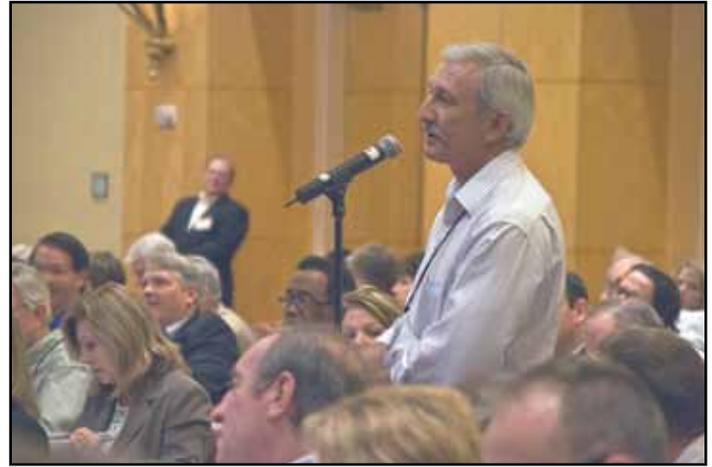
From the audience, University of Southern California Professor Ruben Davila asked how the schools are teaching ethics. Dr. Barth said Stanford is teaching different people's theories of ethics and then integrating ethics into other courses. Dr. Elliott stated that ethics is a required component in Baruch's courses. Dr. Stocks reported BYU does have a separate ethics course.

All the panelists noted there is a problem in finding enough accounting Ph.D.s to teach. The AACSB limits the number of professionally qualified faculty (not holding Ph.D.s) at member schools, Dean Elliott noted. Baruch has learned that teachers need to do more than share their experiences with students, he said, and has professionally partnered qualified staff with Ph.D.s. ♦

A Glimpse of NASBA's 102nd Annual Meeting



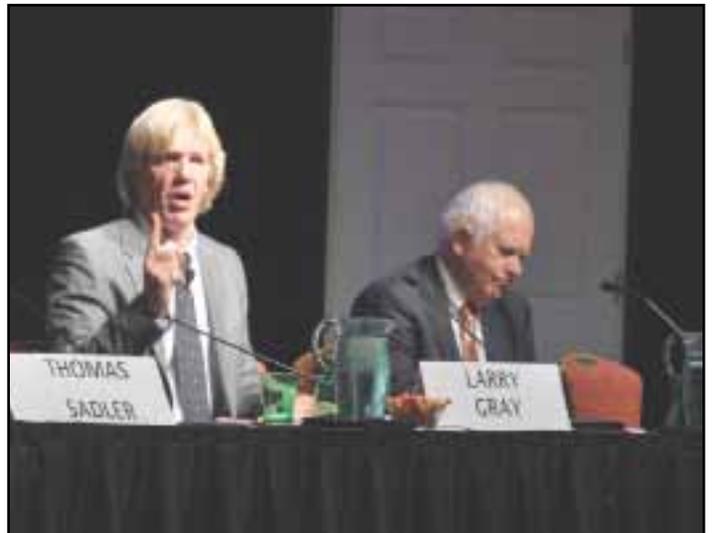
2009-10 Chair Billy Atkinson gives his inaugural address during the 2009 NASBA Annual Meeting.



Dave Sanford (GU) participates during the question and answer portion of the 2009 NASBA Annual Meeting.



2009 NASBA Annual Meeting Attendees listen to the ARSC Panel exchange views.



Larry Gray (MO) discusses "IRS Debates Preparer Requirements" as part of the Oversight and Enforcement Panel.



President David Costello (right) talks about all the doors that NASBA is opening with AICPA Vice President-Examinations Craig Mills (left).



Sally Flowers (CA) and other 2009 Annual Meeting attendees listen to 2008-09 Chair Tom Sadler describe this year's accomplishments.

NASBA Amicus Briefs for TX Board and PCAOB

NASBA's Legal Counsel Noel L. Allen has submitted amicus briefs in support of the Texas State Board of Public Accountancy and the Public Company Accounting Oversight Board (see NASBA Web site for complete text of both). The major issue in the Texas case was the Board's ability to discipline CPAs for violations of GAAP and GAAS without direct evidence of fraud or gross negligence. The Texas court subsequently ruled in the Board's favor. The PCAOB's case is set to be heard by the U.S. Supreme Court early in December, with a central issue being if the appointments process for members of the PCAOB violates the Appointments Clause of the U.S. Constitution.

In the case of *John W. Beakley and Beakley & Associates, P.C. v. Texas State Board of Public Accountancy*, the plaintiffs argued that the Board's authority to discipline a CPA for a violation of professional standards is limited to conduct constituting "fraud, dishonesty, or gross negligence." NASBA's brief stated: "This contention is totally at odds with the plain meaning of the statute," which contains 12 independent grounds for discipline. Violating professional standards is one of those grounds for discipline.

Beakley contended the standards were vague: "...the constitutional infirmity of reinforcing GAAS and GAAP as strict liability disciplinary rules stems from the fact that an interpretation of these complex rules requires the exercise of professional

judgment." Citing numerous cases, the NASBA brief states: "Because of the expertise of occupational licensing board members courts will defer to their discretion in matters of professional practice."

In the PCAOB case, *Free Enterprise Fund and Bekstead and Watts, LLP, v. Public Company Accounting Oversight Board and United States of America*, the NASBA amicus underscores the valuable protection of U.S. financial markets provided by the PCAOB, including its charge to refer appropriate cases to State Boards. In addition, the brief points out: "Allowing Petitioners to proceed with their claims [against the PCAOB] without utilizing the administrative review process could prove disruptive to the orderly progression of disciplinary cases before the State Boards of Accountancy." The brief further states that, similar to the appointment of members of many State Boards, as long as the appointing authority, in the PCAOB's case the SEC, "retains some removal power, there is no violation of the separation of powers doctrine."

The brief explains: "The structure of the PCAOB is similar to that of many State Boards of Accountancy and PCAOB board members are similar to members of State Boards of Accountancy in the sense many State Boards of Accountancy are agencies with quasi-judicial powers that perform functions similar to those of the PCAOB." ♦

ARSC Panel Exchanges Views

How independent does a CPA need to be to issue a review report? Rick Isserman (NY), chair of the NASBA Regulatory Response Committee moderated an Annual Meeting panel, including Sheila Birch (OH), Gerald Burns (OR), Thomas Sadler (WA) and Ray Stephens (OH), discussing this question as raised by a recent proposal of the AICPA's Accounting and Review Services Committee. The ARSC is still considering comments on the proposal which would allow CPAs to disclose performing nonattest services for a client's management and still be able to issue review reports on the client.

Ms. Birch explained that what the ARSC proposal calls for is a paradigm shift: "Independence is not the end game: Reliability is what counts. Reliability results from objectivity. The underpinning of objectivity is the CPA's individual integrity." Ms. Birch, who was a member of the Reliability Task Force of the Auditing Standards Board, said the group heard from a banker who claimed that having a CPA involved in preparing the financial statements makes them more reliable.

Mr. Burns, a member of ARSC, reported they had received 170 comment letters on their exposure draft. Reviewing those letters, he concluded the smaller accounting firms liked the idea of non-independent review. Mr. Burns pointed out that many CPAs do not have a clear understanding of what is allowed under the AICPA



Sheila Birch explains the paradigm shift in the ARSC proposal.

Code of Conduct's ET 101-3 "Performance of Nonattest Services."

"CPAs spent a lot of time learning about what they have to do to educate clients – and if they can't do that, then they can perform non-independent compilations," Dr. Stephens said. When asked about research supporting his position, Dr. Stephens pointed to a book, *Scope of Services*, by Gary Previtts, which was written the last time the need for "independence" was challenged.

Mr. Sadler observed that with the ARSC proposal, "We are trying to fix something that is not broken." However, he added, "I have always felt that standards for compilations are needed. Compilations really do cause us problems," he noted. ♦

PCAOB Looks Abroad

More than 920 non-U.S. auditing firms from 87 countries are listed with the Public Company Accounting Oversight Board, PCAOB Director of International Affairs Rhonda Schnare told the Annual Meeting. Conducting audit firm inspections in so many countries “provides a steady stream of challenges,” Ms. Schnare observed, with 200 inspections in 32 jurisdictions to be completed by the end of the year.

Since 2004, the PCAOB has recognized cross-border cooperation to conduct its inspections. This requires them to consider how independent and rigorous the reviews conducted by non-U.S. authorities are. Ms. Schnare noted, “The record of

enforcement is a vital component of any regulatory system.” The PCAOB’s reliance on other countries’ inspection systems varies among jurisdictions from year to year. New oversight bodies have been created in Europe and establishing cooperative relations with these authorities has been complicated by sovereignty issues.

The PCAOB adopted Rule 6001, “Assisting Non-U.S. Authorities in Inspections,” in 2004, but the European Union felt this was not enough, Ms. Schnare stated. While currently the PCAOB is prohibited from sharing information with non-U.S. regulators, legislation has been introduced to permit such sharing with the PCAOB’s foreign colleagues, she said. ♦

Rotellini Shares AZ Board’s Success Story

In June 2009 the final appeals in the Baptist Foundation fraud case were completed and the Board’s former attorney, Felecia Rotellini, was able to tell the 2009 NASBA Annual Meeting about how it all began. Ms. Rotellini, currently a candidate for Arizona Attorney General and previously Superintendent of the Arizona Department of Financial Institutions, was the state’s prosecutor in the Baptist Foundation case that resulted in a \$217 million settlement and cost recovery.

Ms. Rotellini recalled that an anonymous complaint based on a newspaper article alerted the Accountancy Board that the Baptist Foundation was engaged in a Ponzi scheme. The Board assigned investigators to go through the work papers, and although the Foundation’s entire accounting staff had resigned, Arthur Andersen had given the Foundation clean opinions for two years, she said, even after one of the Baptist Foundation’s accountants had diagrammed the Foundation’s bad banking operations to Andersen. Arizona’s Securities Division began investigating the Foundation as well.

“We got into a coordination agreement to talk to the lawyer for the Securities Division, who was also under the Attorney General – but we were representing different agencies. Law enforcement can’t share information with regulatory agencies; however, we could share information with law enforcement – and we did,” she stated. “There were civil cases pending, and so we shared with the civil attorneys as well.”



Felecia Rotellini

“Resource and expertise sharing is something you can do,” Ms. Rotellini told the Boards. “When all our budgets and resources are being cut, you have the ability to share information through a task force, through the Attorney General. You need to demand a litigator, which is what the Accountancy Board’s Executive Director Ruth Lee did.”

Ms. Rotellini advised the Boards that they would need to pay the litigator, through fees or penalties, when they enter into interagency agreements with the Attorney General, but then the Board can demand more from that person. “You don’t have to hire expensive outside counsel,” she said. To enter into a major case, the Board needs seasoned CPAs to do the investigations and an assistant attorney general who is not afraid to litigate.

“It is the state agency’s role to hold our practitioners accountable,” Ms. Rotellini stated. A settlement agreement that is detailed serves to educate other practitioners and boosts the morale of those who do the right thing. “There is nothing better for consumer confidence than having an agency that is doing its job.” The Board’s settlement agreement with Arthur Andersen can be found on the NASBA Web site with other background documents from the 2009 Annual Meeting. ♦

Gray Says IRS Is Focusing on Preparers

Karen Hawkins, director of the Internal Revenue Service’s Office of Professional Responsibility is getting ready to be the “new sheriff in town,” IRS advisory committee member Larry Gray (MO) told the Annual Meeting. Anticipating a report to be released in mid-November, Mr. Gray said the OPR has now grown to over 60 employees, from four back three years ago, as they are gearing up for stricter regulation of tax preparers.

Fraud in the preparation of 1040 returns has caused Congress to take an interest in this area, Mr. Gray observed. “We’re looking

at more layers of regulation, which will be a burden on all of us.” Recommendations to President Barak Obama and IRS Commissioner Douglas Shulman are expected by the end of 2009. Mr. Gray observed, “Congress is after raising more penalties.”

Letters sent recently from NASBA’s leadership to the IRS describing the State Boards’ licensing requirements were praised by Mr. Gray. The IRS is considering registration for the 1.2 million tax preparers as well as a continuing professional education requirement with a focus on ethics, he stated. ♦

PEEC Looks at Firm Names

Regulators outside the United States already have guidance on the definition of “network” or “network firms,” but the U.S. does not, Kenneth E. Dakdduk, Chair of the AICPA’s Professional Ethics Executive Committee told the Annual Meeting. PEEC studied the definitions established by the International Federation of Accountants (IFAC) and the definitions in the European Union’s member states. Gaylen Hansen (CO), NASBA Director-at-Large and a member of PEEC, commented that there was a real effort to get all views on the table as this project advanced.

Mr. Dakdduk explained that PEEC had concluded a “network” is an association of firms that cooperate to enhance service capability and share one of the following: common brand name as part of the firm name; common control; profits or costs; common business strategy; significant part of professional resources; and common quality control policies.

The most challenging part of the project was the common brand name, Mr. Dakdduk stated. “We were asked could perception be altered by disclosure at the bottom of the letterhead. We didn’t feel disclosure by itself would mitigate the impact the name would have,” he reported. PEEC expects to release its guidance on networks by the end of the 2009.



PEEC Chair Kenneth Dakdduk and Director-at-Large Gaylen Hansen lead the discussion on firm names in the U.S.

Mr. Hansen was chair of an AICPA/NASBA study group that released a white paper on “CPA Firm Names” in August 2009. While some State Boards actively consider firm names, others let them pass through without much thought, he observed. Mr. Hansen characterized the paper as “a starting point to stimulate discussion.” He reported the Uniform Accountancy Act Committee will be meeting to consider the paper, which can be found on NASBA’s Web site. ♦

Exam Enhancements Coming

On January 1, 2011 improvements to the Uniform CPA Examination will be launched, based in part on suggestions made by the CPA Licensing Examination Committee and the State Boards, CLEC Chair Robert Pearson (MO) told the Annual Meeting. Candidate satisfaction is at a 98 percent level and the State Boards also appear to be satisfied with the Uniform CPA Examination, he observed. NASBA Executive Vice President Joseph Cote moderated a panel discussing the Examination’s past, present and future, including Mr. Pearson, Board of Examiners Chairman Douglas Warren (TN), Prometric Team Leader Victor Carter-Bey, NASBA Senior Vice President Ken Bishop and AICPA Vice President of Examinations Craig Mills.

BOE Chairman Warren noted that while there was a decline in the number of candidates taking the Examination in the fourth quarter, an increase is expected. In January 2011 the BOE will be re-evaluating the passing process, he reported. Among the changes coming to the Examination in January 2011 will be the inclusion of questions about International Financial Reporting Standards. “We found through interviewing those CPAs managing entry-level accountants, some basic knowledge of IFRS is needed,” he said. Mr. Warren announced the AICPA’s State Board Committee will be holding a meeting with staff members of 10 western State Boards in December 2009.

Prometric is constantly monitoring to ensure that they have a sufficient number of seats for the candidates to take the Examination, Mr. Carter-Bey stated. To give the candidates more

room, all of Prometric’s U.S. testing centers as of June 2009 were upgraded to have only LCD monitors. Prometric teams are in place to review monthly candidate satisfaction data. He reported Prometric is working to improve the candidate’s experience by having its scheduling process show options and dates available for testing.

Plans for the international administration of the Uniform CPA Examination were discussed by Dr. Mills. There are many accounting credentials seeking recognition internationally: For example, the Institute of Chartered Accountants in England and Wales has opened offices in Singapore and Dubai along with training programs in several countries. Administering the Uniform CPA Examination abroad will result in more interest in the CPA Examination and bring more licensed CPAs into the profession, he predicted. “State-based licensure works well now – and it will in the future,” Dr. Mills stated as he assured the Boards that no new international designations were being contemplated. Large numbers of candidates from outside the U.S. are taking the Examination now and do not know they are not licensed by simply passing the Examination: “We want to have employers [outside the U.S.] ask for a license, not just for passing the exam,” he said.

Mr. Bishop said the joint NASBA/AICPA task force working on international delivery of the examination has visited 9 of the 11 jurisdictions through which most current non-U.S. candidates now are applying for the Examination. “When we finish our visits, the concerns of all those jurisdictions will be reflected in our business plan,” he stated. ♦

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