EXHIBIT 1
NASBA RECOMMENDATIONS/SUGGESTED GUIDELINES FOR STATE BOARDS

Scope of Services

- Embrace the three principles the SEC has used for determining auditor independence. (The auditor should not audit his own work, act in management's place, or be the client's advocate.) The SEC is trying to enhance independence and accountability based on these three principles, and state boards should do likewise.
- Enforce the code of professional conduct, particularly rules associated with the application of professional judgment.
- Require auditors to be independent in fact and appearance.
- Reference nationally accepted standards in state rules, and stay involved in the development process for those standards.
- Consider what additional monitoring is being done by other agencies and organizations.
- Require licensees to disclose fees for services.

Partner Rotation

- Do not require rotation of the audit partner on nonpublic company audits, because it would likely require small firms, with fewer qualified audit partners, to resign from audit engagements. As a result, fewer small firms would continue to perform audit services, and less competition would offer less choice for services and possibly higher costs to consumers.

Partner Compensation

- Support enhancement of the quality assessment (peer review) process to include evaluation of compensation policies as they relate to independence.

Board Composition

- Include both licensee and public (nonlicensee) members on state boards of accountancy.
- Licensees representing various segments of the profession should hold at least the majority plus one of the positions; public members with an understanding of accounting and business matters should fill the remaining positions.
- Both licensees and public members should embrace a commitment to putting the public interest first.

Ethics

- Require continuing professional education that emphasizes ethical reasoning but also covers state-specific board rules for the licensee's principal place of business.
- Ethics training should be reaffirmed at least every three years.

Firm Inspection

- Peer reviews that are conducted purely for educational purposes are no longer sufficient.
- Replace the term "peer review" with "quality assessment."
- An inspection that covers only the firm's engagements performed for SEC registrants may not be reflective of the firm's overall quality-control and audit processes.
- All CPA firms with offices in a state should be registered with that state's board.
- All firms providing attest services should be required to undergo a quality assessment.
- All quality assessment reports are to be made available for the state board's review.
- The firm must submit to the board an adverse or second modified quality assessment report at the time of its issuance.

Relationships with Other Organizations

- Should a non-U.S. auditor establish an office within a state or otherwise engage in the practice of public accountancy in a state, then that auditor is required to comply with the state board's laws and rules—including licensure.

Corporate Governance

- Auditors cannot be involved in the selection of financial experts for clients' audit committees.

Record Retention

- Documentation and record retention requirements that currently exist in the Statements on Auditing Standards are presently under review. State boards should participate in the review process and develop board rules that reference the revised standards for nonpublic companies.
- Record retention for audit papers should be at least five years, with longer periods as required by other regulators or when required for ongoing investigations or litigation.

Source: *NASBA discussion memorandum titled "Answering the SOX Challenge: Guidelines for State Boards of Accountancy," dated September 30, 2003, and distributed at the October 26, 2003, NASBA Annual Meeting.*