



State Board Report

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XXXVI, Number 11 November 2007

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State Board Report

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Draft Education Rules Out

The proposed revised Article 5 of the Uniform Accountancy Act Model Rules is finally out for comment from state boards, professional societies, academicians and other interested parties. At their October 26 meeting, NASBA's Board of Directors approved a 90-day exposure period for the revised rules and thanked Education Committee Chair Bill Atkinson, his committee and their advisers for the careful work they put into this revision. The exposure draft can be found on the NASBA Web site www.nasba.org.

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100th Annual Draws Record Crowd

More than 600 people participated in NASBA's 100th Annual Meeting in Maui, HI, on October 28-31, 2007. Congratulations on reaching this historic event were given to NASBA by representatives from various organizations, including the AICPA, IFAC, PCAOB and the major accounting firms. Even President George W. Bush sent a letter of congratulations that was read to the participants by Congressman K. Michael Conaway (see page 2). To start the meeting off right, Hawaii Board of Public Accountancy Chair Howard S. Todo welcomed all to the event with a traditional call on a conch shell horn.

Chair Wesley Johnson and President David Costello summarized the year's accomplishments in their opening remarks. Among the achievements noted were:

1. Drive to promote mobility and ease of cross-border practice via new provisions of the Uniform Accountancy Act. These were enacted in seven more states resulting in a total of 11 with such laws. Possibly 43 jurisdictions will be on line by the end of 2009.
2. Created a stronger more reliable basis for state board confidence in the CPA Examination through the work of the National Examination Preparedness Committee, the Internationalization of the CPA Examination Committee, the CPA Licensing Examinations Committee, and the International Qualifications Appraisal Board. Began planning for a May 2008 examination conference for state board representatives.
3. Finalized revisions to the Uniform Accountancy Act's Model Rules, including a code of conduct.
4. Worked with educators, regulators and members of the profession to reach a consensus on an approach for the development of new model education rules. Exposure Draft to be issued in November 2007.
5. Held a CPE Conference in March 2007, which covered issues such as true/false question limitations, provider qualifications and the need for a CPE quality assurance program.
6. Completed Compliance Assurance Review Board's operating guidelines and developed an Oversight Tool Kit for state boards.
7. Strengthened relationships with standard setters, regulators and government agencies through letters from the Regulatory Response Committee, monitoring the work of the AICPA's Professional Ethics Executive Committee, creating new task forces and planning for 2008 international conference of accounting regulators.
8. Initiated a state board communications officer network to work with the communications officer of each board.

Chair Johnson complimented all the committees' members for their accomplishments. President Costello reminded the audience that these activities

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Brown Reviews SOX Results

According to the Annual Meeting's keynote speaker, Gary M. Brown, Esq., "If you are not a criminal, my message is that there is not any more to worry about today than there was pre-Sarbanes-Oxley."



Gary M. Brown

The Annual Meeting's theme, "Respecting the past – Anticipating the future," can be applied to the Sarbanes-Oxley Act, he explained to the Maui meeting. After presenting a number of headlines, he commented, "All of these appear to be headlines of 2002, but actually are the findings of a 1932 US Senate committee that investigated the 1929 stock market crash." Out of those hearings came the US Federal securities laws, including the Securities Act of 1932 and the Securities Exchange Act of 1934, he noted.

Mr. Brown pointed out that SOX did not mandate a single additional internal control. "All Sarbanes-Oxley said, in [Section] 404, is that you have to prove that you have the controls that were required by the Foreign Corrupt Practices Act... Many believe that 404, in fact, is working, that as a result, restatements are down and that Sarbanes-Oxley was the right medicine. Auditors are skeptical of the SEC's and PCAOB's recent guidance and are concerned about liability; however, that is where you as regulators of the accounting industry can make a difference," he said. "...you as regulators must adhere to, and insist upon the highest standards of ethics and integrity in the accounting business. That requires you to remember and respect the past. If you don't do that, you won't have to anticipate the future."

Considering the effects of SOX on auditors, Mr. Brown observed: "The most drastic was the creation of the PCAOB – which you could say caused public company auditors to lose their identity as a 'profession.' A profession largely is self regulatory, but when self regulation fails, as many believe it did with public company auditors, the government steps in with regulation. As a result, public company auditors now are more akin to a regulated industry." ♦

From the White House

I send greetings to those gathered for the 100th Annual Meeting of the National Association of State Boards of Accountancy. Congratulations on reaching this important milestone.

Our economy is robust because of the hard work, innovation, and character of our citizens. Accountants contribute to this success by providing valuable financial services to individuals and businesses. The accounting field is strengthened by dedicated professionals serving on state boards of accountancy throughout our country. These boards help ensure public trust and confidence by advancing responsible practices and setting the highest professional standards.

I appreciate all those who contributed their time and expertise to serving on boards of accountancy. I also applaud the National Association of State Boards of Accountancy for its commitment to promoting excellence and integrity in the accounting profession.

Laura and I send our best wishes on this special occasion.

-- George Bush

100th Annual Draws Record Crowd

(Continued from page 1)

require funding, which is why he continues to investigate new business opportunities for NASBA.

During the Annual Business Meeting, the 2007-08 slate of officers, as presented by the Nominating Committee, was unanimously elected to office. The 2007-2008 Board of Directors includes: Samuel K. Cotterell – Chair; Thomas J. Sadler – Vice Chair; Wesley P. Johnson – Past Chair; Billy M. Atkinson, Walter C. Davenport, Andrew L. DuBoff, Gaylen R. Hansen, Mark P. Harris, John E. Katzenmeyer, Robert A. Pearson, Leonard R. Sanchez and Kathleen J. Smith – Directors-at-Large; Donald H. Burkett – Middle Atlantic Regional Director; Sally Flowers – Pacific Regional Director; Claireen Herting – Great Lakes Regional Director; Carlos E. Johnson – Southwest Regional Director; Harry O. Parsons – Mountain Regional Director; Michael W. Skinner – Southeast Regional Director; E. Kent Smoll – Central Regional Director; and Michael Weinshel – Northeast Regional Director. No Bylaws changes were proposed this year. ♦

Draft Education Rules Out

(Continued from page 1)

While the revisions cover many elements, the most outstanding change is the requirement that three semester credits be completed in ethics. This can be through a standalone course or integrated into other course work, but clear evidence that such integration has taken place is mandated. Similarly research skills are to be taught individually or integrated.

Mr. Atkinson noted the changes do not cover whether a candidate must have completed 120 or 150 credits to take the Uniform CPA Examination. That will be discussed in a forthcoming NASBA research paper that is being developed by staff with the assistance of academicians. ♦

Ball, Goelzer, Conaway and Cotterell Think Globally

The need to internationalize credentials is growing, International Federation of Accountants (IFAC) Chief Executive Officer Ian Ball told the "Thinking Globally" panel at the Annual Meeting. "The pace of internationalization of the accounting profession is building all the time," he said.

IFAC, which has member bodies that represent 2.5 million accountants, now has very specific membership obligations, Dr. Ball noted. IFAC requires its member bodies to support international reporting standards. NASBA and the AICPA are member bodies.

Daniel L. Goelzer, member of the Public Company Accounting Oversight Board, reported the Board, as of mid-October, had registered 1,807 accounting firms, with only 985 being US-based. The PCAOB "must oversee firms that file with the SEC, without regard to the domicile of their auditors," he said. The PCAOB is now doing a country-by-country review to determine how similar non-US oversight is to that in the US. This is being evaluated in five categories: adequacy and integrity of the firm review system; the independence of the system from the accounting profession; independence of the funding of the review; transparency of the system; and historical performance. To date, the PCAOB has established cooperative relationships with 20 countries, he reported.

NASBA CPT Awards

The NASBA Center for the Public Trust "Being a Difference" awards program honors individuals for impacting their respective circumstances by demonstrating innovative responses to ethical challenges which inspire and motivate others to do the same. As announced at the Annual Meeting, this year's winners included:

- Richard G. Cowart, head of the Health/Public Policy Department at Baker, Donelson, Bearman, Caldwell and Berkowitz, PC, with offices in Tennessee.
- Mitch D'Olier, the President and Chief Executive Officer of The Harold K.L. Castle Foundation in Hawaii, which averages grant awards of \$7 million a year to organizations serving windward Oahu. Mr. D'Olier also serves as a member of several organizations including Hawaiian Islands Ministries and Hawaii Family Forum.
- Nathan Garrett, past chair of NASBA from 1992-1993, and an attorney and CPA in North Carolina, is the founder and former executive director of the Foundation for Community Development (FCD). The FCD set out to "break the cycle of poverty" plaguing North Carolina residents. Under Mr. Garrett, the foundation provided funds for low income groups and focused on economic development in the African American community.
- Tammy A. Morreale, a director with PricewaterhouseCoopers

As a setter of auditing standards, "the PCAOB does not have a roadmap for convergence like what we see on the accounting side of the house," Mr. Goelzer stated. The PCAOB has observer status with the International Accounting and Auditing Standards Board and the IAASB has an adviser to the PCAOB. "It will be a challenge for us in the year ahead to see where it is right converge and where it makes sense to have differences."

Moderator Samuel Cotterell, NASBA vice chair, asked, "What do you expect from state boards of accountancy interfacing with your organizations?" Mr. Goelzer responded, "We are on the verge of a revolution in education. Our teaching and examination does not include anything on international standards and that is the road that will have to be changed, and the state boards will have to take it."

Asked to comment on what the US Congress is doing about international trade, US Congressman K. Michael Conaway, past NASBA chair, noted that President George W. Bush's fast track authority for implementing trade agreements ended June 30, 2007 and extending it to increase foreign trade does not appear to be on the majority's agenda now.

"Congress is thinking locally," he observed. He said he was not aware of any movement in Congress at this time to oversee the Securities and Exchange Commission. ♦

(PwC), manages its signature employee recognition program and all of the firm's national community service programs. In 2006, under Ms. Morreale's leadership, PwC designated a month of focus on community service. The program, entitled 1*/30,000, representing the idea that one individual can make a difference, but 30,000, working together as a team, can inspire change. ♦

CPT Teams Up with Baruch College

The NASBA Center for the Public Trust is cosponsoring the Second Annual Auditing Conference, presented by Baruch College's Robert Zicklin Center for Corporate Integrity. "Ensuring Integrity," set to take place on December 6, 2007 in New York City, will provide a program that allows for interaction among business and accounting executives and policy setters from the AICPA and the PCAOB. The agenda will include a keynote address by K. Michael Conaway, CPA, United States Congressman (TX), and panels on the "Impact of Accounting Standards Complexity on Auditing" and "Where Are We Now? Implementing Best Practices in the Post-Andersen Era." Registration details can be found on www.centerforpublictrust.org. ♦

Brown and Calhoun NASBA Award Winners

This year's NASBA award recipients have contributed their talents to its 100 years of service: Milton Brown, PA, the first non-CPA Chair of NASBA, was awarded the William H. Van Rensselaer Public Service Award and Charles H. Calhoun, III, CPA, was presented the NASBA Distinguished Service Award for 2007 at the 100th Annual Meeting.

Established in memory of NASBA's first full-time Executive Director, William H. Van Rensselaer, the award, presented at the Annual Business Meeting, recognizes those who contribute to the improvement of the boards of accountancy or who have had an influence on strengthening accountancy regulations.

Currently the Chair of Professional Credential Services and NASBA's Center for the Public Trust, Mr. Brown has been an active volunteer with NASBA since 1987. NASBA Chair from 1998-1999, he has been involved in many NASBA committees, and served as the Chair of the NASBA Uniform Accountancy Act Committee. He is a former Chair of the National Society of Accountants and currently serves on its Accreditation Council for Accountancy and Taxation.

A past president and member of the New Jersey State Board of Accountancy for 11 years, Mr. Brown's firm has offices in Clifton and Passaic, NJ.

Charles H. Calhoun, III, CPA, was this year's winner of



Milton Brown



Charles Calhoun

NASBA's Distinguished Service Award, which honors volunteers for their commitment and dedication to enhancing the mission of NASBA. An active volunteer with NASBA since 1992, Dr. Calhoun, former chair of the CPA Examination Review Board, currently serves as a member of the International Qualifications Appraisal Board. He served as NASBA Director-At-Large and Southeast Regional Director. A former chairman of the Florida Board of Accountancy, he currently chairs the Consultative Advisory Group of the International Accounting Education Standards Board.

Dr. Calhoun is Chair of the Department of Accounting and Finance at the University of North Florida, where he has taught accounting for 12 years. ♦

SAG Members Suggest Super CPA

A required certification beyond the CPA for auditors of public companies was suggested during the October 18, 2007 meeting of the Standing Advisory Group (SAG) of the Public Company Accounting Oversight Board (PCAOB). The meeting began with a discussion of the priority projects for the PCAOB as it commenced its sixth year of operation. While some of the SAG members praised the PCAOB for its accomplishments, a few asked why more had not been done and Damon Silvers, AFL-CIO associate general counsel, cautioned the PCAOB that in standard-setting "...you should not delegate back to the people you were created to delegate away from," when it was created by Congress. An archived recording of the meeting can be found on the PCAOB's Web site www.pcaobus.org.

Joseph Carcello, University of Tennessee – Knoxville Ernst & Young professor, listed the many standards that auditors of public companies must know, which are increasing as international standards gain acceptance, and commented that those were beyond what is required for CPAs. He recommended that the PCAOB create its own educational requirements for auditors of SEC registrants. Several other SAG members supported such a designation.

Gaylen Hansen, NASBA Director-at-Large and a member of SAG, defended the CPA requirements as appropriate for entry into the accounting profession. He observed that the type of

designation being proposed would be appropriate for someone who had been in practice 10-15 years, not for entry-level professionals. ♦

History's Three Top Regulation Cases

Noel Allen, Esq., counsel to NASBA, explained to the Annual Meeting audience why he selected the following cases as the top three impacting accounting regulation in the past century:

1. *Lehman v. State Board of Public Accountancy*, 263 US 394, 44 S. Ct. 128, 68 L.Ed. 354 (1923). The US Supreme Court held that the Alabama accountancy act did not deprive the due process rights of a CPA whose certificate had been revoked.
2. *Edenfield v. Fane*, 507 US 761, 113 S. Ct. 1792, 123 L. Ed. 2d 543 (1993). The prohibition of a CPA's in-person solicitation was a violation of commercial free speech. The Board had not presented evidence of harm to consumers.
3. *Ibanez v. Florida Dept. of Business & Professional Regulation, Board of Accountancy*, 512 U.S. 136, 114 S.Ct. 2084, 129 L. Ed. 2d 118 (1994). An attorney/CPA's use of CPA and CFP titles was protected commercial speech, and the Board had not shown any harm to the public by their use.

Noel Allen is a partner in the firm of Allen & Pinnix, PA, in Raleigh, NC. See nasba.org for details of this presentation. ♦

Chair's Memo

Respecting the Past - Anticipating the Future



Samuel Cotterell, CPA

The genius of NASBA is people, both the volunteers and professional staff. Our 100th Annual Meeting celebrated the theme of "Respecting the Past, Anticipating The Future." We heard from 2006-07 Chair Wes Johnson about what an outstanding year NASBA completed this past year. I am proud to continue that agenda. Here are a few of the items that are on my agenda:

Mobility: Through the joint efforts of state boards, NASBA, state societies, and the AICPA, great strides have been made in implementing "no notice, no fee, no escape" legislation. This makes sense from both a regulatory and professional standpoint. We must not lose momentum in this effort.

Examination: Computer-based testing was successfully launched in 2004 with a minimum of problems considering the huge undertaking it was. However, as with any effort this monumental, there are always improvements that can be made. More timely and accurate score reporting will be a top priority of NASBA – as well as, I am sure, the AICPA. In addition, we must continue to evaluate the effectiveness and cost benefit of simulations.

The current three-part contract between NASBA, representing state boards, ETS/Prometric and the AICPA expires in 2014. I personally hope that state boards' interests and concerns will be addressed and that the contract can be renewed, with appropriate modifications, taking into account what we have learned during the initial term. I also believe that state boards, as part of a comprehensive due diligence process, will want us to consider all options as we approach the renewal date. To that end, Wes Johnson has agreed to chair our National Preparedness Examination Committee.

Finally, we told you last year that we are considering how to offer the CPA exam in international locations without compromising the role of state boards, the security of the exam, or the significance of the CPA license. Much progress has been made in that area and we will carry on that effort this year.

Communications with Other U.S. Regulatory Agencies: I am convinced that if state boards receive adequate information, in a timely manner, they will take appropriate disciplinary action. We must have open communication channels with other organizations.

We have made great strides in developing that kind of communication with the Public Company Accounting Oversight Board. Is our relationship perfect? No, it is evolving and we recognize that some state boards would like to receive information more quickly. However, the PCAOB continues to be a willing partner in striving to make our communication better.

We have a current example of the need for open dialogue and understanding with other governmental regulators: In June, the President's Council on Integrity and Efficiency (PCIE) issued a report critical of the single audit process, indicating that a significant number of single audits performed by accounting firms failed to meet one or more governmental standards. To assist us in our communication initiatives, we have asked Ellis Dunkum to chair a special task force to deal with the PCIE report's issues.

International Regulation: We expect to break historic ground this next year through a conference with international regulators. We will also continue to forge mutual recognition agreements with non-US professionals through the International Qualifications Appraisal Board (IQAB).

Compliance Assurance Review Board: In 2004, we began exploring a national review board to oversee compliance assurance. Great work has been done in this area and we are now ready to move forward with implementation.

Communicating with Member Boards: To help state boards be more effective. We continue to develop state-of-the-art communication methods, such as our enhanced Web site. We strive to bring helpful tools to you such as our Accountancy Licensing Database, which is so critical to complement mobility. Most important, however, is our willingness to listen carefully and respond appropriately to our member boards. I hope you find in me that kind of listener.

One of my favorite hymns is "Because I Have Been Given Much, I Too Must Give." I have indeed been given much and I promise to give to you all that I am able.

--Samuel K. Cotterell, CPA
Chair

Major Firms Work to Maintain Confidence

Panelists from four major accounting firms discussed “Maintaining Investor Confidence in a Complex Global Economy,” with moderator Joseph Cote, NASBA Chief Operating Officer, at the Annual Meeting. Lawrence M. Alleva, US Ethics and Compliance Leader - Assurance Practice for Pricewaterhouse Coopers, LLP, said the firms need to do more than they ever did in the past to help their people learn to comply with regulations, noting that ultimately “compliance remains an individual responsibility.” PWC has increased the staff in its licensing group to make sure the firm’s people know what is required. “Our hats are off to NASBA for what you have done in the mobility area,” he stated. “That will help us in getting the right people to the right assignment -- and that will have a cost impact.”

Noting that a number of high-level study groups are looking at the viability of the major accounting firms, including curbing litigation against them, Stephen E. Allis, National Principal in Charge of Global Affairs for KPMG, LLP, commented: “I am heartened by this because it reflects a reaffirmation of the importance of the audit and its critical role in the protection of the investing public.” He observed there is “a fundamental need for convergence. Senior policy makers around the world are talking about how to get oversight right, standards right.... That will get us the regulatory convergence that we as a profession need....”

“What we do matters and we need to do it right,” Randy G.

AICPA’s Fletchall Applauds ALD

The importance to the accounting profession of sorting out its “bad apples” was underscored by 2007-08 AICPA Chair Randy G. Fletchall as he described at the Annual Meeting the areas in which NASBA and the AICPA are working toward common goals. He stated: “I want to commend NASBA for its leadership in creating the Accountancy Licensee Database, which has the potential to assist state boards in fulfilling their enforcement role....We support the rightful role of state boards to provide appropriate enforcement and discipline. The database also has the potential to assist with our efforts to achieve and maintain a national mobility system.”

Mr. Fletchall, Ernst & Young’s Americas Vice Chair - Assurance and Advisory Business Services, mentioned three other areas where the joint state board/ professional associations should work together:

- A truly uniform mobility system that will allow licensed CPAs and firms to provide services across state lines without unnecessary burdens, while at the same time increasing public protection, is needed. He stated: “The AICPA leadership will stay fully engaged until together we achieve uniform enactment in every single jurisdiction.”
- The transparency of peer reviews needs to be increased to enable state boards to obtain peer review results. According to

Fletchall, Ernst & Young’s Americas Vice Chair – Assurance and Advisory Business Services, stated. He noted that the first thing the Treasury Department’s recently announced task force wants to study is the auditing profession.

Mr. Fletchall outlined challenges for the profession in six areas: precision in financial reporting and the move to fair value; use of technology and enhanced reporting; fraud detection and reporting; convergence of FASB and IFRS; materiality; and complexity of standards. He advised the boards of accountancy to also follow the work of the Securities and Exchange Commission’s advisory committee on improving financial reporting. “Maybe the best move would be to principles-based standards, but it would be a tricky business,” Mr. Fletchall observed, placing faith in professional judgment.

The importance of firm training was stressed by Ann M. Lang, Chief Human Resources Office for Grant Thornton, LLP. “Learning is the foundation of quality,” she stated and explained how the firm has moved to a blended learning approach using case studies and measuring how much learning is being retained.

Moderator Cote asked the panelists if they thought the challenges they outlined would be reflected in the Uniform CPA Examination. Mr. Fletchall responded, “We need colleges and universities to take this up....It is only a matter of time before it is part of the examination.” ♦

Mr. Fletchall, “There is a consensus now that the best way to increase peer review transparency is to use the existing peer review process to facilitate the voluntary disclosure of peer review results to state boards of accountancy.”

- It is time to develop an understanding the international demand for the US CPA designation. “The leadership of AICPA and NASBA are discussing this issue and have dedicated volunteer resources to finding the right solution – an answer that will be built on consensus and communicated together,” the AICPA Chair said.

Mr. Fletchall congratulated NASBA on reaching the 100-year mark and stressed the power of unified action by state boards and societies, NASBA and the AICPA. “Together we represent the foundation of the public’s trust in the financial community,” he told the NASBA meeting. ♦

NASBA History Book Available

Dale L. Flesher’s *100 Years of NASBA: Serving the Public Interest*, a study of NASBA’s pivotal events done at the suggestion of the NASBA Past Chair Advisory Council, was distributed to all Annual Meeting participants. Details on purchasing copies of the NASBA history can be found on www.nasba.org. ♦



From left to right, retiring Regional Directors, Rick Isserman, Jacob Cohen and Ted Long.



Incoming Chair Sam Cotterell receives gavel from Chair Wes Johnson.



AICPA Chair Randy Fletchall



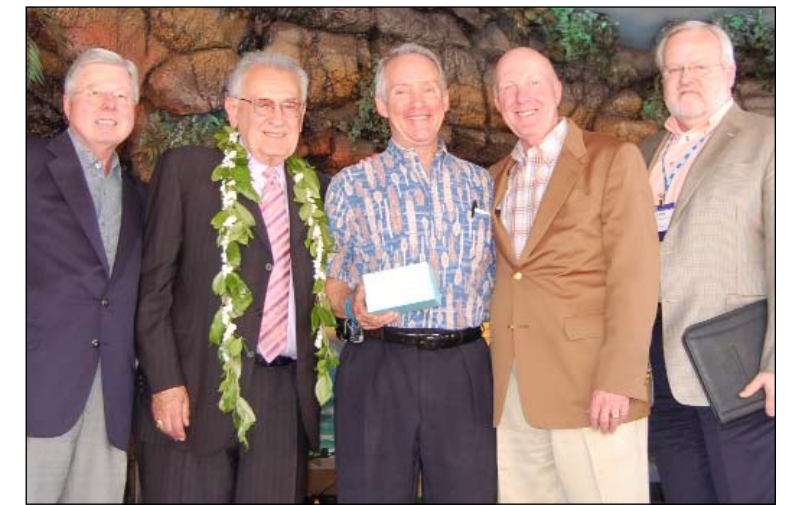
Respecting the Past -
Anticipating the Future



Congressman Mike Conaway



From left, Daniel Goelzer of PCAOB and Ian Ball of IFAC participate in the “Thinking Globally” panel.



Mitch D’Olier (center) receives CPT’s Being a Difference Award from (left to right) Wes Johnson, Milton Brown, David Costello and Larry Bridgesmith.