1962

Accounting profession, where is it headed? a summary of views on the profession's future;

John L. (John Lansing) Carey (1904-1987)

The Accounting Profession

WHERE IS IT HEADED?

EDITED BY JOHN L. CAREY

A summary of views on the profession's future developed by members of the American Institute of CPAs' Committee on Long-Range Objectives, 1956-1962

The Accounting Profession

WHERE IS IT HEADED?

The Accounting Profession

WHERE IS IT HEADED?

EDITED BY JOHN L. CAREY

A summary of views on the profession's future developed by members of the American Institute of CPAs' Committee on Long-Range Objectives, 1956-1962

PUBLISHED BY THE AMERICAN INSTITUTE OF CPAs • NEW YORK

Much of the material in this book is derived from articles written by the members and secretary of the Long-Range Objectives committee and published in *The Journal of Accountancy*. Since this book has not been formally approved by the Council or the membership, it does not represent the official position of the American Institute of Certified Public Accountants.

Table of contents

Much of the material in this book is derived from the following articles written by the members and secretary of the Long-Range Objectives Committee and published in The Journal of Accountancy, *as indicated:*

BEVIS, HERMAN W., "The Accounting Function in Economic Progress," August 1958, pp. 27-34.

CAREY, JOHN L., "The Place of the CPA in Contemporary Society," September 1958, pp. 27-32.

WITSCHEY, ROBERT E., "The Accounting Function for Small Business," December 1958, pp. 30-39.

SEIDMAN, J. S., "What Is the Future of the Accounting Profession?" March 1959, pp. 29-36.

"Long-Range Objectives of the Accounting Profession—A Summary of Studies by the American Institute Committee on Long-Range Objectives" (Official Releases), May 1959, pp. 71-73.

CAREY, JOHN L., "Higher Accreditation for CPAs," March 1961, pp. 47-53.

TRUEBLOOD, ROBERT M., "The Management Service Function in Public Accounting," July 1961, pp. 37-44.

HEIMBUCHER, CLIFFORD V., "Fifty-three Jurisdictions," November 1961, pp. 42-50.

BEDFORD, NORTON M., "Education for Accounting as a Learned Profession," December 1961, pp. 33-41.

BEVIS, HERMAN W., "The CPA's Attest Function in Modern Society," February 1962, pp. 28-35.

Preface

THIS BOOK IS not a statement of the official position of the American Institute of Certified Public Accountants.

It is, however, the direct result of the activities of an Institute committee.

It is an edited version of "position papers," reports, and underlying documentation produced by the Institute's Committee on Long-Range Objectives in the first five years of its existence. Excerpts from the committee's papers are cemented together and a few chinks are filled with comments of my own which the committee members have reviewed but for which they take no responsibility.

Like all planning documents, this book reflects only tentative positions, which are always subject to revision in the light of unforeseen developments, or in the face of evidence that underlying premises or projected conclusions are not sound.

But the committee believes that planning can accelerate the orderly growth and development of the profession as a whole. Therefore, the committee presents in this book what it conceives to be a comprehensive picture of the profession's present position and potential development in the future. It is hoped that this will encourage discussion, comment, and criticism. The committee seeks the reactions of members of the profession to find out whether or not there is sufficient agreement with the committee's assumptions and predictions to serve as a basis for policy formation and a program of action in the future. In either event, planning will be facilitated.

This book marks the completion of "phase one" in the life of the

Committee on Long-Range Objectives. For five years it has studied basic concepts and trends believed to influence the future of the profession. The results of these efforts appear within this volume. The committee now plans to spend a year or two studying all aspects of the profession, including those dealt with in this book and many others which have not yet come under its scrutiny. The intention is to suggest where the accounting profession would like to be in 1975, and what it will take to get there. Comments on the present book will be most helpful in this challenging new task.

In order to appraise this volume and know how seriously to take it, it is necessary to understand what the Committee on Long-Range Objectives is and how it works.

The committee was created in 1956 by Marquis G. Eaton, then president of the Institute. He was convinced that the concept of planning and control, which had made so much headway in business corporations in the previous decade, was even more essential in the operation of a nonprofit, professional association than in a business entity. He saw how difficult it was to deal with specific, immediate problems without a framework of policy into which proposed solutions might fit logically. He saw how difficult it was to decide on allocation of the Institute's resources or assignment of priorities among numerous projects without general agreement on the end results desired. He realized that in a democratic membership organization, in which rapid turnover of officers and committees was characteristic, clear objectives were necessary to avoid a hesitant, uncertain course, with endless internal wrangling arising from the fact that individuals approach specific questions with widely different underlying assumptions. He concluded that what the Institute did today would have significant bearing on where the accounting profession might find itself in ten, fifteen, or twenty years, and that it was only plain common sense to decide where the profession wanted to be in ten, fifteen, or twenty years, before deciding what to do today.

From the beginning, the committee was composed of thoughtful, studious, and articulate men who had occupied leading positions in the profession – men of broad experience and seasoned judgment, known to be objective and skeptical of their own preconceived opinions. At first, the committee consisted of only three men, but later a fourth was added. As executive director of the Institute, the editor of this book was asked to serve ex officio with the committee and to assist it to the best of his ability, though, of course, without a vote.

Early in the study it was decided that the best way to work was to hold three or four two-day meetings each year, in places where interruptions could be minimized, and to talk out each problem on the agenda as long as might be necessary to develop substantial agreement. The first few meetings were devoted largely to a discussion of what should go on the agenda. A number of topics considered of urgent importance were selected. It was then decided that most rapid progress would be made if each member of the committee were asked to research a single subject and draft a paper on it, the draft to be criticized by all the other members. This procedure was followed with success. After each paper had gone through many drafts, the committee either offered the manuscript for publication in *The Journal of Accountancy* to stimulate thought and discussion, or submitted it as a "position paper," as a basis for specific objectives recommended by the committee for adoption by the Institute's Council as Institute policy. These papers make up most of this volume.

With a few notable exceptions, the objectives proposed by the committee have been adopted. As a rule, in presenting an objective, the committee also suggested means of implementing it, and for the most part the Council has adopted these suggestions also. The reports of the committee to the Council, minutes of meetings, and related memoranda have also been drawn upon in the development of this book.

The impact of the committee's work has been tremendous. It has had an immediate influence beyond all expectation on Institute policy and activity. For several years the agenda of Council meetings have included major items arising out of the work of the Committee on Long-Range Objectives. A number of Institute programs now under way are the direct result of the committee's recommendations.

It is now possible to predict that within a few years this Committee on Long-Range Objectives will have completed its version of a clear statement of the accounting profession's goals, in specific terms dealing with every aspect of the profession's affairs — goals so clearly stated that they will suggest the course that must be followed to reach them. On the basis of such a statement, the Institute should be able to redesign its programs and projects into an integrated, consistent pattern, which will facilitate achievement of the objectives with maximum speed, efficiency, and economy.

Who are the people to whom this important planning function has been entrusted?

The first chairman was J. S. Seidman, who had already been vice-president of the Institute, member of its Executive Committee for many years, chairman of the Committee on Federal Taxation, and member of numerous other committees, as well as president of the New York State Society of Certified Public Accountants. When he relinquished the chairmanship of the Committee on Long-Range Objectives he was elected president of the Institute for the year 1959-1960.

An original member of the committee was Herman W. Bevis, who had been chairman of the Institute's Board of Examiners, chairman and member of numerous other committees, and member of the Executive Committee. He later became a vice-president. He succeeded Mr. Seidman as chairman of the Long-Range Objectives Committee.

The third original member was Robert E. Witschey, who had been the first chairman of the Advisory Committee of Local Practitioners, member of many other important committees, including Relations with the Bar, and later a vice-president of the Institute and member of its Executive Committee. He had also been president of the West Virginia Society of CPAs and had served on the state board of accountancy. He has been nominated to serve as president of the Institute in 1962-1963.

The fourth member was Robert M. Trueblood (now the chairman). Mr. Trueblood had been president of the Pennsylvania Institute of Certified Public Accountants and chairman of the Institute's Committee on Statistical Sampling (a subject on which he had co-authored a book). During his tenure on the committee, he served for one year as Ford Research Professor at the Graduate School of Industrial Administration, Carnegie Institute of Technology. He is now a member of the Institute's Executive Committee, and a nominee for vice-president.

The fifth member to serve was Clifford V. Heimbucher, past president of the California Society of Certified Public Accountants, member and chairman of several Institute committees, including the Committee on State Legislation, and a seasoned member of its Executive Committee. He became a vice-president of the Institute in 1960.

In 1959, Norton M. Bedford, professor of accounting at the University of Illinois, was appointed to the committee, the first member from the academic field. He had been active in the American Accounting Association, had written articles on accounting subjects, and was well known for an imaginative, progressive attitude toward the accounting profession as a whole, particularly accounting education.

The latest addition to the committee is Malcolm M. Devore, a past president of the California Society, and distinguished member of the Institute's Committee on Auditing Procedure and numerous other committees.

With this background, the reader can judge for himself what degree of authority attaches to the content of this book. Since it deals largely with the future, it is necessarily tentative. But it is the distillation of five years of careful thought and continuous discussion among a small group of able and widely experienced members of the Institute. Their points of view are quite different, and in the beginning they often disagreed among themselves on propositions put forward for discussion. While none of them would agree with every word in this book and some have strong reservations on specific issues, a consensus has been reached that what is said here is important. All would agree that what follows not only deserves saying, but also merits the careful attention of every certified public accountant, whose comments are cordially invited.

Let us now get on with the business at hand.

JOHN L. CAREY

New York, April 1962.

1

The environment

Some vital statistics

THE SEVENTY-FIFTH ANNIVERSARY of the American Institute of Certified Public Accountants occurs in 1962. This is another way of saying that the organized profession of accounting in the United States is seventy-five years old. In historical perspective, this is just a tremor of the second hand on the clock of time. Yet the growth and development of the profession have been remarkable and are frequently described as "explosive." From nothing at all, it has become a widely known and respected profession — a "junior" profession, perhaps, to be candid — but one whose influence on the economy of the nation is much greater than is generally understood.

There are now about 75,000 CPAs in the United States. Their number has multiplied four times since the end of World War II. Their income has risen appreciably. Their status in the community has risen even more sharply. They are more and more often advisors to business and government. Their views are listened to with respect. An article in *Fortune* magazine in 1960 suggested by its title that they "have arrived."

How did all this happen? How did a new profession emerge from obscurity to comparative prominence in a short three-quarters of a century?

It was partly good luck and partly good management. The good luck was that the infant accounting profession found itself in the midst of economic and social forces that were rapidly increasing the demand for its services. The good management was that the pioneers foresaw that their future success would depend on the development of high technical and ethical standards, and that this could be accomplished only by co-operative action through the professional societies.

Turning from the past to the future, it seems clear that the tide of economic and social change that created the demand for the services of the accounting profession continues to flow strongly in the same direction. It seems equally clear that the future success of the profession depends on continuous strengthening and elevation of the standards upon which the technical competence and professional responsibility of its members must rest.

Accounting is obviously nothing in itself. It measures, reflects, describes, interprets, or otherwise deals with events that have taken place outside the scope of accounting. It is necessary only in societies in which there are economic relationships among the members. Accounting would have little meaning in a social vacuum.

Accordingly, the future as well as the past of the accounting profession will largely depend on future economic, political, and social arrangements and attitudes.

An analysis of the trends

THE COMMITTEE ON Long-Range Objectives has not yet formally stated its views on the probable developments in the areas just mentioned. But in the course of its discussions on other subjects, it has taken note of many trends which have a direct bearing on the problems before it.

John Morley said in *Life of Richard Cobden* (1882)[1]:

> Great economic and social forces flow with a tidal sweep over communities that are only half-conscious of that which has befallen them. Wise statesmen are those who foresee what time is thus bringing and endeavor to shape institutions and to mould men's thoughts and purpose in accordance with the change that is silently surrounding them.

[1]This quotation and the three paragraphs following it are taken from "The Accounting Function for Small Business," by Robert E. Witschey, *The Journal of Accountancy*, December 1958.

This is an age so unlike anything the world has known before that it is doubtful whether any one person comprehends just what is happening to our economic system and what its future course will be. Never have social and economic developments moved with such speed — a speed that has transformed evolutionary processes into revolutionary ones.

This is the era when men have learned to fly, split atoms, and launch satellites into orbit. This is the era when medical science has discovered how to transfer blood from one individual to another and manufacture new parts for damaged organs. This is the era when political democracy has become conscious of a social obligation — when government in the United States of America spends one of every four dollars spent. This is the era of tremendous industrial complexes — of the beginning, with high hopes, of a third of a million new businesses annually.

Scientific discovery sparks amazing new accomplishments in industry and business. Research programs continue to grow so rapidly that it is difficult even to conjecture what new discoveries will come from the laboratories of tomorrow. The only certainty is that they *will* come, bringing new products, new industries, and new problems to be solved. It is in this climate of kaleidoscopic economic shifts of a world in scientific, social, and economic revolution that the smaller businesses of the nation must struggle to survive.

The committee has noted the following economic, political, and social trends:

1. Technological improvement and automation result in increasing capital investment for each worker employed. The need for larger pools of capital requires accumulation of the savings of the people and encourages increasing diffusion of the ownership of corporations. The same trend toward bigger capital accumulation results in larger and larger industrial units, through both growth and merger. The seventy-five hundred leading corporations account for 91 per cent of all United States manufacturing assets and 83 per cent of all sales.[2] One result is a demand for greater accountability on the part of those who manage large aggregations of capital. Investment analysts and investors clamor for more extensive and

[2] *The News Front Directory of 7500 Leading U.S. Manufacturers,* Year, Inc., New York, 1961, p. 1.

more refined financial data. Bankers and commercial credit grantors, who provide both large and small business with working capital, also press for more and more information. All this foreshadows a steadily increasing demand for quantitative data – accounting data of the type which has become familiar. But the need for new types may also arise.

2. The separation of ownership and management in large corporations is accentuated by the interposition of investment trusts and pension funds, which exercise little or no influence on the policies of the corporations in which they invest, but merely shift their investments as the tides of corporate fortunes ebb and flow. This phenomenon is discussed at some length in A. A. Berle's book *Power Without Property*.[3] Mr. Berle underscores the power of corporate management to make decisions vitally affecting the welfare of the nation as a whole without being subjected to effective stockholder control. He points out the undesirable consequences which might follow if corporate managers were not responsive to public opinion or, as he calls it, the public "consensus." The alternative might be government control. But he does not suggest how the public consensus could be reflected in specific standards against which management performance could be appraised. Possibly, forward-looking and progressive corporate managements may consider it desirable to develop such standards for themselves. Methods might be devised to permit quantitative measurement of management performance in terms of the public interest generally, as well as of the interests of stockholders and creditors. The accounting profession might be helpful in both the development and application of such procedures.

3. Foreign investment and trade seem sure to expand steadily. Through public or private channels, the United States will undoubtedly continue to provide capital to nations that are struggling to raise living standards by industrialization. The Federal government has already shown awareness of the need to increase exports in order to maintain the balance of payments while United States capital is flowing abroad.

It seems highly probable that international finance and commerce will become another major source of demand for quantitative data of the type accountants can provide.

Divergencies in accounting and auditing standards and pro-

[3]Harcourt, Brace and World, Inc., New York, 1959.

cedures in the various countries will complicate the response to this demand. The accounting profession in the United States will doubtless find itself co-operating with colleagues abroad in efforts to reconcile these differences, in order to facilitate the transmission of intelligible financial data across international boundaries. Accounting may well become the economic Esperanto[4] – a language of all nations.

4. The trend toward bigness in industrial corporations does not appear to have stifled the growth of small business. In fact, every year there are more and more small businesses, and they are getting bigger! The Small Business Administration defines a small business as follows: A wholesaler with annual sales of less than 5 million dollars; a retailer or dealer in services with a volume of less than 1 million; a construction company whose annual receipts for the preceding three years have been less than 5 million; a manufacturer with 250 or fewer employees. Manufacturers with between 250 and 1,000 employees may be classed as large or small depending on the type of activity.

There are an estimated 4.3 million separate entities now engaged in conducting business on the American scene. Of these, over 4 million – between 95 and 98 per cent – are small as measured by the SBA's standards. The SBA estimates that small business accounts for at least 35 per cent of the total dollar volume of sales. Studies by Dun & Bradstreet bear out the general accuracy of these estimates.[5]

Each new year brings a net increase of about fifty thousand units to the business population, the vast majority of which are small. An estimated increase during the next twenty years of a million new, mostly small, businesses seems entirely realistic.

All this suggests an enormous increase in the need for accounting and tax services by sole proprietors, partnerships, and smaller corporations.

5. There is no reason to doubt that government participation in the economy will continue to increase rapidly, as it has done throughout the past thirty years. The government is now engaged, and will probably engage even more extensively in the future, in a wide variety of activities involving the transmission of quan-

[4]This analogy was conceived by J. S. Seidman.

[5]R. E. Witschey, *op. cit.* The apparent inconsistency with the figures quoted above for the seventy-five hundred leading corporations may be due to the inclusion of service organizations in the small-business statistics.

titative data of an accounting nature. Examples are the regulation of rates of monopolies and quasi monopolies; requirement of financial reports prerequisite to the issuance of securities in interstate commerce; supervision of financial institutions; regulation of a wide variety of business practices such as wages and hours, labor relations, fair trade practices, and the like. The government is also widely engaged in the business of providing capital through direct loans and equity investments. It insures mortgages, bank deposits, and deposits in Federal savings and loan associations. It gives subsidies and direct grants of funds at home and abroad, for which some degree of accountability is required.

The increasing tendency to utilize the Federal income tax as an incentive to encourage conduct considered socially or economically desirable introduces new complexities in the determination of income subject to tax.

Expanding purchases by the government of defense and other materials require extensive cost justification on the part of the vendors.

These illustrations are by no means complete, but they indicate the extent to which ever-expanding government activities are likely to stimulate greater needs for accounting data.

6. Internal management of the affairs of the Federal government — the biggest business in the world — requires an increasing volume of quantitative data. The very scope and complexity of the far-flung operations of government agencies, corporations, and authorities create unique problems of budgeting, reporting, costing, and financial control. Tens of thousands of accountants, many of them CPAs, are now employed by the government, and public accounting firms are from time to time engaged as consultants or to undertake special assignments. The trend is toward more, rather than less, accounting in government.

7. Local government units, too, are encountering difficulties which can be solved only by improved financial management. Taxes have been rising steadily in most cities and suburban areas. The rapid development of urban complexes, which spread over metropolitan, county, and even state lines (a phenomenon that has been given the name of "megalopolis"), has created new problems. Schools, roads, water supply, sewage disposal, and a host of other services must be provided for new communities which spring up almost overnight in recently rural areas outside the city limits. Existing political units are often not equipped to raise the necessary capital

quickly or even to manage efficiently the new enterprises that they find themselves forced to undertake. Financial planning, cost accounting, budgeting, and financial reporting are almost certain to be required by local government units in order to keep control of expenditures that suddenly rise to an unaccustomed scale. The accounting profession should be able to render invaluable assistance in the solution of such problems.

8. Economic planning on a national scale is not beyond the bounds of possibility. Considerable interest in Washington is reported[6] in the planning mechanism which France has adopted. This is described as a "concerted economy," midway between direct state control and complete lack of co-ordination. The economic plans are developed through voluntary but organized co-operative effort, in which business, labor, and government participate. Essentially the planning appears to encompass projections of over-all demand, agreement on investment priorities, and allocation of resources designed to produce optimum economic growth.

Indeed, in a loose and un-co-ordinated manner, and without continuous organized participation by business management and labor, the Federal government is influencing the economy to an increasing extent through its fiscal policies, tax and tariff legislation, and direct influence on wage and price decisions.

It is not necessary to pass judgment on the merits of a formal program for national economic planning to observe that it would require the gathering and processing of financial and economic data from all segments of the economy. If it were tried in the United States the accounting profession would undoubtedly have a large part to play.

9. The increasing trend toward systematic planning and control by business management has opened up vast new fields for accountants. This trend seems certain to accelerate. Rational planning and control require a wide variety of accounting data. The advent of electronic data processing has made available to smaller as well as large businesses analyses and computations that would previously have required so much manpower as to be uneconomic. Responsibility accounting — internal measurement of the performance of unit managers to whom authority has been delegated — has taken firm root in many corporations.

The internal uses of accounting will probably be further stimu-

[6]*Business Week*, Oct. 28, 1961.

lated by the increasing competition which the United States faces from abroad. The European Economic Community looms as a formidable though friendly competitor, as does Japan. The Soviet Union is making inroads in foreign markets. In the years immediately ahead, American business may well become cost- and price-conscious as never before.

10. These developments will also have an impact on labor relations. The apparent assumption that periodic wage increases are normal and almost automatic may have to be reconsidered.

Growing public impatience with strikes that disrupt the economy and inflict huge losses on both workers and stockholders may result in strong pressures for some means of settling union-management disputes on the basis of factual data permitting an objective determination of labor's fair share in the fruits of production. This would, of course, require measurement of productivity and detailed analyses of costs and profits.

11. Nonprofit institutions are assuming greater importance in the economy.

Charitable, health, and welfare organizations that solicit and obtain vast sums of money from the public have been criticized for inadequacies in financial reporting, which will undoubtedly be corrected either voluntarily or under compulsion. Pension and welfare funds have recently been required by Federal law to file financial reports. International labor unions affiliated with the AFL-CIO have long been required by the organization's code of ethics to publish audited financial statements. Now, a recent Federal law requires all unions to submit financial data periodically to the Department of Labor.

People who handle other people's money — trustees of hospitals, educational institutions, churches, clubs, and associations of all kinds — are increasingly aware that they, like corporate managers, assume accountability to the segment of the public that supports them.

12. Changing social attitudes, rising ethical standards in business, and increasing disapproval of conflicts of interest on the part of persons in positions of trust, all suggest the likelihood of wider disclosure of financial and economic information through annual reports, proxy statements, and other appropriate media.

Greater sophistication on the part of a public exposed to more and more education may result in a desire for more information bearing on business and the economy in general. For example, the question has been raised whether the production of profit is the sole purpose of a business enterprise or whether it may be held responsible for level employment, job satisfaction, consumer and community welfare, and similar intangible goals. If it is possible to develop quantitative measures of the extent to which these objectives are attained, accountants may have an important part to play in their implementation.

The basic questions

AS INDICATED EARLIER, the Committee on Long-Range Objectives has made no analysis in depth of these and other social, political, and economic trends that may have an impact on the future of the accounting profession – but it is now beginning the task.

Even this incomplete and superficial review of the possible course of events, however, supports the prediction that there will be rapidly expanding opportunities for competent accountants trained in the recording, classification, analysis, and interpretation of financial and economic data.

On the negative side, there are two ominous threats: war and communism. An atomic war would undoubtedly result in a reversion to primitive society throughout the world. Civilization, and with it accounting, would have to start all over again – if, indeed, enough of the human race were spared to make a new beginning.

Communism would not destroy accounting, but would destroy its professional character. All accountants would work for the government. Their professional status as independent experts exercising their own judgment and offering a creative service to the community would vanish.

It serves no purpose to project the future of the accounting profession on the assumption that hostile events will destroy it – and indeed, there is no reason to believe that they will. Useful predictions must be based on the assumption that civilization and the United States will survive, and that the economic, political, and social system will evolve in the future in the same general direction toward which it has been projected by past events.

Against this background, three basic questions can now be considered:

1. What is accounting, and where is it going?
2. What are certified public accountants and where do they want to go?
3. How can they get there?

2

What is accounting and where is it going?

The accounting function—an analysis

ANY EFFORT TO foresee the changing role of the accounting profession in the changing environment requires an analysis of the function of accounting itself, since it is within the limits of that function that the members of the profession must find their place. For present purposes, the accounting function, which includes auditing, is defined as the measurement and communication of financial and economic data.[1]

It is not intended to pre-empt for accounting the fields of the economist, the statistician, the investment analyst, or many others who are not accountants but who deal with the measurement and communication of economic data in one way or another. The phrase "economic data" was selected in defining accounting to emphasize that accounting is not, as is widely supposed, confined to conventional double-entry bookkeeping and the conventional statements in which financial results are customarily expressed in dollars.

Accounting can and does measure and communicate data not only in terms of money symbols, but also in nonmonetary units, such as material, labor, and time. Accounting, therefore, embraces that part of the control function of management which utilizes measurement and communication of data regarding acquisition, disposition, and exhaustion of material and human resources, and the efficiency of their utilization.

---

[1]Herman W. Bevis, "The Accounting Function in Economic Progress," *The Journal of Accountancy,* August 1958.

Nor is accounting confined, as is also widely supposed, to private business units. The accounting function deals with measurement and communication having to do with the whole or any part of any type of organization — profit, nonprofit, private, or governmental.

Further, whether or not it is identified as such, the accounting function exists in the conduct of any organization, no matter how small. This is true no matter how poorly the measurement and communication may be executed. The one-man business without records must nevertheless measure and communicate, however crudely, in order to make decisions, determine the results of operations, compute taxes, and provide suppliers or banks with credit information. In other words, the accounting function exists even where there may be no persons called "accountants."[2]

The accounting function discharged internally is the measurement and communication of economic data regarding parts of an organization for the benefit of supervisory echelons within such organization. Data contained in reports to top management and the board of directors provide them with a basis for guiding corporate policy. Economic data is also furnished to and used by lower echelons for co-ordination and control, as, for example: actual and budgeted income and expenses used by responsible department heads and other key personnel; sales orders, output, and stock position circulated among the sales, production, and warehousing responsibilities; purchase orders, purchases, receipts, stock position, and input requirements, all having to do with the inflow of materials — and so on, for each type of industry, business, and department. The volume of internal economic data is enormous and of great importance.

Economic data regarding the organization may also be communicated to a variety of persons outside the organization in the accomplishment of a variety of purposes. For example, the economic data regarding a business may be communicated to the following: lenders, stockholders, partners, or proprietors; suppliers and credit agencies; employees and labor unions; customers; regulatory bodies; taxing authorities; courts; associations and agencies (for economic statistics); governments; lawmakers or public policy makers.

The accounting function exists wherever there are (1) measurement of resources[3] acquired and consumed and wealth produced,

---

[2]Most of the remainder of this chapter is quoted directly from Bevis, *ibid.*

and (2) communication of the resulting data. It is as necessary in a system of state ownership as it is in one of free enterprise. In the former, centralized control and direction in a country of any size would become ineffective without it. The accounting function is indispensable in a mature, industrialized, free enterprise system, for without it balance and stability could not be maintained in the midst of multitudes of diverse interests and competitive conflicts. It exists to some extent in the simplest agricultural economy and will be found in the small as well as in the large business. The universality of the accounting function should not be obscured by either (1) differences in the nature of the organizations originating economic data or (2) the variety of users and uses.

Importance of the accounting function

THE RELATIVE IMPORTANCE of the accounting function varies among types of economies, among industries, and among companies within industries. An examination of the circumstances under which the function is accorded high degrees of importance may well give evidence as to the fundamental contribution of accounting to economic progress. The circumstances, vis-à-vis any given organization, may be divided into the internal and the external.

Importance accorded the accounting function in an organization. The accounting function may be accorded great importance in one profit-making company and not in another. This may be equally true among nonprofit private organizations or among governmental entities. Why? It is believed that an analysis of the differences will show that, generally, the more complex the management problem in a successful organization, the higher the degree of development of the accounting function; and that the organization with a highly complex management problem that does not

[3]It should be recognized that some resources such as an inventor's imagination or a clerk's "way with customers" are not susceptible of measurement.

develop its accounting function commensurately will not generally be well run. The complexity of the management problem, and thus the required internal flow of economic data, are often indicated by the number of management tiers. These, in turn, are usually found to vary in direct proportion to such characteristics as size, physical dispersion of operations, the extent of specialization or departmentalization, and the amount and diversity of plant, machinery, and materials. It is therefore advanced as a reasonable proposition that the more complex the management problem the higher the degree of development required of the accounting function for internal purposes.

The foregoing, however, is patently not a complete explanation of the varying degrees of importance accorded the accounting function for internal purposes. What other factors are involved? The most obvious additional one involves differences in management techniques. For example, the relatively new class of "professional managers" is far more likely to lean upon the accounting function than the diminishing class of founders and sons of founders who have grown up with their companies. The latter's technique of "managing by the seat of the pants" can be effective with little use of the accounting function because of their enormous personal knowledge of the business.

Another factor involved in the varying degrees of importance accorded the accounting function internally, even when the management problem has the same degree of complexity, is more far-reaching. This is the relative *emphasis on efficiency*. Accounting is likely to be more advanced in a highly competitive industry operating on a narrow profit margin than in a less competitive one where high profits come notwithstanding loose methods. The accounting function is likely to be highly developed in a present-day corporation operating on a nationwide basis, but hardly developed at all in a peacetime military organization many times larger and with operations scattered all over the world. Why? Because the company has long been faced with competition and has been forced to place great emphasis on efficiency; the military organization has been accustomed to unlimited resources in wartime and has only begun to master the problem of managing a large-scale peacetime operation when resources are limited.

In conclusion, it seems a fair proposition for the long run that the relative importance of the accounting function for internal purposes will vary directly with the degree of complexity of the management problem and with the extent of the emphasis on efficiency (with an additional short-term factor arising from differences in management techniques). The converse also seems valid, namely, that *a complex management process cannot long be satisfactorily conducted, nor a high degree of efficiency maintained, without a highly developed accounting function.*

Importance accorded the accounting function in an economy. Quite independent of the emphasis on the accounting function for internal purposes will be the varying demands for economic data for external purposes. It is suggested that the relative importance accorded the accounting function in an economy varies directly with the volume of economic data required to flow among natural persons, legal persons, and governments. This volume, in turn, depends largely upon the *extent of industrialization of the economy,* the requirements being greater in an industrial than in an agrarian society. The data requirements would appear to turn upon the industrialization factor rather than the form of government or the system of property ownership. As was mentioned earlier, an industrial society conducted under a system of free enterprise may not necessarily accord greater importance to the accounting function than a totalitarian state; in fact, some say that, for a given stage of industrialization, the totalitarian state requires for management and regulatory purposes at least as great a flow of economic data as is necessary in the interplay among the various components in a free enterprise system.

Industrialized economic systems based upon free enterprise and private property may still vary in utilizing the accounting function. Why? The following are additional factors affecting the relative importance of the accounting function:

1. The extent to which ownership and management are separated
2. The extent to which credit is granted
3. The extent to which privately owned economic units are subjected to governmental regulation
4. The extent to which taxes are predicated upon economic data
5. The level of such taxes
6. The extent to which economic data of the employer enter into collective bargaining
7. The extent of a country's external economic relationships

Accounting and government policy

THE ACCOUNTING FUNCTION is also involved in the shaping of governmental policy. When it is governmental policy to allow economic forces to interplay with little intervention, the flow of economic data to the government may be rather small; the more the policy of government is to participate in or attempt to regulate the economic forces, the more extensive must be the economic data supplied to it.

A factor which temporarily detracts from the significance given the accounting function in an economy, even though a large flow of economic data otherwise seems to be called for, is catastrophic depreciation or actual collapse of the currency such as has occurred in some European and South American countries.

It was concluded earlier that a high degree of efficiency cannot be maintained in an organization with a complex management problem without a highly developed internal accounting function. This suggests that such an organization cannot flourish nor indeed long exist in a competitive economy. The proposition is now advanced that an accounting function of high order is characteristic of a successful industrial economy. It is further suggested that this relationship is essential rather than accidental and that, therefore, *a high degree of industrialization and the attendant economic progress cannot be developed without a highly developed accounting function which makes possible the flow of indispensable economic data.*

Elements of the accounting function

THE ELEMENTS OF the accounting function have to do with the observing, measuring, recording, classifying, summarizing, interpreting, reporting, and inspecting (auditing) of economic data. These steps in the accounting process are carried out by persons who are commonly classified in three groups: bookkeepers, accountants, and auditors.

There is some confusion as to where the bookkeeper's work stops and the accountant's begins. The problem may be solely one of semantics. To some, the bookkeeper is engaged in activities of an elementary nature, such as copying, applying arithmetic, and carrying out clerical work requiring little or no judgment. Those who hold this view would say that "bookkeeper" merely identifies a type of "clerk." They also readily concede that "accountant" covers a wide field, applying judgment in the simplest of situations as well as in the most difficult.

Others say that persons who make entries in "books" are divided between clerks and bookkeepers. They hold that bookkeepers make many judgment decisions with regard to the categories into which the organization's resources and transactions are to be classified, particularly in connection with individual borderline transactions; however, bookkeepers also make entries. This school says that, in essence, the difference between the bookkeeper and the accountant is one of degree, with the bookkeeper applying judgment in the simpler situation and the accountant in the more complex. To these people, the person who copies ("posts") and uses arithmetic under minute supervision or instruction is a "clerk" – not to be differentiated from others doing similar work solely because the records on which he works are part of the "books of account."

It is suggested that for present purposes the relationship between "bookkeeping" and "accounting" be considered important, not incidental; that there cannot be sound accounting without skillful bookkeeping; that bookkeeping cannot be taken for granted; that it requires aptitude and accomplishment – in short that, in searching for a dividing line between bookkeeping and accounting, what is found is not a line at all but a gray area of degree. (Not that matters of degree can be ignored, for this is the difference between the medical intern and the world-famous brain surgeon. But it is suggested that the bookkeeper and the bookkeeping process should not be disparaged.)

Regardless of the relative contributions of bookkeepers and accountants, one thing is clear: measuring transactions and resources, translating them into a monetary unit, and recording and classifying them under a double-entry system of bookkeeping – all these constitute a high order of scientific observation for accuracy, completeness, lack of bias, and application of logic in organizing the observed phenomena into meaningful patterns. How *else* would one summarize for communication to distant persons the economic status and trend of a business or other organization – even a simple one? Perhaps the accountant's knowledge and skills are subjected to the greatest test in the large-scale, far-flung organization. But these organizations are made up of departments and subdivisions, so that at the firing line of operations, where the individual transactions take place, a series of small units are found. It is the reports of these small units which determine the quality of the summary data, and their reports are no better than the quality of the scientific observation and recording process at their level.

Role of the auditor

THE AUDITOR, WHETHER internal or external, plays a strategic role in the discharge of the accounting function. By tests and observation, he ascertains the manner in which the economic data are being measured, recorded, summarized, and communicated, and whether all this is in conformity with the established plan. He passes judgment upon records, reports, and the performance of people, all to the end that the output of economic data be sustained at a high level of quality. *Without auditing, degeneration of the accounting process sets in.*

The auditor also performs another important task — he looks beyond the presently established plan for carrying out the accounting function to determine whether some different or modified plan is called for by changed conditions. Organizations, methods, people, and economic environments are constantly changing; equivalent changes occur in the actual or potential contribution of the accounting function and in the methods of discharging it. Without auditing, any accounting process is exposed to the risks of losing effectiveness because of obsolescence.

All three of the foregoing groups of persons discharging the accounting function — bookkeepers, accountants, and auditors — will be found in private employment, in public practice, and in governmental work.

The corner retail store may have no employees in any of the categories; its entire accounting function may be discharged by an outside person who contracts his services on a part-time basis. On the other hand, the large industrial corporation may employ hundreds of bookkeepers, scores of accountants, and dozens of auditors. It may call upon outside accountants for consultation on the unusual transaction, but bookkeeping entries for the thousands of smaller transactions are decided internally. The organization's external auditors operate on a high level of skill commensurate with the complexity of the organization, evaluating particularly the internal controls; it is the internal auditors who check the more detailed bookkeeping processes. Between the giant corporation and the corner store will be found many combinations of persons discharging the accounting function. The extent to which the required bookkeepers, accountants, and auditors are in private employment instead of public practice will be found to vary from industry to industry and from company to company.

Bookkeepers, accountants, and auditors are also found within federal, state, and local governments. Some may be concerned with the internal flow of economic data, which is as important in the management of a governmental organization as in a private one. Others, however, particularly accountants and auditors, may be concerned with the economic data communicated to the government by nongovernment entities and vice versa. Accountants employed by tax authorities may be concerned with the measurement of economic data for purposes of taxation, and auditors employed by tax authorities (examiners) may be concerned with the reliability of the reports containing such data. Similar functions may be carried out by regulatory agencies. In military departments, accountants may concern themselves with "statements of cost principles" or other guidelines for the measurement of economic data, and thousands of their auditors check such data in connection with procurement.

With regard to nonregulated, listed corporations whose securities are held by the public, governmental (SEC) accountants discharge their responsibility largely by observing that conventions for the measurement of economic data and reporting practices have received competent, independent consideration. The external auditing role for these companies has been left entirely to the independent public auditor. The independent auditing role with regard to a regulated public utility may be carried out by independent public accountants for economic data transmitted to investors, but by governmental auditors attached to regulatory bodies with respect to the economic data submitted for rate-making or other regulatory purposes.

To summarize: bookkeeping requirements may be discharged in some cases by persons in private employment, in other cases by public bookkeepers, and in still others partially by each. With regard to a given economic unit, this situation may change as the unit progresses in size or complexity. Similarly, persons performing the accounting and auditing functions may be private, public, or governmental. Often all three participate with respect to the same company. Sometimes, as in the case of the individual consulting a revenue agent in the preparation of his tax return, the only persons involved in the accounting function are the individual who keeps his own books (cancelled checks and memoranda) and the governmental revenue agent who assists and advises. The accounting function is always present and must be discharged. By whom, and under what titles, is more obscure.

Public practice versus private employment

THE FOREGOING DISCUSSION, taken alone, might suggest that the nature of the work done by the *public* bookkeeper-accountant-auditor in furthering the accounting function does not differ in essentials from that performed by his counterparts in private or governmental organizations. It would seem difficult to make sweeping statements about the relative complexity of work in public as opposed to private practice. Auditing techniques applied and accounting services rendered by some in public practice are of a high order — of the highest order. But then some of the accounting and auditing knowledge and skills required *internally* in complex businesses are also of a high order.

What, then, distinguishes the person in public practice (we might refer to him as the "practitioner") from the other participants in the accounting function? These two elements: first, the "holding out" of oneself as offering services to the public, rather than to a single employer; second, an "attest" function.

Services to the public. In an economy where a large flow of economic data is essential, the public interest requires a highly developed accounting function — properly performed. The burden of supplying the economic data falls upon the enterprise which originates it and therefore so does the burden of seeing that the accounting function is properly developed.

Organizations supplying the data frequently utilize the services of practitioners, either out of necessity or to obtain high quality, or both. In a small organization, the workload may not justify the energies required to develop the necessary skills internally; the time and knowledge of a properly equipped person would not be sufficiently utilized. *The void is filled by a public practitioner. Similar voids exist and are filled by practitioners in organizations up to the largest and most complex.* In some of these, internal bookkeeping skills are highly developed, and the void which the practitioner fills is in accounting and auditing. If internal accounting and auditing are both of a high order, the practitioner's participation in the discharge of the basic accounting function involves correspondingly less concern with details, but constitutes the greatest test of his professional faculties—not only in technical expertness but in terms of business advice.

Often the practitioner also fills the role of instructor to client personnel. As an organization grows in size and complexity, its own staff is able to participate in the discharge of the functions, first of bookkeeping and then, progressively, of accounting and auditing. The practitioner, by helping to educate client personnel, can and should be an essential factor in the evolutionary process.

Attesting. Organizations are required to furnish economic data to a variety of external persons. Basic responsibility for the reliability of the data rests with the organization that provides it, but the data may be examined and attested by a practitioner in an "opinion" provided to third parties along with it.

The practitioner's participation in this connection may derive from one or more of three causes: (1) a need for supplementing internal knowledge and skills in the art of measuring and communicating economic data; (2) a conflict of interest, or possibility of such conflict, between the organization supplying economic data and those using it; and (3) a desire on the part of persons within an organization (directors and officers) to minimize their personal responsibility (liability) for the consequences if erroneous economic data communicated by their organization should injure outside parties.

It may be observed that the first reason stated above, the need for supplementing internal knowledge and skills, is the same as that developed earlier in discussing services to the public. It is repeated here because it often is also behind the call for a practitioner's "opinion."

The actual or potential conflict of interest between management on the one hand, and absentee investors and creditors on the other, is a significant contributing factor to the use of practitioners for attesting. It probably underlies provisions for their compulsory use in the English and Canadian Companies Acts, in the Securities and Exchange Acts, and in rules of such institutions as stock exchanges.

The use of the practitioner to minimize the liability of directors is also a factor. It was undoubtedly an important influence underlying the compulsory independent audit feature of the SEC legislation. It certainly is a contributing feature in the increasing use of practitioners by banks, insurance companies, railroads, and other industries which are under no legal obligation to obtain independent audits, but whose directors are responsible for seeing to it that the economic data disseminated by their organizations meet modern standards.

The attest function need not, of course, be confined to external communications. It may be appropriate also internally when management desires independent judgment as to the existence and effectiveness of prescribed controls.

Conclusion

IT MAY BE concluded that the practitioner may be a direct participant in the accounting function, filling a void in an organization's internal knowledge and skills. This relationship is likely to be fluid, changing as an organization changes, and differing among organizations as they themselves differ. The practitioner is also called upon to "attest" economic data for more than one reason. These reasons, too, may vary from time to time, as well as among diverse types of organizations at any one time.

Accounting is not merely a contributor to economic progress, it is an inherent part of a successful industrialized economy, indis-

pensable to a high degree of efficiency in an organization with a complex management problem. The accounting function in the United States is discharged not by one but by many groups of persons whose activities interrelate.

In the probable economic environment of the United States in the years ahead, it seems inevitable that the accounting function will expand rapidly in all its aspects and at all levels.

There remain to be considered the questions: what position do the CPAs occupy in the accounting function, where do they want to go, and how do they get there?

3

What are CPAs and what is their place in the accounting function?

The origins in brief

WITHIN THE BROAD limits of the accounting function are many different kinds of people engaged in many different kinds of tasks. Among them are certified public accountants – the CPAs. What is their relation to the entire accounting function and their responsibility to society as a whole? Perhaps it will help to identify the CPA and glance at his future opportunities by recalling briefly how he came into being.

There is evidence that accounting is as old as civilization. Among the earliest human writings are the temple accounts of the Sumerian priests, written about 3000 B.C. Theirs was, of course, accounting in its most elementary form – simple record-keeping or bookkeeping. As civilization grew more complex, accounting became a technique of internal administration and control. Then it became the basis of financial reporting, internal and external. But for some forty-seven hundred years the accountant was an obscure technician without any special title, who worked at accounting at a higher or lower level, with greater or less skill, for the most part as an employee. Then something new and different appeared.

Accounting written into the law

THE INDUSTRIAL REVOLUTION in England in the eighteenth century greatly intensified the need for aggregations of capital to provide machinery. This led to the widespread use of the "limited company" – the prototype of the modern corporation. From this, in turn, arose the concept of "accountability" of management to stockholders. About the middle of the nineteenth century, accounting in the sense of financial reporting, sometimes referred to as an "account of stewardship," became written into the law. It was recognized that economic affairs were growing in complexity, and therefore that accounting and financial reporting were matters requiring expert knowledge. It seemed proper that stockholders should have the protection of an independent, objective review of the management's report on what it had done with their money. The idea of an independent audit – the "attest function" – gained general acceptance.

This was probably the first occasion in history when the accountant, acting as an independent auditor, was recognized as accepting a *special responsibility to outsiders apart from the responsibility of the owner or the manager of the business itself.* It was undoubtedly this new responsibility that led to the rapid development, first in Scotland and then in England, of the Institutes of Chartered Accountants. Examinations were conducted to test the competence of those who would become chartered accountants, and ethical principles were developed to strengthen their independence. Here the concepts of professional competence and responsibility in accounting, as distinguished from technical skill alone, were first given tangible form.

In the latter part of the nineteenth century, when industrialization of the United States began in earnest, many Scottish and English chartered accountants came to this country on professional business for British investors. Some chartered accountants decided to make their homes here. They helped organize an accounting profession in the United States, with the advantage of several decades of experience in the United Kingdom. The first certified public accountant law was enacted in New York in 1896. It was an American adaptation of the British pattern.

The CPA examinations and the rules of ethics of the CPA societies have shown from the beginning that the major concern was to establish a high standard of competence and responsibility for accountants who were holding themselves out as independent auditors — that is, accountants who assumed responsibility, apart from that of management itself, for the fairness of management's representations to stockholders or creditors. To put it another way, it seems that the certified public accountant was intended to be a kind of "quasi-judicial accountant," whom the state certified as competent to add credibility to financial statements in the eyes of outsiders who had a financial interest in the business. At this point, accounting in the United States was on the way to becoming a profession.

What is a profession?

THE WORD PROFESSION is very broadly used. Many groups today refer to themselves as professions without much consideration of the precise meaning of the term.

There are many definitions of what constitutes a profession, written with different purposes in mind. For example, the Wage and Hour Law contains such a definition, for a special legislative purpose, which is properly quite broad.

The Commission on Standards of Education and Experience for Certified Public Accountants, in testing the professional status of CPAs, adopted a very rigorous standard, derived from the work of the famous Abraham Flexner. Under this standard, embodying seven essential characteristics, it seems quite clear that certified public accountants are the only accountants who meet all the tests of professional status:

1. They possess a body of specialized knowledge.
2. They undergo a recognized, formal educational process.
3. They conform to a standard of professional qualifications governing admission.
4. They maintain certain standards of conduct.
5. They have a recognized status.
6. The work they perform is endowed with a public interest.

7. They belong to an organization devoted to the advancement of the social obligations of the profession.

By virtue of possessing these seven characteristics it seems clear that CPAs have a valid claim to professional status.

What is the CPA certificate?

THE FORMAL RECOGNITION of status involved in granting the CPA certificate by state governmental authorities under statutory authorization is an act involving the exercise of the police power of the state. This is justified only as it contributes to the public welfare. Underlying the exercise of this power by the state is the assumption that it is in the public interest to identify professionally competent and responsible accountants who are offering their services generally to the public, and on whose opinions people may rely in investing, extending credit, or making other financial decisions.

This supports the proposition that the certified public accountant certificate is a kind of license, rather than a kind of degree, as it has sometimes been called. What the certificate actually does is to permit (license) the CPA to hold himself out as competent to render professional accounting services to the public generally. This is not a characteristic of an academic degree. The CPA certificate is a symbol that the holder has satisfied basic requirements – presumably the minimum requirements that the state believes necessary for protection of the public in the circumstances. Thus the CPA certificate resembles a license to practice medicine or admission to the bar – which, to be sure, assume underlying educational achievement – rather than a degree conferred by a university.

The license does not purport to mean that the holder is necessarily qualified to do every kind of work in the field of his vocation, nor does it mean that he has necessarily acquired complete mastery of *any* branch of knowledge in that field. For example, a Ph.D. in accounting issued by a university of high standing might signify knowledge in a particular field of accounting superior to that of most certified public accountants.

No one would seriously claim that all certified public accountants are superior to all other accountants. There are undoubtedly noncertified accountants in government, industry, and academic circles who may know more about some phases of accounting than do most certified public accountants, and who may know more about most phases of accounting than some certified public accountants. But the CPA is the only accountant who is *identified* as having at least a basic knowledge of all the principal phases of the accounting function.

The CPA has demonstrated the basic qualifications for assumption of the *professional* responsibility of attesting, or adding credibility to, financial representations — and this requires a comprehensive knowledge of the other underlying phases of the accounting function: record-keeping, internal accounting for management purposes, tax accounting, and external financial reporting.

CPAs' relations with others in the accounting function

IDEALLY, THE RELATIONSHIPS of CPAs with all others who work within the accounting function, whether they are employed in industry, government, or teaching, or whether they are offering accounting services as independent contractors, should be one of co-operation, not competition.

All parts of the accounting function are closely interrelated and interdependent. The independent audit leading to a formal opinion — the professional function of adding credibility to financial statements — can be performed best, at reasonable cost to the client, and at fees satisfactory to the CPA, where there is sound bookkeeping, good administrative accounting, internal control, and internal auditing. Likewise, in tax work and in management services, the CPA can be most useful and devote his time to the most challenging work when he is fully exercising his professional abilities at the highest level, which involves interpretation, judgment, and assumption of responsibility.

In the light of the foregoing, it is clear that CPAs can neither claim nor hope for a monopoly of the entire accounting function.

There are 75,000 CPAs in the United States today, and well over a million accountants, auditors, and bookkeepers.

There is a sound basis for contending that only CPAs should be permitted to perform the attest function with respect to financial representations on which "third parties" may rely — as in the expression of opinions on financial statements as a result of independent audit. CPAs alone possess the identified competence and responsibility necessary to perform this function. However, in other areas of the accounting function, CPAs may be doing things that are also done by non-CPAs. As the group that has obtained formal recognition of professional status, however, it seems reasonable that CPAs should have some sense of responsibility for the quality and effectiveness of the accounting function as a whole.

The value of co-operation. There are many groups other than CPAs participating in, and important to the discharge of, the accounting function. It seems a natural and perhaps inevitable development of the future that various groups of accountants will be joined in co-operative endeavors. Other groups participating in the accounting function would include educators, controllers, and private and governmental accountants. Their formal organizations would include the Financial Executives Institute, the American Accounting Association, the National Association of Accountants, the Institute of Internal Auditors, the Federal Government Accountants Association, and perhaps others.

It is self-evident that there are many areas of similar, if not actually common, interest among these organizations, such as research, college education, continuing education, and recruitment of personnel. Co-operation among accounting organizations would detract from neither the dignity nor the prestige of the individual participants. On the contrary, it should result in enhancing the prestige of the accounting function in general.

In 1958, the Committee on Long-Range Objectives recommended, and the Council adopted, the following objective:

> It is an objective of the Institute to encourage co-operation and consultation among national organizations of accountants, to the end that the entire accounting function may make its greatest contribution to the public welfare.

As a result, the president of the Institute invited the presidents and executive directors of the Financial Executives Institute, the American Accounting Association, the National Association of Accountants, and the Institute of Internal Auditors, to meet for a discussion of matters of mutual interest. Thereafter, the other organizations acted as hosts at similar annual meetings, of which there have now been five. Information has been exchanged about research plans and projects, policies with respect to accounting education, public relations activities, and other matters of interest. One direct tangible result has been the formation of a Joint Advisory Council on Development of Student Interest in Accounting, composed of representatives of all five organizations, to co-ordinate efforts to interest high school students in the field of accounting as a possible career. Possible duplication of effort in research areas has also been avoided.

Some believe that these rather informal annual meetings of the five national accounting organizations might eventually result in more continuous co-operative activity, perhaps through a permanent body like the Engineers Joint Council.

The noncertified practitioner

IN ONE AREA there has unhappily been a good deal of friction. This is where both certified public accountants and noncertified practitioners offer their services to the public generally.

The friction and confusion have been due in part to the lack of agreement by CPAs throughout the United States on a common legislative policy that can be clearly justified in the public interest. As a result, under varying state laws a wide variety of noncertified practitioners have arisen. There are licensed public accountants, unlicensed public accountants, self-styled "independent accountants," just plain accountants, public bookkeepers, and self-designated tax consultants — all offering some, and some offering all, of the services also offered by CPAs.

The Committee on Long-Range Objectives, has addressed itself to the following questions:[1]

[1]See Robert M. Trueblood, "Professional and Technical Practitioners in Accounting," *The Journal of Accountancy*, September 1960.

1. Should the CPA designation be regarded solely as an identification of competence, or should it imply an exclusive right to practice in certain areas?

2. To what extent should the CPA, whose competence to give an opinion on financial statements is identified, have an interest in the work and standards of others within the public practice of accounting who are not so qualified?

3. Can a clear-cut and practical distinction be made between the practice of accounting at the professional level (as in giving opinions on financial statements), and the performance of technical work (as in public bookkeeping?)

4. Should identification of the important technician class be encouraged?

These and other questions regarding public practice within the accounting function have been recurring for some time. The answers are not yet clear.[2]

As a first step in analyzing the role of the accountant in public practice, it is helpful to explore the characteristics of the different kinds of current public practice. As a rough approximation, accounting practice today may be classified as being either at the level of practice performed by the CPA, or at the less professional level of the practice of public bookkeeping with its narrower responsibilities.

Characteristics of professional work

PROFESSIONAL PRACTICE in any specialized body of knowledge has always developed through a long and laborious process. There is involved, first, the recognition of a "knack" or "bent"; then, the acquisition of technical competence; and finally, the intertwining of the practice of a technical competence with professional obligations. This final step in the development involves, most particularly, recognition of the public interest, as well as related social and moral responsibilities.

None of us would question the present-day professional status

[2]The remainder of this section is directly quoted from Trueblood, *ibid.*

of medicine. Yet, as recently as seventy-five years ago, that profession was plagued with problems of malpractice, legal ramifications involving the right to practice, and organizational problems. In particular, the education phase in the development of the medical profession was not settled swiftly and shortly, but rather required time and hard thought.

By all accepted definitions (see page 26) the CPA today qualifies for professional status; moreover, he has achieved it. It is well for every CPA to remind himself of the standards and obligations that underlie professional status.

The notion of independence must be added to any list of characteristics of the CPA's public practice. In any work requiring the expression of the CPA's judgment or opinion, independence is vital. Independence is also a distinguishing characteristic of the CPA's practice as compared with some of the other professions. Advocacy, for example, is a prerequisite in much of the lawyer's work. But independence, and the moral and intellectual integrity which are a part of independence, have become the practicing CPA's hallmark.

Technical and professional activity

IN WHAT RESPECTS does the CPA's work differ from that of the public bookkeeper? Public bookkeeping requires a degree of technical proficiency. It involves understanding of a limited body of specialized knowledge. It requires judgment, although usually in less complex situations (see Chapter 2, page 17). At this time, however, no standard of qualification is required for the practice of public bookkeeping, and no significant standard of conduct governs the proper relationship of the bookkeeper with his clients and the public. The relationship of the concept of independence to the work of the public bookkeeper is by no means clear at the present time.

By all of the usual standards, the public practice of bookkeeping does not qualify as a professional activity. Whereas the practicing CPA's status is professional, the public bookkeeper's status is more nearly that of a technician. On the one hand, the professional expression of judgments and opinions by the CPA in public practice involves a high degree of competence, independence, and responsibility in the sense of adding credibility for the benefit of third parties. By contrast, the bookkeeping function includes preparing books and records and drawing from them financial statements and tax returns. These operations require technical competence and judgment somewhat reduced in scope, and involve more limited responsibility than does the practice of the CPA.

The CPA expressing opinions and judgments on technical matters is a professional; the public bookkeeper is a technician. The CPA in public practice may, if he wishes, operate through the entire band of the accounting function from top to bottom, since he has the competence to do so. The bookkeeper, on the other hand, has the identified competence to practice only in a narrower band of the accounting function. An analogy may be drawn with the doctor who, in terms of competence, can perform all of the work of the laboratory technician — and undoubtedly does from time to time. The laboratory technician, however, has not been identified as competent to perform — and is not permitted to perform — the entire practice of the doctor.

In considering the differences between professional and nonprofessional public practitioners within the accounting function, it becomes important for the public to understand the distinctions. The need for such understanding by the public necessarily involves a discussion of the significance of titles.

Making titles meaningful

IN THE MEDICAL profession, differences of function, responsibility, and professional certification are made clear by differences in titles. The words "nurse," "pharmacist," "dentist," "doctor," "professor," bring to mind distinctly different spheres of activity within the medical function. A similar categorization of identified competence and responsibility among various public practitioners within the accounting function may well be in the public interest.

The CPA title has been adopted by every state and territory as a means of enabling the public to identify those persons who have successfully passed a rigorous examination and so established their competence to start practice in a field requiring a broad base of specialized knowledge. The CPA title also means that such persons have met certain prescribed standards of education and responsibility.[3]

Unfortunately, the CPA title identification tends to become somewhat blurred in the public mind because many states permit non-CPAs to use titles so similar to "CPA" that the public cannot distinguish among them. This title confusion can injure the public interest, which early CPA legislation was designed to protect.

Reasons for confusion

FOR EXAMPLE, to the general public and to many businessmen, the terms "public accountant" and "certified public accountant" sound and look very much alike. Various other combinations of words, such as "registered accountant" or "independent accountant," are used in some states by non-CPAs, with resulting confusion. Further, even the single words "accountant" and "auditor" have come to have a meaning in the public mind that may imply a level of experience or competence similar to that of the CPA.

It should be emphasized that the public needs the services of the non-CPA. The non-CPA fulfills an important need. But it also appears that the public needs some means of differentiating between the CPA and the non-CPA.

Nomenclature alone is not a complete solution to the confusion regarding title designations. In the last analysis, quality of practice is what counts. However, the use of titles that clearly differentiate would help the public to identify practitioners from whom varying levels and quality of practice might reasonably be expected.

[3]In a number of states, regulatory legislation has been adopted that permits a transitional group who have not earned the CPA designation to practice under the title "public accountant." In such states, the "public accountant" is permitted to do all the things a CPA can do, except use the title "CPA." However, in most states adopting such legislation, the title "public accountant" is available only to a transitional group eligible for registration when the legislation is adopted. Over time, under the provisions of such regulatory legislation, the "public accountant" will disappear, and ultimately only the CPA will be permitted to hold himself out as a qualified professional practitioner of accounting and auditing.

The conclusion is inescapable: the solution to the problem of titles is that only CPAs should be permitted to hold themselves out as offering services to the public under a title implying professional competence and responsibility. The title "CPA" presently has this implication, and has been adequately restricted by legislation in all states. But this conclusion does not eliminate all confusion. As previously noted, there are many other possible combinations of words, such as "public accountant" and "public auditor," which may evoke in the uninformed the image of the CPA. Broadly speaking, the public would probably be better protected if use of the words "accountant" and "auditor," in any combination or manner implying both an expert knowledge and a holding out of availability for service to the public, were restricted to those who have demonstrated their professional competence — the CPAs.

The matter of title designation is not the only problem that relates to proper definition of public practice within the accounting function. To what extent is clearing up the confusion in the public's mind a matter of statutory regulation of the nature of the practice itself?

The matter of regulation

THE SERVICES THAT public practitioners in the accounting function perform for the business community are wide in range and broad in scope. Not all public practice requires the full spectrum of professional qualifications. As indicated earlier, bookkeeping and similar technical services are an important part of public practice in the accounting function and are within the competence of noncertified persons. Yet CPAs may, and often do, take on assignments in bookkeeping and technical areas requiring only a limited degree of competence. The fact that many CPAs do such work does not mean that those services become professional — and subject to statutory restrictions — simply because they are performed by persons with professional qualifications. To be sure, the CPA brings professional status and competence to certain subprofessional tasks. Further, he is charged with a higher degree of social and ethical responsibility in the performance of such tasks, if he chooses to perform them. But this does not mean that everyone who may be permitted to perform these technical services must qualify as a member of the profession. Lawyers do things that other persons are permitted to do. For example, lawyers are competent and are permitted to search property titles. But this does not mean that everyone who searches real estate titles must be a lawyer.

Nevertheless, the public welfare and the public interest are so deeply involved in the certification of financial statements, as well as in other work requiring the expression of independent judgments on accounting and financial matters, as to justify legislation that would ultimately permit only CPAs to engage in work of this kind.

What, then, can be done to provide better standards and higher status for a group performing important work within the accounting function — the public bookkeepers and other such technicians?

Standards and status for the non-CPA

ALL OF THE WORK within the competence of the CPA cannot, and perhaps should not, be established as the exclusive domain of the CPA by law or otherwise. As a practical matter, it is unlikely that there will ever be enough CPAs to satisfy the bookkeeping requirements of the millions of small businesses in this country. But bookkeeping and other technical services constitute an important part of the accounting function. Preparation of basic records has a direct effect on the soundness of the financial statements drawn from them, as well as on the ease with which they can be audited.

The impact of technology. A probable development of the future, which possibly tends only to confuse the definition problem further, is the growing importance of institutional service bureaus, which, in a sense, are also involved in public practice within the accounting function. There are already many such institutions. As technology improves and electronic equipment becomes cheaper and more flexible, the institutional entrepreneurs willing to "keep books" for a variety of medium and small businesses will in all likelihood increase.

Appropriate technical and ethical standards for bookkeeping and similar technical services are highly desirable in the interests of both clients and other public practitioners. Since bookkeeping and similar technical services are a part of the accounting function in which the public practitioner must be directly involved in his audit work, it has been suggested that CPAs should do all they can to help bring about such standards. The contention is that in so doing CPAs will elevate their status by giving added emphasis to the higher level of professional work that only they can perform.

At the same time, noncertified persons performing bookkeeping and similar technical services have an understandable desire to achieve and protect their status and to secure public recognition. The more competent among the technician class naturally seek, through identification, discipline, and standards, to distinguish themselves from those whom they regard as less qualified.

A tentative solution. A possible approach to the public practice dilemma would be for non-CPAs to establish their own identification in the mind of the public. This important technician group might be encouraged by CPAs to develop its own standards and disciplines, or CPAs might simply stand by while the group establishes its own standards. The technicians might seek their own identification by use of a meaningful title clearly distinct from that of "certified public accountant."

If such an identified technician class were to evolve, legislators might more generally accept the proposition that only CPAs should be permitted to hold themselves out as offering services to the public under a title that uses the words "accountant" or "auditor" in any combination implying expert knowledge. Evolution of such a class might hasten the recognition that only CPAs should be permitted, as public practitioners, to sign financial statements with any wording indicating that they have expert knowledge of accounting or auditing, which, of course, includes all opinion work. The latter point is important since, as the accounting profession develops, more and more work will require the statement of an informed and independent judgment or opinion on specific subjects, special transactions, and mattters of theory, in addition to opinions relating to financial statements. In these circumstances, it will become even more important for the public to be able to distinguish those who are competent to perform such work.

In time, CPAs might refer work of less complexity and responsibility to an established and identified group of competent technicians, in the same manner as is now done in other professions. The doctor works directly with a laboratory technician in the diagnosis of disease and treatment of patients. The architect employs or uses the services of a draftsman. The pastor delegates social service aspects of his program to an especially trained worker. In the accounting function itself, some CPA firms already undertake the responsibility for designing a bookkeeping system, but prefer to call on others to advise and consult in the daily operation of that system.

The concept of permitting and encouraging a technician class to develop its own standards, discipline, and identification may have much merit.[4]

Committee recommendations

IN LINE WITH this reasoning, the Committee on Long-Range Objectives presented certain recommendations to the Council of the Institute in the spring of 1959.

The committee envisioned the time when all those offering services within the accounting function to the public will be confined to two groups. The CPAs would form the first group. They alone would be able to make use of the title "accountant" or "auditor"; they alone would be able to express opinions on financial data. The second group would be composed of non-CPAs, having an appropriate title clearly differentiating them from accountants or auditors, who would be permitted to offer to the public all services within the accounting function, except the attest function of adding credibility to financial representations.

While this is accomplished, the committee pointed out, there must inevitably be a third group, referred to as "transitional," consisting of non-CPAs who are now legally permitted to practice as public accountants and are unrestricted as to the scope of their services. As a matter of constitutional right, they must be permitted to continue with that title and scope of practice as long as they live.

[4]Direct quotation from Trueblood, *op. cit.*, ends here.

Thirty-three states, Puerto Rico, and the Virgin Islands have already adopted legislation enrolling such public accountants as "grandfathers." In 1956, the Council of the Institute adopted a nine-point legislative policy encouraging all states to follow this same course.

The committee therefore recommended adoption of the following statement:

> Pending the time when public practitioners within the accounting function are either CPAs or those with a clearly differentiating title, there will be a group of non-CPAs who are presently permitted to practice as "public accountants" and whose right to continue to do so during their lifetime must be respected. It is an objective of the Institute that CPAs and their professional societies should develop and maintain friendly, co-operative relations with this transitional group, with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

The Council adopted this objective.

At the same time, the committee proposed a related objective, which, after debate, was rejected by the Council. This would have encouraged non-CPAs (other than the transitional "public accountants") who were permitted to offer bookkeeping and other technical services to the public, to develop appropriate standards and an appropriate title clearly differentiating them from accountants or auditors.

In accordance with the objective adopted as quoted above, the president of the Institute appointed a Committee on Relations with Public Accountants. This committee has engaged in discussions over a period of more than two years with a similar committee appointed by the National Society of Public Accountants. Each committee has made interim reports to the respective governing bodies during the period of the discussions.

At this writing, the two committees appear to be nearing agreement on a program that would ultimately resolve the conflicts and confusion described in this chapter. The program would provide for the creation of a class of technicians under a title clearly distinct from that of certified public accountant or public accountant, who would be permitted to offer all accounting services to the public except the attest function of adding credibility to financial representations. No future additions would be made to the ranks of "public accountants." In the course of time, there would be only CPAs and the technicians practicing under an appropriate and clearly distinct designation. It is too early to say whether such a program would be approved by either the Institute or the National Society of Public Accountants.

What about the CPA not in practice?

THERE HAS BEEN a good deal of argument through the years about whether only the CPA "in practice" — that is, offering his services to the public generally — is actually a member of "the profession," or whether all CPAs employed by government, academic, or other institutions, as well as those in practice, constitute "the profession." The reasoning of the Committee on Long-Range Objectives leads to the broader view.

It is in "public practice," to be sure, that CPAs acquire some of the essential characteristics of a profession. For example, among the seven criteria enumerated as essential characteristics of a profession (see page 26), at least three are derived largely from the assumption that CPAs *may* offer their services to the public generally:

1. The code of ethics is obviously intended to apply mainly to CPAs in practice.
2. The formal recognition of status under the state laws would not warrant exercise of the state's police power if it were not assumed that CPAs may offer their services to the public generally.
3. Acceptance of social responsibility, in the sense that independent auditors must be mindful of the interests of third parties who may rely on their opinions, is derived entirely from public practice.

Nevertheless, any person who has received a CPA certificate is qualified to practice public accounting. If he chooses not to exercise that right, but accepts private employment, he does not surrender his professional qualifications. He is still recognized as qualified, he may legally enter practice as a CPA whenever he chooses, and he remains as much a member of the profession as anyone else.

Lawyers are not thought to be leaving their profession when they accept employment as "house counsel" to corporations or enter the government service. Nor do doctors lose professional status because they work full time for insurance companies or other institutions.

It is true that CPAs in practice have certain problems and attitudes different from those of CPAs engaged in private work. But all CPAs have much in common. They are all interested, for example, in enhancing the status of the CPA certificate, which adds to their own personal prestige. They are all interested in the accounting function as such, and all are therefore directly or indirectly concerned with research leading to improvement.

It was in accordance with this line of reasoning, and in the belief that each CPA becomes stronger and adds strength to the other CPAs by association with one another, that the Committee on Long-Range Objectives recommended in April 1958 the following objective, which the Council adopted:

> It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

Where is the CPA going?

IT HAS OFTEN been said that accounting is a "tool of management." This suggests that it can be picked up or put down, used or not used, at the discretion of management. Actually, accounting is inherent in management — and is at the heart of management.

Accounting is there — it is inescapable. The accounting function can be poorly executed, but it cannot be avoided. When a businessman prices his product or service in the hope of making a profit, he is mentally accounting for his costs and estimating his revenues. When he makes out his own income tax return, he is preparing a kind of financial statement. When he tells his banker what he owns and owes he is engaged in financial reporting.

It does not seem reckless to predict that every business that expects to survive in the competitive environment, every government unit, every nonprofit institution, will soon find it necessary to have adequate records, adequate accounting controls for management purposes, including budgets and cost systems — no matter how simple — and an independent audit resulting in an opinion on the financial statements by a certified public accountant. Enterprises subject to income tax will need, in addition, adequate accounting assistance in tax planning, determining taxable income, and preparing, explaining, and defending tax returns.

The outlook for the CPA could hardly be more encouraging. He may look forward to having eventually the exclusive right to attest to financial representations. But since his professional training gives him a comprehensive knowledge of the accounting function as a whole, he may specialize in any areas that interest him, either as a practitioner or in private employment.

As a practitioner, his assumption of professional responsibility in any phase of accounting work he undertakes will give him a great advantage when businessmen need information or advice on which they must rely.

The CPA's opportunity for useful, challenging, and rewarding service is virtually unlimited. He has extraordinary economic mobility and a wide variety of choices in the most effective use of his individual talents. He is on the threshold of general acceptance and recognition as a true professional and an indispensable member of society.

The economic evolution which brought CPAs into being is still going on. The forces which have brought the accounting function into prominence seem to be gathering strength. If CPAs are to take advantage of the opportunities for service which lie ahead, it seems urgently desirable that they clearly discern their proper place in our society, and lose no time in preparing themselves for the wider responsibilities that they are likely to be asked to assume.

So much for CPAs and their place in the accounting function. It now seems appropriate to examine in greater detail the nature of their activities, present and future.

4

The attest function

IT HAS BEEN demonstrated in the preceding chapters that competence and responsibility are the foundations of professional status.

It has also been shown that the CPA originally acquired professional status because of the social need for independent auditors — for the competent and responsible exercise of the "attest function" of adding credibility to financial representations.

However, the rapidly increasing importance of the accounting function as a whole has naturally drawn the CPA, with his professional qualifications, into many and various areas in which the measurement and communication of financial and economic data are necessary. He fills "voids" in the internal organization of his clients. He is called upon to offer a widening range of services to management. He has become prominently identified with income tax practice.

Fragmentation versus integration. In recent years, CPAs have acquired the habit of referring to the main areas of their practice as auditing, taxes, and management services, as though they were separate and distinct from one another. There has been some tendency to specialize, and this has accentuated a subconscious feeling of "compartmentalization."

This division of accounting practice into three parts raises some interesting questions, which may have a vitally important bearing on the future of the profession.

If the claim to professional status rests on the technical and ethical standards first developed as a result of the public's need for the attest function, do the same standards apply when the CPA gives service in the field of taxes or management services? If not, what standards do apply? Or does the CPA doff his professional vestments to become a temporary agent of the owners or managers of the business he is serving? Then does he don professional garb once more when called upon to act as independent auditor?

Or does the line of reasoning run the other way? Having acquired professional status by virtue of meeting the technical and ethical standards set up for qualification as an independent auditor, does he then carry the same professional responsibilities, attitudes, and independence into all the work he does?

It can be argued cogently that all the things a CPA does are parts of one integrated whole. Auditing, tax work, and management services by CPAs are surely all parts of the function of measuring and communicating financial and other economic data. They overlap and mingle. The preparation of a Federal income tax return is the preparation of a kind of income statement, even though the tax rules differ in many respects from those governing income determination for other purposes. Again, an independent audit requires an analysis of the client's internal control. The auditor normally points out the weaknesses in the internal control and offers suggestions for improvement in systems and procedures. It is natural and proper that he should respond to invitations by clients to assist in carrying out his own recommendations. He is then engaged in management services.

Elements of the engagement. In almost any engagement that a certified public accountant is likely to undertake, except perhaps continuous bookkeeping service, there are three essential elements: gathering information or evidence; arrangement of data in a significant manner; a written report, opinion, statement, or letter, oral interpretation, or advice.

The function of the certified public accountant has been compared in general terms to that of the physician. A rough parallel can be drawn between physical examination, diagnosis, and prescription on the one hand, and audit, analysis, and recommendations on the other. The difference is that while the physician rarely fails to employ all three steps, the certified public accountant, at least up to the present time, frequently confines himself to the first. Analysis and recommendations are often undertaken only at the request of the client—as additional services, rather than as a natural extension of the audit. Perhaps this is not as it should be.

If the CPA carries into any work he undertakes the same professional standards and ethical responsibilities that he assumes when engaged as an independent auditor, then it may be reasoned that there is some element of "attestation" in any report or statement, no matter how limited in scope, with which his name is associated.

The characteristic of adding *credibility* to financial data is so closely associated with the title of certified public accountant that the mere presence of his name is likely to make people rely more heavily on, say, even a statement clearly described as "prepared from the books without audit," than on the same statement prepared by someone without professional qualifications.

It is possible that a CPA would be held to a higher standard of competence and responsibility than a noncertified accountant doing exactly the same work. A Federal court in Baltimore some years ago held that auditors employed by a government agency to examine the accounts of credit unions could not be held to as high standards of performance as would be expected of independent CPAs.[1] It seems likely that CPAs in the same circumstances might have been held to a higher standard of performance than the government auditors.

Acceptance of responsibility. The more one thinks about it, the clearer it seems to be that recognition as a profession inevitably carries with it the acceptance of *responsibility.* The public relies on physicians, lawyers, architects, and members of other professions because they are presumed to maintain standards of competence and ethical responsibility that safeguard the public interest.

Undoubtedly, one important reason why businessmen engage CPAs is to relieve themselves of a part of the responsibility for their own financial representations. For example, in having an independent audit by a CPA, a board of directors is doing all that could be expected of reasonable men to provide the public with assurance that the company's financial representations are fair. If these representations were attacked, and an independent audit had not been performed, the board of directors would be exposed to more criticism than if they had taken this reasonable precaution.

This same idea is reflected in some court decisions excusing

[1]*Baltimore Federal Credit Union v. U.S.*, U.S. District Court for the District of Maryland, *The Journal of Accountancy,* March 1956, p. 12.

taxpayers from penalties for errors in filing returns when they relied on the advice of CPAs. The courts recognized that the taxpayers had made reasonable efforts to comply with the law when they engaged CPAs to assist and advise them.

Extension of this concept to management services is equally logical. Business managers who seek outside professional assistance and advice in developing information as a basis for important decisions, or in devising controls to minimize waste and inefficiency, might be less subject to criticism by stockholders or other interested parties than managers who rely solely on their own knowledge and intuition.

General recognition that CPAs assume professional responsibilities that are not imposed upon others might result in increased demand for CPA services in all matters where reliance on the credibility of financial data of any kind is an important consideration.

If all aspects of the CPA's work are closely interrelated, and if the "attest function" commonly associated with his qualification as an independent auditor is carried forward *in some measure* into all the work he performs, it seems inevitable that appropriate standards of technical competence and ethical responsibility must also be carried forward into everything he does.

A close analysis of the attest function itself is therefore essential. What are its origins, what are the conditions prerequisite to its use, under what conditions is it now used, and how might its use be extended?[2]

Analysis of the attest function

THE ATTEST FUNCTION results in the expression of an opinion by an independent expert that a communication of economic data by one party to another is fairly presented. Discharge of the function lends credibility to the presentation and increases reliance upon it. The opinion implies (if it does not so state) that

[2]Most of the remainder of this chapter is directly quoted from Herman W. Bevis, "The CPA's Attest Function in Modern Society," *The Journal of Accountancy,* February 1962.

the data presented are appropriate for the purpose of the representation, that objective evidence underlies the data, and that the judgments exercised in the interpretation of the data are such as to justify the opinion.

What social need does the attest function fulfill in modern society? What is the attest function's probable and potential future course? What part does the CPA play in it now; what is his future role?

"Economic data" consist of "material serving as a basis for discussion and inference pertaining to the management of the affairs of a government or community with reference to the source of its income, its expenditures, the development of its natural resources, etc."[3] The attest function is most frequently applied to data of individual political or economic units, which, in the aggregate, make up a government or community. Economic data, which include economic activity and position, relate to resources — their source, nature, quantity, accumulation, allocation, and exhaustion. The data can be expressed in various quantitative terms, including monetary. Although the attest function has in the past usually been utilized primarily in connection with monetary data, the subsequent discussion of its elements will indicate that there is no basis for an exclusive relationship. On the contrary, the function is applicable to economic data expressed in any quantitative terms.

The term "attest function" has been deliberately chosen for this discussion in preference to some term like "independent audit function." One reason is that the latter may still be interpreted by some laymen as applying to a process of meticulous detailed checking, searching for fraud, and so forth. Moreover, the term "attest function" (the root of which means to bear witness) seems to be particularly descriptive of the independent auditor's relationship to data communications. While in the minds of some the term may be narrowly associated with "truth" or "facts," as used here it is also considered applicable to expressions of judgment.

The CPA as a trained observer of economic activities, relationships, and status is the agent most appropriate to discharge the attest function. His competence has been identified by a state

[3]See definitions of "data" and "economic" in Webster's *New International Dictionary*, Second Edition (unabridged).

authority. His position as independent auditor, which involves a peculiar responsibility to third parties, is not assumed by those in private employment. Other "auditors" (such as revenue agents and bank examiners) are affiliated with the users of data, and their objectives and scope of activity are different from those of CPAs involved in the discharge of the attest function. While the CPA's attest function is most frequently encountered in opinions on financial statements submitted to investors and creditors, its use is not and should not be so confined, as has already been indicated.

Use of the attest function

THE USE OF the attest function in other English-speaking countries — Australia, Canada, and England — appears to be more extensive than in the United States. It is applied to communications of financial data to investors by a greater variety of issuers because of statute or custom. Beyond that, it seems almost instinctive that reports from those handling other people's money be attested. Taxing authorities frequently call for the attested report to stockholders. There seems to be a widespread consensus as to appropriate standards for the measurement and communication of financial data.

Among Italy, France, the Netherlands, Switzerland, and West Germany there are widespread differences in the manner and extent to which the attest function is both called upon and discharged. Statutory requirements for its use vary from all-inclusive to none. The dictates of custom show a wide range. In some cases, the independent auditor's opinion on financial statements is furnished to management, but not used by the latter to add credibility (the end purpose of the attest function) in reports to investors. There is sometimes a disparity between statutory requirements for widespread application of the function, and the obviously inadequate qualifications required of those bearing the independent auditor designation or the clearly inadequate number of those who are unquestionably qualified. The consensus as to standards appropriate for communications of financial data seems to be far less clear than in the English-speaking countries.

The review of the attest function's role abroad suggests that the following are among the factors that have influenced its development and use:

Making for Greater Use	*Making for Lesser Use*
Widespread ownership of enterprises	Ownership concentrated in few hands, even for large enterprises
Highly industrialized society	Some industry, including a few large organizations, but most productive capacity rests in small units
Industry mostly privately owned and mostly regulated by competition	Government participation greater through regulation and sometimes ownership
Accounting standards for reporting to stockholders and creditors fairly well developed and applied	Little consensus as to accounting standards for reporting to stockholders and creditors

Since all of the factors listed above making for greater use are descriptive of conditions in the United States, it is pertinent to turn to that country.

The CPA's attest function, although widely employed in the United States, has an uneven usage. The following summary demonstrates this in connection with major types of communications of economic data.

Reports to stockholders. The attest function is required for commercial and industrial companies in communications via the SEC and certain stock exchanges. It is also required for electric, gas, and certain other utilities, but not for railroads and insurance companies (although it is used voluntarily by some of the latter). It is used unevenly by banks, to a fair extent by unlisted and unregulated, widely owned companies, and to a lesser extent by narrowly owned companies.

Reports to creditors. For long-term indebtedness, if the company is registered with the SEC, the use of the attest function follows along the lines of reports to stockholders; its use in reports to bond trustees and institutional bondholders varies and is frequently confined to ratios, current asset levels, and other selected data; it is rarely used for bond issuers who are governments or their instrumentalities.

For short-term indebtedness, such as to commercial bankers, the requirement for use appears to depend upon the policy of the institution and to vary from a rigid requirement of all borrowers to borrower's option.

Reports to regulatory and supervisory authorities. Use of the attest function appears to vary by industries or laws from which the authority derives, and the differences may derive partially from historical accident.

Reports to taxing authorities. The attest function is not legally required nor voluntarily used. (The CPA's participation in tax return preparation and settlement of taxes is presently more in the nature of advice and assistance rather than discharge of the attest function.)

Reports by governmental bodies to taxpayers. The attest function is used to a limited extent by municipalities and counties and perhaps to a somewhat greater extent by other governmental authorities and instrumentalities.

Internal reports. The attest function is used to some extent by owner-managed companies, the degree appearing to vary proportionally to the size of the enterprise. For the large public companies, it is used in a few cases — mostly for subsidiaries or branches abroad or otherwise remote from the headquarters of the organization.

Considering the attest function's purpose and its significance to the user of financial and other economic data, the discrepancies in the above recital seem curious. This is particularly true in view of some of the trends that are in evidence.

As stated at the outset, the purpose of the attest function is to lend credibility to the representations of one party to another. The use of the function is increasing sharply. More and more of those handling other people's money are realizing that the attest function of CPAs may relieve them of responsibility that they would otherwise have to assume.

The expansion of use of the attest function for small businesses is gaining impetus from the requirements of creditors. There are signs that commercial credit grantors are now scrutinizing audited financial statements of prospective borrowers in addition to merely ascertaining their credit ratings. Credit agencies have been giving consideration to indicating in their reports whether or not financial data presented have been audited by CPAs and what kind of opinion has been issued. The emerging influence that the attest function is exerting in modern society seems clear. Yet its use is still uneven. Why?

Reasons for uneven use of the function. Probably one or more of four causes explain the nonuse of the attest function where a useful purpose could be fulfilled:

1. The user of data believes he can satisfy himself sufficiently as to the data's credibility.
2. There is the mistaken impression that the attest function is being discharged.
3. Users may be ignorant as to the role and value of the function.
4. The user feels that the independent auditor either does not comprehend or does not subscribe to the accounting standards that the user considers appropriate for the data he desires.

Under the first point, users such as the following may not believe that they need independent attestation of the data on which they rely:

The owner-manager of an unaudited enterprise
The directors of an unaudited enterprise
Commercial lenders who consider that their intimate knowledge of the borrower's enterprise and appraisal of the character of owners and management are either more important than financial data or an assurance as to reliability of data, or both
Federal, state, and local taxing authorities
Some governmental regulatory or supervisory authorities

Each of these users, to the extent that he satisfies himself as to the data he receives, does so only with regard to his own needs.

Data suitable for his purposes are not necessarily appropriate or adequate for other purposes or for other groups of people.

Regarding the second point, many users of financial data, even some directors and members of management, believe that the attest function is being discharged in their enterprises by examiners from banking, insurance, public utility, and other supervisory or regulatory authorities. This notion persists notwithstanding the disclaimers of the authorities themselves that their field of interest is narrower than that required to discharge the attest function for data directed to stockholders and other users. For example, whereas bank examiners primarily concern themselves with liquidity of assets looking towards the protection of depositors, the CPA reporting to stockholders is basically interested in a fair presentation of all financial data bearing on position and results.

Why have some users of data remained ignorant of the role and value of the attest function (point 3 above)? Perhaps because of indifference, lack of education, or complacency, they do not fully comprehend the part the CPA plays in the scheme of things. It is true that both the usefulness and limitations of, say, conventional financial statements to investors can best be appreciated only with some knowledge of the techniques and judgments underlying them; this is also true to varying degrees for communications of other economic data. With such knowledge, the importance of the attest function becomes clear. Whether the educational process is difficult or not, it assumes paramount importance if the CPA is to make his full contribution to society in satisfying expanding needs for the attest function.

The fourth reason given above for nonuse of the attest function has to do with accounting standards. It seems probable that the fact that accounting standards can and should vary according to the circumstances and needs of issuers and users of data has gradually become obscured. What seems to have disappeared from view even more is the fact that review of the appropriateness of accounting standards is an integral part of the attest function.

The foregoing discussion suggests that it may be well to reexamine the nature and purposes of communications of economic data, and to dwell particularly on the role of standards in connection with them. Perhaps this exercise will give the CPA some guidance in adapting to future calls on the attest function.

Social purpose of the attest function

A SATISFACTORY SYSTEM for communicating financial and other economic data is an essential condition for the accumulations of capital from widespread sources in single enterprises – i.e., for a successful industrial economy. Persons who have an interest in resources are in various stages of remoteness from them and from the factors affecting them. The greater this remoteness, the greater the need for communication of data. Thus, the small-plot, one-crop farmer can obtain most of the economic data which he needs regarding his changing resources through his physical senses. The individual with extensive farming operations managed by others throughout the world needs many more communications of data. If the latter enterprise is owned by inactive investors or if it borrows money, the receipt of data by investor or creditor becomes even more important. *In fact, without assurance of reliable economic data, the remote investor or creditor probably would not supply capital to the enterprise.* (The extent of remoteness also indicates the need for *internal* communication of data.)

The complexity of the resources involved and the events affecting them also evoke communication of economic data. The carnival medicine man needs little communication beyond the information furnished by his physical senses to assess the trend in his resources. On the other hand, the owner of a drugstore stocking thousands of different items, and buying and selling on credit, needs a considerable amount of economic data before he can assess the trend in his resources – even if he handles every transaction personally. Thus, the necessity for measuring and communicating economic data can exist in complex situations even though the element of remoteness is absent.

The same elements of remoteness and complexity call for communications of data in connection with regulation, taxation, and many other social functions.

The number of economic interrelationships among the units of a society multiplies the communications of economic data. In a primitive agrarian economy, these are few. At the other end of the scale is the highly industrialized United States with its combination of free enterprise, private capital, high rates of taxation, some degree of regulation or supervision over selected economic units, and a national policy of economic growth without severe fluctuations.

Within the United States, the communications of economic data are enormous in scope and quantity. Besides investors and creditors, those to whom a large corporation might direct such communications would include: governmental regulatory or supervisory authorities, Federal and state; taxing authorities, Federal, state, and local; military, other governmental, and private customers where cost is a factor in determining price; courts, in a variety of issues where economic data are pertinent; legislative committees and commissions; suppliers and credit agencies; insurance companies for claims; public and industrial associations and agencies for economic statistics; royalty recipients; labor unions; employees; parties to legal contracts and covenants; and the general public. The small business communicates to fewer parties, of course, but the quantity still looms large to it. Every year the four million business organizations operated in this country create and communicate a vast quantity of economic data.

Keys to successful data communications. Before economic data can be communicated, they must be measured. The whole process of measurement and communication constitutes the accounting function. The end purpose of the function is to convey information to someone in such a manner that he may utilize it in formulating judgments and making decisions. Naturally, all rules of basic communication apply.

In any successful communication, a meeting of minds must exist between issuer and user as to the meaning of terms. Before there can be a meeting of minds in the communication of financial and other economic data, the following are among the conditions that must be satisfied:

1. The issuer and user of economic data must have an understanding as to standards for measurement and summarization.
2. The issuer must have the requisite knowledge and skills to carry out the antecedent steps leading up to, and to prepare, the communication.
3. There must be absence of bias in the communication (to a humanly feasible extent).
4. The communication must be intelligible to the user.

The importance of the last three conditions is patent; the matter of standards, being more complex, will be examined further. (It will be noted that all four conditions suggest a role for the attest function.)

Agreement on accounting standards. Whenever data regarding the quantity of and changes in resources are required for a continuing enterprise, conventions must be established to guide the measurement. Many of these conventions are mere assumptions as to the future and, being such (since the future cannot be accurately foretold), cannot be said to have precision. If periodic reports during an organization's existence (say, of net income) were not required, the assumptions would be unnecessary; however, since the former are required, the assumptions are unavoidable. These are the accounting standards – underlying the measurement of economic data communicated – regarding which it is important that issuer and user have a meeting of minds.

There is sometimes a difference of objectives between the issuer and user of data, which has a direct bearing upon standards chosen. Where this is known, the attest function cannot fully be discharged until issuer and user come into agreement. (However, the CPA may still be helpful, either in isolating and identifying areas in which the two parties must come into agreement, or in seeing that the issuer communicates sufficient information so that the user may revise the data according to his own standards.) A few illustrations will demonstrate the point.

Income-taxing authorities may well be inclined, from considerations of fiscal policy, toward standards for the measurement of annual net profit that result in the earliest possible reporting thereof for taxation. Issuers of data (taxpayers filing tax returns) may be inclined to the opposite. Taxable incomes may be increased or decreased, from considerations of social or economic policy, for all or selected groups of taxpayers, through the adoption by legislative or taxing authorities of standards for measuring net profits which achieve that end. Taxpayer issuers of data may or may not agree with the objectives or standards suitable for reaching them. Where issuers and users of taxable income data differ as to important standards for their measurement, the standard is usually established by law as interpreted by the courts.

Standards are established under legal authority with judicial interpretation for the measurement of financial and other economic data communicated by utilities to regulating authorities. The regulatory objective is essentially to limit net profit to a fair return on invested capital. Both legislative and regulatory bodies are subjected to conflicting social, economic, and political pressures from consumers, investors, and managements. The choice among accounting standards for determining net profit or invested capital is sometimes strongly influenced by the dominant pressure. If the issuer of data – the utility – differs as to standards promulgated for their use, again the final authorities are the legislatures and the courts.

The supervisory authority of a banking or insurance institution has as his primary objective the protection of depositors or policyholders. Accounting standards that measure readily realizable assets at minimal amounts and maximize liabilities are the most suitable for the objective. The fact that the collateral effect of application of these standards might be a distortion of, say, net profit reported to stockholders is outside the field of primary interest of the authority.

Some other important users of financial data, their principal objectives, and the basis upon which they would judge the appropriateness of accounting standards, would include:

User	*Objective*	*Standards Desired to Measure*
Short-term creditor	Repayment of loan at maturity	Minimum prospective cash flow, or net assets readily realizable in cash, or both
Government purchasing nonstandard material	Allowance to supplier of specified rate of profit on contract costs and/or on capital employed	Minimum costs allocable to contract or capital associated with it
Purchaser of a business based upon equity or earnings	Lowest purchase price	Minimum equity or periodic earnings

One of the most important groups of users of financial data consists of long-term stockholders in public companies. The standards involved in the measurement and communication of data to this group assume great importance in the private enterprise system. The greatest interest of these users of data is the periodic net profit of their enterprise. The accounting standards appropriate for this purpose are essentially the same as those for measuring the extent to which each such privately owned unit has achieved the objective that society has established for it: to create resources in excess of those exhausted — to create economic values — which is another way of saying "to make a profit."

Long-term stockholders in publicly owned companies, unlike most of the other users of data, are largely inarticulate as to the standards most appropriate for their purposes. The role of enunciating these standards has largely fallen to the American Institute of Certified Public Accountants, acting formerly through its Committee on Accounting Procedure and presently through the Accounting Principles Board.

It will be obvious that standards appropriate for measuring and communicating economic data to satisfy the needs of the long-term stockholder are not all necessarily the most appropriate to meet the needs of the income-taxing authority, the regulatory or supervisory body, or other data users already mentioned. A crying need exists to clarify the appropriate areas for the application of the many sets of standards that are in use today for the measurement and communication of financial and other economic data. This is also a prerequisite for full utilization of the CPA's attest function.

Proper discharge of the attest function. It might be well at this point to recapitulate the principal conditions that must be met if the attest function is to be effective. There must be:

1. Economic data measurable in quantitative terms (such as money, material, labor, and time) for which a communication need exists.

2. Standards for measurement and summarization of economic data that are acceptable to the user and practicable of application by the issuer of such data. The CPA must be able to satisfy himself that the standards are appropriate for the user's needs if the latter

has not participated directly or through representatives in formulating them; if the user has so participated (as, say, in income taxation), the CPA must be satisfied that issuer and user are in agreement.

3. Competent evidential matter supporting the economic data, on the nature and validity of which the CPA must be able to pass judgment. By examination of such evidential matter, he must be able to satisfy himself whether or not established standards for measurement and communication of economic data have been properly applied or complied with. The CPA responsibility includes ascertaining that there are no important distortions of data due to bias, ignorance, or human error.

4. Agreement by the issuer to disclose all data and other information needed by the user to formulate his judgments and make decisions.

5. Readiness to accept a format for the communication that is comprehensible to the reasonably knowledgeable among the users.

6. Practicability of adequate timeliness in the communication to suit the user's purpose.

7. Independence, objectivity, and reliability on the part of the independent auditor.

8. Requisite knowledge and skills on the part of the independent auditor in all important phases of the measurement, substantiation, and communication processes involved. This includes the exercise of due professional care.

9. Familiarity, on the independent auditor's part, with the purposes of the communication, including appreciation of the user's needs.

These conditions are being satisfied, and the attest function is being discharged, on a constantly widening scale.

Potential future of the attest function

THE IMAGINATIONS of many have ranged wide as to potential new areas in which the attest function would be valuable in that all requirements for its utilization exist. Here are some areas that have been proposed:

1. Attestation of Federal income tax returns.

2. Certification to business planning (prospective accounting). Since budgetary control is already oriented to the prospective view, it is suggested that this would be as excellent an avenue as any to commence auditing's new future in this field of business planning.

3. The CPA could become a representative of the courts as referee in resolving issues in litigation turning on accounting questions.

4. Congress has been considering independent audits of unlisted ("over-the-counter") companies.

5. Various legislation or proposed legislation involving optional provisions for independent audits involve banks, credit unions, insurance companies, local government units, labor unions, and trustees of charities, hospitals, nonprofit associations, and educational institutions.

6. Audits involving attestation to industrial and/or economic statistical compilations.

7. Use of independent auditors by government.

The last item merits some elaboration. All signs indicate that the Federal government will spend, or control the expenditure of, a larger percentage of the gross national product in the years to come. This expansion will result in large measure from the challenge of communism, long-term foreign aid programs, housing, urban, and rural redevelopment, education, unemployment benefits, public transportation, old-age security, and so forth.

Because of this amplified scope of activities, the government is almost certain to require submission of financial data by an increasing number of private and quasi-private organizations for several basic purposes:

1. To develop acceptable cost data for purposes of government defense procurement contracts and renegotiation

2. To provide some protection for government funds advanced to organizations in the form of loans, grants, insurance, and the like

3. To aid the government in determining compliance with regulatory statutes (such as those affecting stock-issuing corporations, labor unions, etc.)

4. To afford a basis for the regulation of and/or the setting of rates to be charged by regulated companies (e.g., banks; gas, electric, transportation, insurance, and communications companies)

Naturally, it is the public welfare that decides whether or not greater use should be made of the CPA's attest function by the government. Several sound reasons exist for advocating the use of the function:

1. Regulated areas frequently involve private and quasi-private enterprises that historically have relied on independent auditors. Government "examinations" which ignore the auditor's work result in needless and costly duplication of effort.
2. The independent audit will often provide more useful and reliable information for regulatory purposes than the limited government "examination."
3. Since CPAs are geographically dispersed, substantial economies can be realized by using them at the site of regulated enterprises rather than dispatching government examiners from a limited number of centers.
4. The CPA is not directly affected by the political problems confronting the governmental agency staff.
5. More than twenty agencies of the government already use independent auditors (REA and SBIC programs being the best examples).

Because of these and other factors, the accounting profession is entitled to encourage the greater utilization of independent auditors by the government.

Recently, suggestions have appeared in professional literature to the effect that the CPA will in due course be undertaking "management audits" and reporting thereon to third parties. These suggestions have coincided with observations by A. A. Berle, Jr., and others as to the concentrations of economic power in the nonowner managers of public companies where the only protection against abuse of this power is a "public consensus." The thought is advanced that society has a growing desire that there be an "accounting" by these managements in nonfinancial as well as financial terms for the authority assumed and responsibilities undertaken — and that enlightened managements themselves would welcome this means of discharging the obligations they have assumed.

It may well be that the future will see the CPA's services so utilized. However, any such challenges must be reviewed carefully against the conditions under which the attest function makes its contribution: a representation that is communicated; acceptable standards for measurement and communication; relevant evidence available for examination by the independent auditor; and so forth. All these may come in the nonfinancial areas associated with the idea of "management audits." They are not here yet.

Conclusions. The attest function in the United States and other highly industrialized nations of the free world serves an essential purpose in modern society by adding credibility to financial and other economic data via the measurement, substantiation, and communication processes.

Discharge of the function in the United States is confined largely to the CPA, because of his professional knowledge, skills, stature, and other qualifications – including the characteristics of independence, dependability, and objectivity.

The social importance of the attest function and the changing economic environment strongly suggest the expansion of its use. To bring this about, it would seem important that these things be done:

1. Educate issuers and users of economic data as to the attest function's purpose, role, and value. (This includes the eradication of any mistaken impressions held regarding the functions being discharged.)
2. Inform the public and the CPA as to those areas in society where the attest function, although not presently performed, would fulfill a social need.
3. Cultivate judgment in selecting appropriate accounting standards for diverse economic units, issuers, users, or purposes, and proper application of the standards chosen. (Included is the development of new or alternative accounting standards where needed.)

The responsibility for these projects lies squarely on the accounting profession.[4]

Resolutions. The Committee on Long-Range Objectives submitted the following resolutions, which were adopted at the Council meeting of May 1962:

[4]This concludes direct quotation from Bevis, *op. cit.*

It is an objective of the Institute:

1. To identify those areas in society where the need for the CPA's attest function exists, and to promulgate such information to its members and the interested public; and

2. To assist its members in equipping themselves to discharge the attest function wherever a useful social purpose is served.

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To arrange for the development of a systematic plan whereby, over a period of years, issuers, users, potential issuers and users of economic data, and the interested public, may be informed of the purpose, nature, and value of the CPA's attest function.

2. To develop a plan for informing practicing CPAs of the areas in which the attest function is appropriate, and through the professional development program, the Institute's publications, and such other media as may be available, to provide technical assistance in equipping them to discharge this function.

The adoption of these resolutions may prove to be a policy declaration of unusual significance. Implicitly at least, it suggests the possibility that the CPA's attest function need not be confined to the conventional opinion on balance sheets, income statements, and other customary financial statements, as a result of independent audits of the type long familiar. It opens the door to the proposition that CPAs may perform a useful social service by attesting to financial or economic data of any type, for any purpose, when the necessary conditions are met.

This may lead to an intellectual breakthrough, revealing new and wide vistas of potential service to society by CPAs — as the professional accountants whose competence has been tested and upon whom ethical responsibilities have been imposed — that no other group is equipped to perform.

5

Tax practice

THE COMMITTEE ON Long-Range Objectives has not yet addressed itself specifically to the subject of tax practice, as it has done to the attest function and to management services by CPAs. However, the committee has frequently considered in its discussions the role of the CPA in tax practice, and it will undoubtedly express its views on this subject at some time in the future.

The background

MEANWHILE, IT MAY be useful, in the context of this book, to outline some of the questions to be considered in this area, the significance of which can best be appreciated against the historical background.

With the advent of the modern Federal income tax in the early part of this century, many closely held corporations, partnerships, and individual proprietors, who had not theretofore seen the need to concern themselves with accurate records and financial statements, since they had little if any occasion to communicate financial data to outsiders, found it necessary to improve their accounting. To avoid overpayment of taxes and penalties for underpayment, good bookkeeping and sound accounting judgment were both necessary, as well as a knowledge of the accounting rules embodied in the tax law.

CPAs were in great demand, and their numbers grew rapidly to meet the new needs. Tax practice became, and has constituted ever since, an important part of their professional activities.

Evolution of the tax laws. In the 1930s and 1940s, the broadening tax laws added millions of new taxpayers to the roll. Tax rates increased sharply, first to support social welfare measures, and then World War II. The tax laws became more and more complicated as Congress tried simultaneously to minimize inequities and close loopholes. The needs of business and individual taxpayers for competent tax advice and assistance increased so rapidly that even the fast-growing profession of CPAs could provide only a fraction of the manpower needed to assist taxpayers in timely compliance with the requirements of the income tax law.

More and more lawyers were attracted to the field of tax practice. In addition, tens of thousands of noncertified accountants, former Internal Revenue agents, and bookkeepers, found it relatively easy to make a living by assisting taxpayers in the record-keeping necessary to determine taxable income, in the preparation of tax returns, and in dealing with revenue agents. The Treasury Department encouraged this trend on the correct assumption that if taxpayers would seek the help of anyone who knew more about income taxes than they themselves did, it would facilitate the administration of a complex and difficult law.

The government has never required that a person preparing an income tax return for a fee make any audit or examination of underlying books and records as a basis for signing the affidavit (jurat) on a tax return stating that to the best of the preparer's knowledge and belief the return is correct. It is therefore accepted as quite proper that CPAs, as well as others, prepare returns on the basis of information furnished by the taxpayer, without examination of underlying records.

The accounting rules laid down by Congress and the courts for income tax purposes, often differ widely from — indeed, sometimes they are directly contrary to — those applicable to income statements prepared for other purposes. In addition, many tax rules are the subject of litigation, and not infrequently the decisions of courts of different jurisdictions are in conflict. In some areas, therefore, there is a wide range for difference of opinion as to the permissible treatment of an item of income or expense, which may have a significant bearing on the amount of tax payable for a given accounting period.

Furthermore, the administration of the Federal income tax law has taken on something of the character of an "adversary proceeding" between government and taxpayer.

The agents of the Internal Revenue Service are charged with the duty of "protecting the revenue." Representatives of the taxpayers are expected to keep taxes at the minimum required by the law. Given the wide ranges within which legitimate differences of opinion may exist, it is not surprising that contest and conflict tend to become the rule rather than the exception. The maze of technicalities and uncertainties which the system has become invites the exercise of ingenuity to save substantial amounts of money.

The stabilizing role of CPAs. In this environment, the CPAs have undoubtedly been an important stabilizing factor. They have had a prominent, if not dominant, position in the determination of taxable income of corporations and other business units. The traditional role of the CPAs as independent auditors, and their code of ethics stressing fair presentation and full disclosure, have developed subconscious attitudes and habits of thought, which undoubtedly carry over into their tax practice. They recognize their obligation to assist clients in minimizing taxes to the extent legally permissible, but they also regard it as a duty to keep their clients out of trouble by discouraging attempts at avoidance which might lead to penalties or controversies more costly than the amount of tax involved would justify.

The CPAs' expert knowledge of accounting, which is the basis for determination of the periodic income of business units for tax as well as other purposes, and the fact that CPAs are generally familiar with their clients' accounts, have also made it possible for CPAs to expedite greatly the settlement of tax liabilities. This has helped avoid an intolerable backlog of unsettled cases and a burden of litigation which the courts would be hard-pressed to sustain.

All in all, the accounting profession may take pride in the significant contribution it has made to the stability of the tax system of the United States.

Nevertheless, many thoughtful CPAs are troubled by questions that arise from time to time as to their position and ethical responsibilities in tax practice.

Responsibilities of CPAs

THERE HAS BEEN frequent occasion to point out in this book that it is the acceptance of responsibility that distinguishes the true professional man from the technician. The latter, no matter how learned and skilled he may be, puts his talents at the disposal of the employer or customer, quite properly, without being charged with specific responsibility to the public generally.

On the other hand, the lawyer, no matter how zealous an advocate for his client, is an officer of the court who accepts certain obligations to society as a whole. The physician accepts responsibilities to the public which limit the extent to which he can accept instructions from his patients. And a CPA, whose opinions on financial statements may influence important financial decisions, even by people whom he has never seen, has always been keenly aware of his responsibilities to "third parties" when he performs his attest function.

The significance of independence. Thus, in a broad sense, independence is implicit in the practice of all professions, and is not, as has sometimes been assumed, a characteristic unique to the accounting professions.

The special kind of independence that is peculiar to CPAs, and strongly reflected in their ethical code, is an integral part of their attest function — that of adding credibility to economic or financial data on which persons other than the client may rely. In preceding chapters the point was made that even if he disclaims a formal opinion based on independent audit, the mere presence of a CPA's name may add credibility to any data with which it is associated, and that the CPA might be held to a higher standard of performance than a noncertified practitioner, even though they both did the same work. The reason for this is that the CPA has become identified as a professional man who accepts a responsibility to the public.

In the unusual environment of tax practice, however, the CPA is not expected to, and does not profess to, exercise his attest function. He is expected to help his client hold his taxes to the minimum required by law. Technically he is in a position no different from that of the thousands of lawyers, noncertified accountants, and others who prepare tax returns and represent clients before the Treasury Department.

Yet the CPA, like other return preparers, is required to sign an affidavit (jurat), which says that the return is true, correct, and complete to the best of his knowledge and belief.

Because he is a CPA – identified as possessing professional competence in accounting, often having some familiarity with his clients' books and records, and presumed to accept responsibility to the public in connection with financial representations with which his name is associated – is it likely that a CPA may be charged with greater responsibility than another return preparer who signed the same statement? Would it be assumed that a CPA had greater "knowledge," and therefore more valid grounds for the expression of his "belief," than others who did not profess the special competence and independence that he does in the general practice of his profession?

The Treasury Department has indicated that it does not intend to place any heavier responsibilities on CPAs than on other return preparers. A number of CPAs have nevertheless suggested that further clarification of the CPA's position would be desirable to avoid possible misunderstanding.

The CPA as advocate. In addition to preparing tax returns, the CPA customarily represents clients in explaining returns to examining agents and settling proposed additional assessments or claims for refund with the Internal Revenue Service. In this area, it appears that some CPAs have come to regard their role as that of an "advocate." An advocate is generally assumed to be a partisan, a special pleader. A lawyer acting as an advocate is not generally regarded as bound to disclose facts that might be of advantage to his adversary and disadvantageous to his client. The theory of advocacy, as most people understand it, is that each side puts forward the best arguments at its disposal and leaves it to the other side to find out the weak spots. The judge and the jury are presumed to find the truth in the opposing arguments. There are some who believe that the lawyer, as an officer of the court, should not conceal material facts, but this view does not seem to prevail in practice.

The income tax system, however, is theoretically a system of voluntary self-assessment, depending in large measure on compliance in good faith by approximately sixty-three million taxpayers. The government can never hope to audit all returns in detail, although it is constantly expanding the scope of its policing activities, now aided by automatic data processing. Adventurous taxpayers who escape detection may secure substantial monetary benefits not available to conscientious citizens who consider it their civic duty to comply meticulously with the law.

Partisanship and professionalism. In this environment would the CPA who regarded himself as an advocate appear to the public in a role inconsistent with his characteristic professional function of adding credibility to financial data?

Perhaps the problem is largely one of semantics. Certainly a CPA can represent a client in explaining or defending financial data that the CPA believes to be fairly presented, without impairing his professional integrity. Certainly he is entitled to resolve all reasonable doubts in favor of the client in attempting to settle tax liabilities. Perhaps authoritative clarification of his responsibility in tax practice might minimize the possibility of misunderstanding, which could conceivably lead to the imposition of unreasonable requirements on CPAs by the government, the courts, or the force of public opinion.

At the same time, care must be taken not to describe the proper role of the CPA in tax practice in terms that might appear to be inconsistent with his attest function in other areas of his practice. Public confidence in the profession as a whole might be impaired if the impression were created that CPAs thought they could lay aside their essential professional attitudes and responsibilities in one field of practice, but resume these attitudes and responsibilities in another.

Professionalism is not a garment to be donned or doffed according to the weather: it becomes an integral part of the individual who embraces it. If the actions of CPAs in any aspect of their practice seem to be incompatible with the standards on which they base their claim to professional status, the public may regard that claim with a skeptical eye.

Relations with the legal profession

ANOTHER PROBLEM IN tax practice arises from the impossibility of separating the inextricably intermingled elements of law and accounting involved in Federal income taxation. This entanglement of two disciplines in the determination of taxable income has in the past provoked open conflict between the legal and accounting professions. Conceivably it could do so again in the future.

Preparation of the tax return of a business enterprise obviously seems to be an accounting job. Nevertheless, legal questions may arise which need to be resolved before the return is filed.

At the other end of the spectrum, the representation of a client in court is clearly the job of a lawyer, although, in preparation of the case, he will often need the help of a CPA in dealing with important accounting questions. Between the two extremes, there are many areas in which members of the two professions should work together, and some areas in which they may properly work alone.

Law, accounting, and taxes. No one has ever succeeded in drawing a clear line of demarcation between what is law and what is accounting in the tax field. Arguments between representatives of the legal and accounting professions over who should do what in tax practice began in the early 1930s. Intermittently, the arguments have continued ever since. Bar association representatives have brought CPAs and other accountants into court on charges of unauthorized practice of the law. Legislation has been proposed in Congress and in state legislatures, which would have restricted the scope of activity of nonlawyers in the tax field.

The disputes between the two professions reached a critical stage in the middle 1950s. The controversy reached the public press, was the subject of continuous comment in professional journals, and was heard before the Treasury Department and in the hearing rooms of congressional committees.

This conflict was settled by a renewal of co-operative relationships between the American Bar Association and the American

Institute of Certified Public Accountants, through the National Conference of Lawyers and Certified Public Accountants, which published a statement of principles governing practice in the field of federal taxation; and also by an interpretation in 1956 by the Secretary of the Treasury of the regulations governing representation of taxpayers before the Treasury Department, which made it clear that CPAs would continue to occupy their place in this field.

No serious disputes have broken out since, although at the local level there is an occasional flare-up. The national conference meets regularly, and when necessary assists in settlement of local disputes.

Communication and co-operation. It should be a continuing objective of the accounting profession and all individual CPAs to avoid intrusion into areas of practice that should be exclusively those of lawyers. Efforts should also be made to improve communications between the two professions at all levels, so that misunderstanding can be avoided. There are many opportunities for useful co-operation by members of the two professions in the service of common clients. Cordial relations between lawyers and CPAs are advantageous to both. Experience has demonstrated that "jurisdictional" disputes between the two groups can be settled satisfactorily by friendly discussion: this should become the established procedure for dealing with such questions.

Possible simplification of tax laws

ANOTHER INTERESTING QUESTION is whether or not simplification of the tax laws may minimize the importance of tax practice in the future. It would be a bold man who dared predict that, in the foreseeable future, tax laws will become less complicated than they are now or that rates will be lower. Everyone favors simplification in theory, but everyone seems to resist any change in the present complexity that might adversely affect his own pocketbook.

Nevertheless, there are forces at work — and they may gain strength — which would radically simplify the income tax law of the United States. The disadvantages of the present system from the viewpoint of public policy and national welfare have been expounded at length by many students of the subject, some of whom believe that fundamental changes are a vital necessity. Elimination of special provisions, deductions, and exemptions, accompanied by a substantial lowering of rates, have been advocated by many authoritative writers on taxation. A tax on sales at the source, instead of a corporate income tax, has often been suggested. Changes of this nature could greatly reduce the complexities that have kept many CPAs and lawyers busy for the past forty years, and would therefore greatly reduce the importance of tax practice as a field of professional activity. In spite of the adverse effects it might have on their practices, CPAs have been in the forefront of those who recommend simplification of the tax laws in the national interest.

While the likelihood of any change in this direction may seem remote at this time, it could happen suddenly through the pressure of a national crisis or strong wave of public opinion. In any event, the possibility seems to be sufficiently important to keep in mind in long-range planning for the accounting profession. Other areas of accounting practice should be cultivated in preparation for the day, if it ever comes, when the significance of tax practice will decrease.

The Committee on Long-Range Objectives will undoubtedly give intensive consideration to these problems, as well as other aspects of tax practice, in the coming months.

6

Management services by CPAs

A NEW AND broadening field of practice by CPAs – which actually is not so new – is what is usually called "management services." It has also been called "special services," "systems and procedures," "management advisory services," "management accounting," and "consulting services," as well as by other names. None of these descriptive titles is wholly satisfactory. Consequently, many CPAs are not quite certain as to the scope and content of this area of practice.

Any description of "management services by CPAs" must apply generally to the whole profession of certified public accountants. A relatively few members of the profession may equip themselves to do things that the great mass of CPAs is unlikely to be equipped to do. A mature CPA with specialized experience may well be able to give good advice on matters that the training and experience of the average CPA do not necessarily equip him to deal with.

Almost every CPA in practice, however, claims he provides some management services. It appears that many smaller CPA firms are offering advice with respect to internal management problems as part of the audit report. Yet the assumption persists among some CPAs that management services are only for big business. On the contrary, it has been clearly demonstrated that many small businesses have failed because of inadequacies in the measurement and communication of financial and economic data.[1]

Problems of small business. To state that the business population is increasing at the rate of about 50,000 small businesses

[1]What follows is quoted directly from R. E. Witschey, "The Accounting Function for Small Business," *The Journal of Accountancy*, December 1958.

annually is to present only part of the true picture. Actually, between 350,000 and 400,000 new businesses are started annually. Unfortunately, from 300,000 to 350,000 businesses will discontinue operations in the same period — many of them under disastrous circumstances. Nearly 14,000 of these will be involved in court proceedings or voluntary actions resulting in losses to creditors, and most of them will be businesses with liabilities of less than $25,000. These can be tabulated. Less easily counted are the many thousands of dissolutions that result in little or no loss to creditors, but do result in the owner-manager losing his capital accumulation of a lifetime. Still less easily counted are the vast numbers of those where the tolerance between income and costs has become so narrow that the owner-manager can barely subsist on the dwindling fruits of his endeavors, or where the business is operating on a plateau of "subsistence management" — drifting from day to day with no plans for the future.

Reasons for failures. The many failures and discontinuances emphasize the drastic effects of the wear and tear of a dynamic economy on management. They provide a measure of the vulnerability of small business to the hazards of trying to exist and prosper in a highly complex, competitive society. These are so numerous as to be of serious concern to everyone. Even more serious is the logical assumption that the same causative factors that spell disaster for many businesses each year exist in varying degrees in most or all of the small businesses that manage to survive. Some estimates place the number of businesses in which uninformed management is a serious problem as high as 75 per cent. The same conditions will be inherent in the million new businesses that will be added to the business population in the next twenty years, unless ways are found to minimize or eliminate them. As long as these conditions exist, small business cannot adequately fill its potentially important place in the economy.

In an effort to get at the causes of business failures (and, by implication, the reasons why most small businesses are not as successful as they should be), Dun & Bradstreet makes annual detailed studies based on the opinions of informed creditors and information contained in the Dun & Bradstreet credit reports. Briefly summarized, the reasons given for all failures, year after year, with only slight variations, are:

1.	Incompetence	41.4%	
2.	Unbalanced experience	19.2	
3.	Lack of managerial experience	18.8	
4.	Lack of experience in the line	12.8	
5.	Neglect	3.6	
6.	Fraud	1.7	
	Total management causes		97.5%
7.	Disaster	1.2	
8.	Reason unknown	1.3	
			100.0%

Experience has shown that management weaknesses have been exposed most frequently in the lack or inadequate development of sound business policies and procedures. More specifically, the weaknesses have usually been evidenced by one or more of the following:

1. Inadequate records
2. Inaccurate information as to costs
3. Insufficient long-term or equity capital
4. Failure to budget expenditures
5. Excessive operating costs
6. Little or no internal control or check
7. Little or no tax planning
8. Faulty purchasing practices
9. Faulty sales policies
10. Lack of inventory controls
11. Lack of an effective credit policy
12. Excessive investment in plant and equipment

Of equal significance to the Dun & Bradstreet studies is one made by the Bureau of Business Research at the University of Pittsburgh. This particular investigation was made to scientifically determine the causes of bankruptcy in the area of small manufacturing. As far as is known, this study represents the first effort to make any kind of controlled test of successful and unsuccessful companies by systematic grading against a set of management principles. Ten companies that had been reorganized or had gone bankrupt were compared with a group of ten companies that had been highly successful in similar lines. All of the firms that failed were in businesses in which the successful firms, otherwise comparable, made money — at the same time and in the same area. The failures were all victims of one or a combination of eighteen specific and avoidable types of management error, clearly discernible from the vantage point of hindsight, which the successful firms had avoided. The three kinds of management error that showed up repeatedly were:

1. Poor financial planning because of inadequate records or a failure to use the records available
2. Poor sales management including deficient product planning and market analysis
3. Poor general administration culminating in added expenses not offset by additional revenues

The companies studied were scored on the basis of how well they measured up to ten basic principles of sound management. The scoring is reflected in the chart below:

	SUCCESSFUL			*UNSUCCESSFUL*		
	Superior	*Average*	*Poor*	*Superior*	*Average*	*Poor*
1. Simple adequate records	81%	19%			27%	73%
2. Cost and performance standards	64	36			22	78
3. Informed management	81	19			26	74
4. Sound organization	70	28	2%		60	40
5. Balanced finances	81	14	5	2%	53	45
6. Proper sales organization	78	22			34	66
7. Sound labor relations	58	31	11		81	19
8. Effective plant and equipment	74	26		8	60	32
9. Research and product development	72	23	5		28	72
10. Community and industry relations	73	27			35	65

Obviously the percentages shown should not be considered entirely conclusive because of the limited number of firms studied. Nevertheless, these figures do indicate some significant aspects of successful management. For one thing, in the area of such essentials of conducting a business as sound organization, balanced finances, sound labor relations, and effective plant and equipment, the firms that failed scored reasonably well. The inference is that strength in these areas cannot offset the effects of poor records.

This point is emphasized by some of the findings made during the course of the examination. For example, there is a general feeling that a shortage of working capital is the underlying reason for most bankruptcies. There is a strong implication in the report that this hypothesis is not true. The case histories themselves lead to the conclusion that shortage of working capital, although present in almost all bankruptcies, is symptomatic of the inadequacy of management, and not the basic cause. The unsuccessful companies did not suffer from a shortage of working capital until their financial collapse was critically near. The basic weaknesses were at work, termite fashion, for months and years before their consequences were revealed. The report concludes that a careful management appraisal of financial reports, while favorable conditions still existed, would have provided forewarning of the dangers ahead.

The study also revealed that the frequently expressed thought that small business cannot compete successfully against big business is erroneous. It found that general relations between small and large firms were excellent. It pointed out the greater flexibility of small business, as well as other advantages that small business enjoys. None of the unsuccessful firms failed because of size.

None of the unsuccessful firms had really good records. Consequently, management lacked all of the essential navigational aids necessary to guide the business through the reefs and shoals. On the other hand, all the successful companies had well-informed managements, kept complete records, and made use of them.

The study indicated that among the companies that failed there were violations of more than one of the basic principles of good management, but the most prevailing single management deficiency was poor records, which, in turn, led to inadequate cost standards and uninformed management, and thence to poor financial planning and disaster. The study left little doubt that inadequate and misleading financial records cause more trouble than any other error of management. Nowhere was there any evidence of failure because of a breakdown of the accounting function. The difficulties arose because of management's failure to use accounting. There was, in fact, real evidence that where new management established adequate record-keeping the change from loss to profit was sometimes dramatic. This would indicate that business success is directly related to the full use of adequate records.

The importance of the "controllership" function to small business is only beginning to be recognized. In a larger business, the controller and his staff bring a wide variety of skills and techniques to the many problems of management. The competitive small business needs the same talents, never has all of them on its internal staff, and needs them only on a part-time basis. The void, logically, should be filled by professionally competent people. This kind of service will be of such significance to the millions of small businesses that the organized professional must take the initiative in developing professional standards and procedures for the accumulation of much of the data necessary to make intelligent decisions in such areas as budgeting, adequate and properly balanced financing, properly balanced financial ratios, proper operating ratios, measurement of personnel productivity, marketing, procurement, production, office procedures, internal control, taxation, and many others. Small business will flourish in a period of increasingly skillful management only if it has available – along with other services – broad professional accounting service.[2]

Scope of management services by CPAs

WHAT THE PROFESSION has needed is a logical statement describing the area of management in which CPAs generally can render useful services, and how these services are naturally integrated with the familiar and regular work of the accounting profession.[3]

Independent auditing results in the expression of an expert opinion on financial representations made by management. The CPA bases his opinion, in large part, on a comprehensive understanding and evaluation of management's system of internal control – the systems and procedures used to generate the financial information under evaluation. This expert knowledge of financial information systems

[2]This concludes direct quotation from Witschey, *ibid.*

[3]Most of the remainder of this chapter is quoted directly from Robert M. Trueblood, "The Management Service Function in Public Accounting," *The Journal of Accountancy*, July 1961.

and controls is requisite for the CPA's performance of a professional audit. The same expertness that is necessary to sound audit performance may also be logically applied by the CPA to management consulting activities.

Over the years, the performance of both the audit and management consulting, or management service, functions has been an accepted practice of CPAs. Largely because of the clear connection between the knowledge required to perform a professional audit and the knowledge useful in management consulting activities, the staff performing both activities was frequently the same. Today, however, developments are taking place that tend to force a more explicit delineation of audit and management service activities. The connection between the bodies of knowledge required for professional auditing and some of the newer kinds of management services may not be as clearly apparent as in the past. Certain management service activities now being performed require personnel with training and experience beyond the conventional CPA background. Furthermore, concern is increasing about some other aspects of the management service function, such as competence, independence, and ethics.

The accounting function. The accounting function deals with the measurement and communication of economic data. The elements in the accounting function have to do with the observing, measuring, recording, classifying, summarizing, interpreting, reporting, and inspecting (auditing) of economic data. This definition purposely avoids confining the accounting function to dollar data, or even to financial data in the broad sense. The term "economic data" includes in the subject matter of the accounting function all quantitative data that may be part of the control and operational mechanisms of management.

Economic data are all-pervasive within a business enterprise. Dollar information or other quantitative data originate in, or are used by, the several functional activities within a firm: finance (treasury), production, marketing (sales), purchasing, and personnel. The degree to which economic data (used or generated by each of the functional activities within a business) directly affect or are involved in the preparation of financial statements may vary. But the accounting function is of necessity concerned with all information systems used by a firm in its economic activity.

Because of the all-pervasive nature of economic data, the CPA must necessarily be concerned with the generation, transmission, and manipulation of these data in all the operational activities of a business. The CPA must understand the production and inventory-control systems in order to make an informed judgment regarding inventory valuation. He must be familiar with sales organization and procedure in order to audit records of income-producing transactions with customers. In the audit process, the CPA deals with economic data wherever they may be found in the organization and by whatever kind of information systems they are handled.

The CPA's relationship to the finance or treasury activities of an economic unit is unique. In this area, the CPA is particularly adept since the subject matter dealt with by finance officers or treasurers is directly related to financial statements. Cash management, borrowing arrangements, stockholder relationships, credit policies, and the like, are all financial activities that are particularly close to the accountant's interests. For this reason, the activities of the finance officer or treasurer will be considered, for the purposes of this paper, to be similar to the functions of the controller, since both are a part of the finance function in a business organization.

Although the CPA's identification with the finance function is clear, his interest is not, and cannot be, appropriately restricted to those functional activities that work primarily with dollar data. The CPA works with, and must understand, information systems dealing with economic or quantitative data throughout the organization. Such data and information systems are inextricably involved in the preparation and audit of financial statements.

What are the management services? Consulting work which follows directly from the audit process, consulting in the finance area, is the most common of the management services. Examples include considering inventory valuation policies, discussing depreciation procedures, and establishing working rules for the expensing of repairs and maintenance. By its nature, this category of management services is restricted almost totally to financial matters.

Another common area of CPA consultation involves assistance to the finance officer or the treasurer. The CPA may advise on investment or borrowing problems, credit policies, cash management, or stockholder relations. Again, the subject matter of this type of consultation relates almost entirely to financial matters having a direct effect on financial statements.

The management services also include the extension of the CPA's consulting activities to the systems and procedures related directly to accounting and finance. In performing an audit, the CPA must understand the underlying systems and procedures that produce, summarize, classify, and analyze financial information. Logically, this understanding can be used in the creation and design of such systems, as well as in their audit. Although the design process requires somewhat different talents than checking the operation of a system, the CPA's extension of his activities to consultation in the development of systems and procedures is natural. Examples of this kind of management service activity include development of cost systems, conversion of manual accounting procedures to machine procedures, and design of internal financial statements for use at differing levels of management.

A further phase in the management service function is the extension of the CPA's activity into information or control systems that are directly, but not solely, related to the accounting process. Examples of this kind of consulting activity include the design of inventory and production control methods, consulting on recordkeeping problems of personnel systems, and advice on other special-purpose information systems in fields such as marketing and sales. All of these activities result from the CPA's knowledge about, and understanding of, the measurement and communication of economic data. Again, the extension of the CPA's consulting activity into these areas is natural, because of his general knowledge of the interrelationship of financial information systems with other information and control systems.

Related to this last kind of management service activity, a more recent management service development has been the expansion of consulting activities into the somewhat loosely defined areas of electronic data processing (EDP) and the management sciences.[4] The propriety of the CPA's interest in advanced machine methods seems clear. Many of the EDP developments are a logical evolu-

[4]Management sciences and operations research may be considered, for the purpose of this article, interchangeable terms. Broadly, they involve the application of the scientific problem-solving approach to business problems and the use of methodologies and techniques taken from disciplines other than accounting, such as mathematics and other sciences. Examples of such techniques are linear programming and statistical sampling.

tion of more conventional machine accounting methods. The CPA's interest in the management sciences results partly from the extension of consulting activities to more broadly conceived information and control systems. More important, the CPA's interest in and concern with the management sciences result directly from management's desire to develop improved information and control systems. The trend in management practice toward using more analytical and objective tools in the decision-making process, by drawing upon methodologies from the management sciences, has been one of the significant and important developments in the business world during the past fifteen or twenty years.

Beyond the appropriate sphere of management service practice by CPAs is the use of technical experts from other fields to perform consulting services that cannot be related logically either to the financial process or to broadly defined information and control systems. A few of the many possible examples of such activities are market surveys, factory layout, psychological testing, or public opinion polls.

The question of what fields are appropriate for CPA consulting is, however, a difficult one. Assume, as might well be the case, that a public accounting firm employs an expert mathematical statistician for work in audit sampling, inventory observation, and statistical procedures within the financial field. Is it appropriate for this expert, who might be qualified to undertake a public opinion survey, to do so in the name of the public accounting firm? It seems not, unless the survey were an integral part of a larger study directly related to the finance function or to the information and control system.

Although the breadth and spread of talents required for consulting activity appropriate to the public practice of accounting are certain to expand as the management sciences are increasingly applied to the solution of business problems, a strong case can be made for limiting the use of such talents to problems relating to information and control systems involving economic data within a business enterprise. Holding out to the public the services of technical experts for projects unrelated to the accounting function, broadly defined, seems inappropriate. Although lines of demarcation are not clear in many circumstances, the distinction between an "in-house" use of technical specialists and a general "holding out" of their services to the public may be a useful one.

Problems to be explored. Current developments in the management service activities of CPAs pose a variety of problems to thoughtful practitioners today:

How broad may the management service function become within the framework of a reasonable delineation of the public practice of accounting?

Does a broadened management service definition create problems of competence on the part of the CPA?

Is the notion of independence, which underlies the audit function, compatible with the public practice of the management services?

Can the practice of management services by a CPA firm conform to the ethical rules of public accounting, as the rules presently exist?

What are the desirable rules or criteria that should govern the practice of the management services within the framework of public accounting?

Proposed definition of the function. The changing world has forced business management to reconsider many of the theories and practices that remained reasonably static from the early 1930s to the close of World War II. Increasing complexity in the basic operation of business, the advent of EDP, and the development of new techniques and methodologies for analytic problem solving and decision making, have all worked toward an expansion of the businessman's horizons. It no longer seems likely that what has historically been regarded as the accounting discipline – the accounting and financial processes – can continue to be considered a separable area of interest peculiar to the controller or the CPA. Furthermore, the controller and the CPA must extend their interests and responsibilities to include information and control systems that pertain to all economic and quantitative data, not only to dollar information.

Consider current developments in the practice of inventory control. It is now possible that inventory control may be achieved by a single system, which processes purchase orders, maintains inventory controls, records and processes sales activities, and develops information and action reports to all functional areas of the business. Control within the system may be based on mathematical formulations of economic order quantities, re-order levels, sales forecasts, or obsolescence predictions. These more refined techniques permit the manipulation of variables with greater ease and precision than did historically acceptable judgment control procedures. In such circumstances, the CPA must have some understanding of the total system in order to use any part of it. His knowledge of the over-all control mechanism must be reasonably sophisticated, else he may misunderstand or misuse even those parts of the process that relate directly to his principal areas of responsibility.

Changing role of the controller. Until recent years, the controller in some firms has regarded his interest and responsibility as related primarily to the accounting system, with perhaps only an indirect interest or concern in related areas such as production and sales. By parallel reasoning, the auditor has been largely preoccupied with financial results and the underlying financial control systems that produced those results. If modern information and control systems serve simultaneously all functional areas of business, generating reports from a single and interrelated system, can the controller and auditor restrict their interests and responsibilities to the financial aspects of the control system?

It seems safe to predict that the business controller will, in the future, assume one of two roles. Either the controller will expand his interests, activities, and responsibilities — as many have — to comprehend all information systems within the business enterprise, or that responsibility will be given to someone else. In the latter event, the controller may become a sort of manager of financial data and statements. In this capacity, the controller would receive his information, as would other operating departments, from a "Director of Information Systems." Organizational changes of this nature are under study in business today.

As a result of current and foreseeable developments, not only must the controller broaden the concept of his proper function, but the CPA must do the same. The CPA's audit opinion is dependent upon an understanding of the information and control systems that produce financial statements. Continuance of a professional audit function is therefore dependent upon the ability of CPAs to expand and broaden their knowledge and understanding of information and control systems. This expanded knowledge and understanding will permit and require the CPA to broaden the scope of his management service practice.

Business problems and choices. Reasoning in another way, it has always been the objective of the CPA to assist management in the solution of business problems or to suggest alternative business choices. The CPA has discharged this responsibility by careful definition of the problem; searching out meaningful, relevant data; and suggesting alternative courses of action for management. In his approach to the solution of business problems, the CPA has drawn upon the methods of analysis and the various tools and techniques that are appropriate to the problems encountered.

Today, as in the past, it is the responsibility of the CPA to utilize all applicable bodies of knowledge in his consulting activities. However, as the science of management develops and as disciplines heretofore largely regarded as independent provide techniques applicable to business problems, the CPA must continually expand his search for methods that may be suitable in the solution of a particular problem. In this sense, advancing technology forces the CPA to broaden his perspective.

To summarize, the present and future role of the management service activity may be stated as follows:

The management service function includes, currently, all of those consulting and advisory activities in which the CPA is expert because of his understanding of:

1. The traditional accounting and financial processes of business organizations
2. The related information and control systems used by management in accomplishing its business objectives

As these systems become more highly integrated, the accounting process should be recognized as also expanding. Concomitantly, the CPA must expand his horizons in order to understand and appraise, for audit purposes, the effectiveness of the interrelated control and information systems that operate throughout the business enterprise. As such information systems are broadened to include the manipulation and handling of all quantitative and other economic data, it is appropriate and desirable that the CPA consult and advise on the design, objectives, and implementation of these more broadly conceived information and control mechanisms.

Competence. One of the underlying tests of the propriety of any professional practice in relation to the public is the established competence of the practitioner to perform those services. There can be no question about the CPA's competence and expertness in all of the more traditional phases of the management service function. Currently and historically, the CPA is an expert in accounting, financial processes, and the traditional systems and procedures for information and control that underlie them. The only question about the CPA's competence in the management service function relates to the expansion of his knowledge and competence in the newer and more refined measurement methods that are being used, and will be increasingly used, by business.

In any field of study, new frontiers emerge continuously. From the time of actual discovery, new principles and methods undergo a transition period of exploration and refinement before they are used in practice. In any field, there is always this lag between research and practice. Viewed in this way, new developments in quantitative control methods should be no more or less alarming to the CPA than was the transition from manual to punched-card accounting.

To the extent that quantitative methods are being developed from other disciplines, such as mathematics, the practicing accountant cannot assume sole responsibility for the development or the early implementation of such methods. Nonetheless, the CPA has a responsibility to point out problems in professional practice that promise hope of solution by the use of new techniques. The CPA also has the obligation to learn what such techniques can accomplish, to seek expert consultation on their use, and to evaluate their validity.

As soon as possible, the CPA must also acquire an understanding of the new bodies of knowledge, in order to be able both to guide in the development of new techniques and to control the technician he uses from time to time. This does not mean, however, that every CPA must become an expert in all bodies of knowledge that may, over time, be involved in the development of systems of information and control to be used by business.

These general observations on competence raise some significant questions with respect to the nature of the desirable education for the CPA of the future. It would seem, for example, that the accounting profession and educational institutions should recognize a greater responsibility to concern themselves with educating a student for future practice, rather than for practice at the time the student enters the profession. Such educational problems are, however, little different for the CPA who identifies himself with the management services and the one who identifies himself with the audit function. The educational transition problem is the same for each.

Another educational problem involves the currently practicing CPA. Changes in the educational requirements for future CPAs are not relevant to his situation. He must, like any other practicing professional, assume a personal responsibility for his self-development in terms of a changing world. He must rely upon his own ability to learn and understand new concepts by a program of reading, taking courses offered by educational institutions, and participating in the continuing educational programs of the organized profession.

An immediate, but perhaps transitory, problem is the necessity for the practicing CPA to rely upon technical experts from outside the profession in order to cope presently with changing business patterns. In the cases of EDP and the management sciences, particularly, there seems to be no accepted alternative to engaging specialists from these fields. The problems in this interim period, however, are not especially acute.

In applying their particular skills to business situations, specialists from other fields are often quite dependent upon the professional and organizational environment of the CPA and his knowledge of the business pattern. When engaged by CPAs, these technical experts are subject to the restraints and controls applicable to CPAs themselves. Organizational and control problems of the public practitioner in engaging such specialists are not more acute than those of a medical group in engaging psychologists, dentists, and other specialists.

As the educational lag diminishes in the future, the problem of the public practitioner's dependence upon external specialists (applied mathematicians, for example) will diminish. Nonetheless, no matter how broad the educational process may become, the breadth of knowledge required on the part of a CPA who is either an auditor or a management service practitioner will undoubtedly preclude the individual CPA's becoming an expert in all areas. The CPA in public practice should, therefore, contemplate some reliance upon technical experts from outside the profession in the future — but perhaps rather less than at the present. The public practitioner's obligation, in the professional sense, is to assume responsibility for the control and discipline of the technical experts, and to acquire a broad, general understanding of the subject matter in which the expert operates.

Independence. Independence (in the sense of objectivity) is largely a frame of mind, a matter of individual intellectual integrity. Independence is that characteristic of the practicing professional that enjoins him from engaging in rationalization. Using this definition, the requirement for an independent point of view applies equally to the audit and management service functions. Independence should be required of any professional engaged in consultation work, whether his activity is within the framework of a public accounting firm, a sole proprietorship, or other consulting partnerships or corporations. Further, the practitioner's objectivity and independence should be subject to institutional check and surveillance, as in the case of auditing.

A more critical problem, and a question more frequently raised, is whether a CPA engaged in independent audit practice as well as in management service practice can, in fact, be independent in relation to his client. Can the CPA make management service recommendations and later audit the results of his recommendations? Several observations are pertinent to this inquiry.

1. Audit activity brings to the CPA a detailed knowledge in many areas of particular importance to his client. Since this knowledge is necessary to his participation in the audit activity, the CPA has a responsibility to consult with his client in the areas where the CPA has unique ability underlying both audit practice and the management services.
2. The CPA who practices the management services, either separately or jointly with audit, has a responsibility to determine in advance that his consultation and advice will produce results falling within limits acceptable to him as an auditor.
3. The management service consultant typically does not, and

should not, place himself in the position of substituting his judgment for that of management. The management service consultant properly is in the position of providing and analyzing data relative to alternative choices, or outlining the underlying structure of a decision to be made. Accepting or rejecting the consultant's recommendations is, of itself, a management responsibility. The situation is similar to the publication of financial statements, following discussion with the auditor; the financial statements are nonetheless management's representation to the public.

To cite a precedent, all CPAs in the audit process make suggestions about the improvement of internal control, accounting procedures, and financial information. These activities are a part of the management service function. However, they are regarded by business and by the public as the constructive aspect of auditing. They are a kind of "preventive accounting." In the past, there has been no question about the independence underlying this kind of consultation (or, for that matter, in the area of tax consultation). There should not now be. Refusal to make such recommendations would be denying a service reasonably expected by the client's management, its stockholders, and the business community.

Perhaps the real question of independence that is bothering the profession at the present time has to do with future expansion of the activities and role of the management service consultant. If, however, the auditor must necessarily extend his knowledge of broadly conceived information systems, review of these systems will become part of an audit of increased scope. Similarly, in the future as in the past, the auditor would be denying his client a service reasonably expected from a professional expert, if he refused to make suggestions for improvement. And, to repeat, all recommendations as a management service consultant must produce results that are within limits acceptable to the CPA as an auditor.

The real test of the CPA's independence stems from the professional environment in which he works. All phases of his audit and tax work and all phases of his management service activity are, if challenged, subject to review, examination, and criticism by his fellow practitioners. If the test of review can be applied to the work of any CPA, and if the individual CPA is willing to undergo the critical appraisal of his work by others, then it is difficult to raise serious questions of independence about the propriety of a combined auditing and management service activity.

Rules of professional conduct. Currently, there are some open questions about the application of existing rules of professional conduct as they relate to management service practice. Each of these questions tends to diminish in importance when one looks at the management services in terms of the total professional environment of the CPA.

It has been suggested that it might be practicable or desirable to provide different ethical standards for the management service function, particularly for matters of advertising and solicitation. Resorting to such a set of double standards, however, is likely to tear down the standards that now relate to the audit activities of the CPA firm. Since the CPA's expertness in the management services and audit practice are inseparable, it would appear unwise to consider any adjustment of the over-all ethical considerations underlying the CPA's practice.

Suggestions to form subsidiaries or satellite partnerships, in order to segregate the management service function from the organizational framework in which audit activity is performed, also seem impractical. A subsidiary cannot divorce itself from the policies or character of its parent. Similarly, a parent cannot deny, with conviction, responsibility for, and acceptance of, the policies and practices of its subsidiary.

There may well be certain areas where present standards of professional conduct have been developed without particular reference to the practice of the management services. The development of clarifying standards would undoubtedly do much to remedy current abuses, such as the preparation and distribution of elaborate brochures.

A related practice, which has been the object of much criticism, is the private preparation and distribution of research reports on a semipublic basis. In this connection, it would seem to be the duty of the profession to provide ways and means by which its members can make the results of research available to other practitioners, educational institutions, and the public, without raising the possibility of ethical violations. Individuals should be encouraged to publish research findings promptly in order to stimulate critical review and discussion. Firms, as well as individual CPAs, should be relieved of the effort and cost involved in making available to the entire profession the results of their thinking and experimentation. Perhaps the establishment of advanced technical journals and extension of publishing facilities by our professional organizations would eliminate much of the current practice of private publication.

The public accounting profession, in all its activities, has cultivated and maintained an encouragingly high degree of professional perspective with respect to professional conduct: problems of advertising, solicitation, fee-splitting, and so on. If the profession wishes to maintain identification with its high standards by the public, it must take the position that the same standards, accompanied by effective policing, shall also be applicable to the management services.

Some transition problems. The management service problems of the small or local practitioner are essentially the same as those of the large firm. There may be some lag in the timing of the impact of these problems on the small practitioner in his relation to small and medium-sized businesses. But new techniques, new methodologies, new machine systems will come to small and medium businesses in the same way that tabulating machine installations and service bureaus have come in the past twenty-five years. Because of the lag in impact, the small practitioner has perhaps more time in which to catch up and secure a more broadly trained staff. It is, however, the responsibility of the profession to provide opportunities for him to prepare himself for the problems posed by new developments.

The small practitioner does have another problem. At the present time, he probably performs relatively more management service work — accounting and financial consulting directly related to the audit — than do his colleagues in larger firms. For reasons of time, cost, and flexibility, however, it is more difficult for the small practitioner to develop a staff of specialists. At times, such specialists might even now be helpful to the small practitioner's clientele. With respect to this problem, it seems that the profession itself should develop a referral service for small practitioners. Such a referral service would not only improve the total service of the profession to the public, it would also make the position of the small practitioner more secure within the accounting function.

Problems of referral, admittedly not of the same magnitude, have been solved in other professions. Many CPAs today consult freely in specific areas of expertness for and with other firms. Although establishment of a referral system would be a complex problem from the standpoint of both the *referrer* and the *referee,* an imaginative development of referral procedure in the management service field would undoubtedly be healthy for the entire profession.

Another transitional problem is the necessity for the profession to expand its research activity. This research activity must take several directions, over and beyond the present scope of the Accounting Principles Board. Present bodies of knowledge with regard to audit and management services must be codified, and searches must be made into other fields and disciplines for relevant material that may expand or deepen our knowledge of control mechanisms. More explicit standards for the conduct of management services consulting must be defined. The profession must expand its *basic* research into the audit and related management service processes. Even in terms of present practice, the entire nature of internal control and the requirements for acceptable information systems are not clearly delineated.

Perhaps most important, the profession must take greater initiative in originating research problems bearing on the audit and management service functions. By identifying and specifying problem situations, the profession can invite the efforts not only of qualified personnel within the profession, but also of competent persons in other disciplines.

The ultimate test. The definition of the management service function and the consideration of its propriety or position within the public accounting function tend always to come back to a consideration of the professional attitude. Individual problems — independence, competence, education, professional conduct — may each be resolved in relation to the CPA's willingness to continue to submit to the fundamental requirements of a practicing professional.

There is little question about the CPA's independence in management service activities if the CPA works under the same standards of objectivity and intellectual integrity in the management services as he does in the audit process.

The CPA's professional competence will not be doubted by his fellow practitioners or by the public, if the CPA undertakes management service engagements on the basis of the demonstrable competence of individual members of his staff, and if he is willing to assume responsibility for their competence.

A professional person tests his performance by the reaction of his peers, by the probable action of his peers, under standards of practice accepted by his peers, all within the constraints of an existing body of knowledge and in terms of a professional discipline. There can be little or no question about the propriety and desirability of the CPA's management service activities, if the CPA restricts his management consulting activities to those areas in which there is a reasonable body of knowledge, and if he is willing to test his actions against the best judgment of the practicing profession.

Basically, all the peripheral questions now being raised relate, in one way or another, to an extension of the CPA's management service activity into fields other than the traditional accounting and financial processes. If, however, similar extensions of knowledge are presently required in the auditing function, and if the scope of the CPA's identification with the business pattern is in fact expanding, then the propriety of the expanding areas of management services by CPAs will become clear. However, it is important that CPAs recognize these questions, discuss them freely, and act upon them. Only in this way will the challenges of an expanding professional activity be met.[5]

Plan of action. As a result of its studies of this subject, the Committee on Long-Range Objectives recommended, and the Council adopted in April 1961, the following objective and implementing resolution:

> It is an objective of the Institute, recognizing that management service activities are a proper function of CPAs, to encourage all CPAs to perform the entire range of management services consistent with their professional competence, ethical standards, and responsibility.
>
> In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:
>
> 1. To encourage educational institutions to broaden the curriculum for prospective CPAs to include subjects relating to management service developments affecting the accounting function

[5]This concludes direct quotation from Trueblood, *op. cit.*

2. To undertake and to encourage research in fundamental areas affecting the practice of management services by the CPA

3. To provide machinery for referrals among CPAs of engagements requiring specialized knowledge in the field of management services

4. To clarify professional rules of conduct applicable to the management service practice of CPAs

It seems clear that the CPA of the future will need to know more than the CPA of the past or present, if he is to take full advantage of the opportunities that are bound to confront him. He will need not only to know techniques, but also to acquire the kind of knowledge that leads to sound judgment and the ability to accept responsibility for advice and opinions.

A broad educational background, a sound technical training, a grasp of basic principles that can be applied to ever-changing situations, a habit of continued study to keep up with new procedures and ideas, and the self-discipline necessary to permit him to leave time for creative thought and planning — all these elements will be necessary for the successful CPA of the future.

How is he to acquire them? This brings us to the subject of education and training.

7

Preparing the CPA for expanding opportunities

IN THE PRECEDING chapters, an effort has been made to sketch the outlines of the economic, social, and political environment in the United States as it may affect accounting in the years ahead. The broadening concept of the accounting function as a whole, and the increasing importance it seems sure to assume in American society have been described. The place of CPAs within the accounting function, as the group with a legitimate claim to professional status, has been indicated. Expanding opportunities for CPAs in extension of their unique attest function have been predicted. The outlines emerge of an integrated professional accounting service, combining the elements of gathering, analyzing, and interpreting evidence, and offering creative advice and assistance as a result of the analysis.

Public acceptance. These attractive possibilities will become a reality, however, only if the public accepts CPAs as members of a competent and responsible profession, whose standards and integrity justify reliance on their measurements and communications of financial and economic data. Such public acceptance cannot be expected until CPAs as a group – not just a few individual CPAs – equip themselves to deliver the goods. The necessary equipment includes intelligence, knowledge, judgment, skill, independence, and moral courage. What needs to be done?

Norton M. Bedford has said: "The accounting profession has the potential to become one of the great professions if it will accept all phases of measurement and communication of economic data as within its province." This clearly suggests that the accounting profession is not yet accepted as one of the "great" professions.

CPAs are recognized as members of a true profession, but they have not yet quite achieved recognition as a great learned profession. Most people, when asked to name what they believe to be the great learned professions would probably name medicine, law, the ministry, teaching, architecture, and engineering – perhaps not in that order.

It is significant that in each of these learned professions a broad foundation has been established of formal education, postgraduate academic training, and facilities for continuing education or refresher courses for practitioners.

There is a gap between the educational requirements for the CPA certificate and the standards that the public has come to regard as necessary for admission to a learned profession. The fact is that the accounting profession as a whole is not required to meet a very high standard of *learning*. There are, of course, many individual CPAs who have exceeded by wide margins the basic educational requirements of the CPA laws. Some CPAs have reached levels of learning comparable to those of the members of any profession. While only a minority of the states require a college education for the CPA certificate, about 85 per cent of the successful candidates for the CPA examination actually have college degrees. Even this, however, does not necessarily meet the standards necessary for recognition as a learned profession.

The CPA's education. The scope of the educational process through which most CPAs have gone is not as broad as that of the older learned professions, and the scope of the CPA examination by which the candidate's knowledge is tested is also comparatively narrow. There is, of course, an interrelationship between the examination and the educational process. They influence one another.

Most CPAs have been educated in undergraduate schools of business in American colleges and universities. These business schools have recently been criticized, in reports published under the auspices of the Ford Foundation and the Carnegie Corporation, for alleged low standards of admission, and for focusing largely on "vocational" or technical training designed to equip the student to be of immediate value to an employer upon graduation. These reports suggest that undergraduate schools of business give insufficient attention to studies designed to stimulate intellectual curiosity, develop the ability to think logically, grasp fundamental principles that can be applied to a variety of specific situations, cultivate the ability to communicate clearly, and inculcate a general understanding of human nature and the social environment.

The undergraduate business schools are themselves comparative newcomers to the university campuses. They are often regarded without enthusiasm by the faculties of the traditional disciplines. The business schools have had their problems. They have been pressed on the one hand to extend the scope of courses in the so-called liberal arts areas, so as to develop future business executives of broad vision and superior analytical power. On the other hand, they have been pressed to provide graduates technically trained to go out on the job and earn their pay with a minimum of additional instruction by the employer.

Most CPA firms in the United States have come to rely on the university schools of business to produce an adequate supply of recruits for their staffs. Many firms assume that these recruits will have acquired in college sufficient knowledge of accounting and auditing to enable them to go out on the job with a minimum of training by the employer. Relying on the business schools, the profession as a whole has made no organized effort to develop other methods of education or training to meet the growing demand for qualified personnel.

Meanwhile, the rapid expansion of human knowledge in all fields, and the simultaneous increase in the complexity of business management and of the environment in which it operates, point to the conclusion that the CPA of the future will no longer be able to get all the education he requires in a four-year undergraduate course. Difficult adjustments in the educational process may be in prospect.

As suggested earlier, the CPA examination itself has probably influenced the educational program. Some schools with limited resources have adapted their accounting courses to the pattern of the CPA examination. Yet the examination traditionally has been relatively narrow in scope – limited to accounting theory, accounting problems, auditing, and commercial law. One accounting professor has said that with modern methods of instruction it would be possible to teach an intelligent student all he needs to know to pass the CPA examination in eighteen semester hours of academic work. The present standard of professional qualification does not encourage universities to expand the program of education in preparation for the practice of accounting on the broadest scale in the future.

In turn, the limitations of scope and depth of the accounting curricula at some business schools may have discouraged some superior students from pursuing accounting as a career. Gifted students, it has been reported, have not found accounting courses stimulating or challenging. They have therefore inferred that the professional practice of accounting would not give them an opportunity to use their intellectual abilities to full advantage.

In the light of these developments, the whole question of preparation for a professional career as a CPA is undergoing careful re-examination. It is generally agreed that there are three sources through which the necessary knowledge and skill can be acquired — academic education, on-the-job training or experience in practice, and continuing education after qualification as a CPA. Of major importance is the basic academic education.

Challenge to the training process.[1] One implication of the evidence supporting the position that the accounting profession is destined for growth in scope of activity and for a more widely recognized public status is that the technical knowledge of all professional accountants should be expanded. But a mere increase in the technical equipment of professional accountants is only one of the qualifications the professional accountant of the future should have. Effective measurement and communication of economic data at the level to which the evidence suggests the profession is moving will require a broad acquaintance with all parts of our social and economic life. It will require an educational program suitable for a learned profession having substantial responsibilities for the development and advancement of our society. There is as yet no agreement on the common body of knowledge which represents the profession of accountancy, but there should be. There should be even greater research and study to develop, describe, and communicate the knowledge needed for the successful practice of professional accounting.

Education for a learned profession involves the development

[1]What follows is directly quoted from Norton M. Bedford, "Education for Accounting as a Learned Profession," *The Journal of Accountancy*, December 1961.

of an ethical and cultured person aware of his responsibilities as a citizen and sufficiently motivated to educate himself so he may carry out these responsibilities; capable of clear and imaginative thinking in everyday activity, as well as in research, coupled with the ability for effective oral and written communication; and possessing a technical knowledge derived from rigorous intellectual study, which is of use to society generally. By this test, current educational efforts for the profession appear to need improvement in the following aspects:

1. There is need for an organized educational process for the teaching of ethics in such a way as to inspire ethical conduct. It has been stated many times by leaders of the accounting profession that integrity, independence, and professional conduct are the outstanding characteristics of the profession of the certified public accountant. Some of the more enthusiastic leaders have even suggested that loss of this feature would destroy the profession. While John L. Carey's signal contribution, *Professional Ethics of Certified Public Accountants*, and the statements of rules of professional ethics by the American Institute and state CPA societies indicate the general nature of the problem, it would appear that such an important feature of the profession should receive a much greater educational effort than it has in the past.

2. There is need for an improvement in the educational program aimed at the development of a cultured professional man, motivated to assume social responsibilities and dedicated to a life of continuing study. As the profession of accountancy moves into an expanded function in the measurement and communication of economic data, it seems evident that the accountant's contacts with other members of the business world and society in general will grow. Effective performance in this broad environment will require, in addition to the technical education, a broad liberal education kept up to date through continuous study. While many members of the profession now possess these educational qualifications, they have often acquired them more on a self-education basis than through an organized professional education program. The objective of this type of educational program would be to develop the professional accountant as one capable of effective communication with others, to the end that he will make a significant contribution to all parts of our society. This aspect of the educational program

for the profession should receive greater organized attention in the future.

3. The technical education program needs to be expanded in scope and modernized in quality along the lines of newer methods for measuring and communicating economic data. In times of rapid social, technical, and economic changes, members of the profession must be able to adjust to a continuously changing new operating environment. The present is such a time of change. So great and so rapid is the change that many professions find it difficult to keep up with the impact of the change on the profession. Illustrative of this situation is the observation by Dr. Thomas Stelson, head of the department of civil engineering at Carnegie Institute of Technology, that so rapidly is modern technology advancing in the engineering field that unless a graduate of ten years ago has spent ten per cent of his time keeping up with the new developments, he cannot compete in value with a new graduate. While the impact of new developments on the accounting profession has not yet become as striking as it has for civil engineers, the impact has been substantial, and there are reasons to think it will be more substantial in the future. It therefore seems reasonable to propose an expansion of the technical education program for professional accountants, with greater emphasis on the development of clear and imaginative thinking to improve the existing procedures of accounting technology.

4. While the profession has exhibited interest in research, there is a need to tie the research at the practical level back to research in mathematical methods and developments in the social sciences, in the way the medical profession has related its research to such disciplines as chemistry and other physical sciences. Accounting has aspects of an applied social science in the sense that it is concerned with the measurement and communication of information on the psychological and sociological forces motivating economic activity, and it seems that the basic postulates underlying accounting procedures must rest on these behavioral sciences. Because accounting is also a measurement process, research in the application of mathematics to accounting problems appears to have promise. There has been an explosion in the knowledge of the behavioral sciences and of mathematics, which appears to have an application to accounting theory and practice, and it seems appropriate to suggest that the educational program for the accounting profession should involve study and research at this level.

Nature of the educational gap. A reasonable reaction to the list of educational needs of the profession would be to ask how a profession having such unfilled educational needs could have grown to the stature that the evidence suggests it already has. One answer would be to assert that education has nothing to do with the process of developing a great profession. A more plausible explanation would be that the formal education process has not kept up with the leaders of the profession. Had the activities and attitudes of men such as George O. May, Robert H. Montgomery, and William A. Paton been used as a basis for the education of members of the profession, the educational needs might not be as great as they appear to be.

Current leaders of the profession exhibit educational attainments well beyond those provided by the minimum or even the typical educational program for the profession as a whole, but this appears to result from a lifelong self-education process rather than from any formal program. Actually, the educational gap between the extremes within the profession appears to be so substantial that it may represent the greatest problem of the profession today. The extremes are illustrated by the complaint of one marginal member of the profession that college education for accountants is harmful because it causes starting salaries to be too high, in contrast to the expressed regret of a leading CPA that a proposed program on human relations for accountants has not been well supported by members of the profession.

Developing the university curriculum. At the university level, the educational gap is reflected in the difficulty encountered by educators when they attempt to articulate satisfactorily the type of educational program needed by the profession. As Professor Herbert Miller expressed the problem, "If the practitioners will tell the professors what kind of man they want, then we can go about developing a university curriculum for the profession of accountancy." To university educators the fundamental problem is "What kind of man do we want the professional accountant to be?" The question, "How to develop the type of man wanted?" is secondary and far less difficult. Some feel quite strongly that it is the responsibility of educators to define the man needed for the profession. Until Professor Miller's question is answered by someone, if it ever can be answered, educators must make curriculum decisions in the absence of adequate facts. The content of the CPA examination has been accepted by some university educators as representing the type of technical education wanted by the profession. Of course, most university educators recognize that teaching students to pass the CPA examination is much too narrow an objective, but in the main they have had to depend on intuition, informal observations, and general impressions in developing a broader university professional education program. Yet what the practitioners of the future are taught is what the profession will become in the future. The need for a statement of what the needs of the profession are likely to be, whether it is the responsibility of educators, practitioners, or both, is most important in developing the university educational program.

Solution to the educational gap. A solution to the educational gap is not easy to provide. There are those who will not accept observable evidence, will point with pride to the accomplishments of the profession in the past, and suggest, "We have been doing all right. What is all the excitement about?" In part this is a defensive attitude. Some will interpret the contention that a serious educational gap exists to mean that the small practitioner in a small town is holding back the profession. In fact, however, the status of the CPA in the small community may be that of a leader, and in no way representative of an educational gap in the profession. If the educational need of the profession is to develop accountants who can perform effectively in the field of economic and social development, the small practitioner is often better educated for his environment than the partner in the large firm in the large community.

Overcoming emotional reactions to any proposal for means of correcting an educational gap can be achieved only by calling upon every member of the profession to consider such proposals carefully in an objective manner.

There are those who sincerely believe that the qualities needed by members of the profession do not lend themselves to the educational process, but represent inherited or environmental capacities, and that proper recruitment for the profession will solve the problem. But the vast majority of the leaders of the profession assume that the solution should be found in the educational process. Education cannot, of course, raise every present and prospective member of the profession to the same level of competence. It can only narrow the gap. Though universities exist to further its development, this type of education is essentially self-education. The profession itself, therefore, must assume a responsibility to motivate and encourage its members to develop this type of education.

At the university level, the educational curriculums of the schools of business are being re-examined at the present time and, if the profession of accountancy is to request an improvement in the university educational program, it seems desirable that such a request be articulated as soon as possible.

Areas of accounting study. Articulation of the educational needs of a profession is most difficult; different views of the needs will always exist. But there are a number of general statements that may be made. First, there seems to be a growing belief that the development of the intellectual aspects of the profession represents the next big hurdle that the profession must leap if it is to continue its growth on a sound basis. Second, it is generally recognized that the educational aspects of accountancy as a learned profession involve three areas of study:

1. The collegiate level, including postgraduate professional work in accounting
2. The transitional education of the young man who has just entered practice
3. The continuing education required by the mature practitioner of today, educated in an earlier time, to come abreast of the technological requirements of current practice, due to developments of new accounting measurements

The last two areas have received the attention of individual practitioners and the organized profession. The resulting educational programs may be classified as follows:

1. The programs provided by firms in the form of staff training classes and on-the-job training under a direct supervisor
2. The AICPA professional development program to advance the professional competence of the profession

Practically, there is great variety in the education and training provided by the several sources. Some universities provide training that might better be performed by a staff training program. Some firms have no formal staff training programs and rely heavily on university and on-the-job training. Despite the variations, however, it is reasonable to suggest that a consensus does exist, and that it is possible to distinguish the four general areas of responsibility as follows:

1. The university should concentrate on general education, the preprofessional program, and a professional program centered on the general principles and concepts of the technology. It should be directed to the development of critical and analytical thinking, with only those procedures included that are essential for understanding the concepts.
2. The staff training program should concentrate on procedures. While the student will be introduced to the basic ones in the university professional program, the highly technical aspects and detailed procedures should be a part of the staff training program.
3. On-the-job training necessarily centers on the application of the procedures and principles to specific problems. This should be developed so that the individual will get the maximum education out of experience.
4. The American Institute should provide educational programs to keep the profession professionally competent in all phases of contemporary accounting practice. This would include courses at all levels. It might include further staff training classes for new employees of small firms. It might include experimental programs, which would advance the profession into new areas. In general, the American Institute program should assume responsibility for leadership in developing the nonuniversity training program.

Responsibility for filling the cited educational needs must be assigned to one or more of the various sources of education and training for professional accountancy. Such an assignment, however, must be somewhat arbitrary, for all aspects could be provided by different sources. But it is possible to suggest appropriate material and methods to fulfill certain of the educational needs in the areas of ethics, culture, technology, and research; and it is possible to suggest certain general guides for dividing the material among universities, firms, and the American Institute of Certified Public Accountants.

Professional ethics. Inclusion in the university curriculum of material on the social responsibilities of accountants, how the profession meets these responsibilities, and what the results to the profession will be if that public trust is destroyed and the social responsibility is not carried out, represents course material conducive to the development of a professional character. Such a course would represent material of high level for discussion and worthy subject matter of a learned profession. In one sense, such subject matter would represent a study of the function of certified public accounting in society, and while it might bring an understanding of why formal rules of professional ethics exist, it would not involve mere memorization of such rules. A seminar course at the university might best serve this educational need.

As preprofessional study in the undergraduate university curriculum, a course on the philosophy of ethics would provide a basic underpinning for the study of professional conduct at the professional level.

At the firm level, staff training classes should include material on the rules of professional conduct of the profession. Case illustrations should be used to establish a clear picture of the exact meaning of the rules of professional ethics. In on-the-job training, definite criteria should be developed so that a supervisor could both evaluate and develop professional conduct.

In this scheme of things, the AICPA would be responsible for the development and clarification of the rules of professional conduct, and would provide for the control of violations and deviations from such rules.

Cultural aspects, motivation, and social responsibilities. The image of a professional man as one who is broadly educated, well disciplined, and highly trained prevails in the mind of the general public. It carries the connotation in the minds of many people of a four-year broad liberal arts education followed by one or more years of technical professional training at a university. The supposition is that the program of study is such as to give the student a broad background understanding of our physical and social world. Aside from technical education, the profession needs to conform more to this general picture of the professional man than it has in the past.

Graduate study at the university, in addition to graduate professional education, should be encouraged. Graduate study that relates accounting postulates and principles to the basic disciplines of logic, mathematics, and the social sciences, would emphasize the fundamental aspects of accounting technology.

Whether the sequential (liberal arts first, followed by professional study) or the integrated (liberal arts and professional studies throughout undergraduate and graduate work) approach to the university educational program is followed, there are certain of the basic disciplines in the liberal arts area that are more directly related to the professional training program than others. These preprofessional courses are an essential part of the total training of a student of one of the professions. Premedical education normally includes the study of chemistry and related topics, and prelegal education includes studies in the fields of economics, history, and social sciences. The preaccountancy program of study needs to be investigated more fully. A survey of the liberal arts subjects suggested for study in the accountancy program reveals little evidence that consideration has been given to this subject. There is a consensus that some kind of economics and business courses are desirable for the study of professional accountancy, but neither the academic nor the practicing areas of the profession have directed significant attention to the problem.

The AICPA's role. If the accounting function is accurately described as encompassing all phases of the measurement and communication of economic data, subjects, in addition to English, history, languages, and general liberal subjects, which appear to be suitable preaccountancy education include the following:

1. Mathematics up through calculus, with particular emphasis on those portions of mathematics related to the social sciences
2. Logic, with emphasis on symbolic mathematical logic and its use in the social sciences
3. Philosophy, with particular emphasis on ethics
4. Social sciences, particularly economics, psychology, political science, sociology, and anthropology
5. Communications, both in the sense of writing and in the sense of conveying information to others by any means

Within the firm, systematic programs for assuring the cultural development of personnel should be established. The assumption of responsibilities in developing community and public service programs should be considered a part of the activities of every member of the firm. The firm is in a particularly favorable position to motivate individual members of the profession along both cultural and social lines.

The role of the AICPA in developing an interest in the cultural aspects of education and in encouraging assumption of community and public responsibilities is most important. In general, the Institute should endeavor to create the conviction among members of the profession that they belong to a learned profession with a responsibility for contributing to the development of our society in technical, cultural, political, and social areas. This will involve an extension of past Institute activities.

On-the-job training. The division of the technical education program among the universities, staff training classes, and on-the-job training programs has been described by saying that the universities should teach basic theory without particular regard to the details of how the theory is applied; that firms should teach the detailed "bread-and-butter" courses of "how-to-do-it" in the staff training classes; and that on-the-job training integrates the two by demonstrating their application.

Actually, such an arrangement has its limitations. Smaller firms of practicing accountants often have no staff training classes and cannot afford an extensive on-the-job training program. As a result, some universities have at times attempted to cover all three phases of the educational process through work-study programs. This may suggest that until firms develop more complete training programs, or the AICPA develops such programs for them, attempts to specify the detailed content of the university program must be subject to a certain degree of reservation. Beyond the very near future, however, it seems reasonable to suggest that, like the better-known schools of law, the university program should leave the detailed, routine, "how-to-do-it" courses to special training programs.

For the near future, to which the profession should now direct itself, it may be suggested that the staff training program include the following topics:

1. Auditing procedures and more specific accounting techniques, though the general philosophy of auditing and its basic concepts would remain with the university

2. Federal income tax reporting, though the concept of income for Federal tax purposes and other basic concepts of taxation would remain with the university

3. Management advisory services techniques, though any required basic mathematical understanding and their general application to the management problem would remain with the university

4. Firm policy and operating procedures

The on-the-job training process of education should involve placing on a supervisor the responsibility of teaching the application of accounting principles and procedures. It should involve instruction prior to the start of a specific work assignment, constant availability of a supervisor for discussion during the performance of the work, and a review upon completion of each work assignment. Supervisors should be evaluated, among other things, on their effectiveness as teachers.

Need for continuing education. As noted earlier, education for a learned profession is a lifelong process and, in the main, a self-education process. In times of rapid growth and expansion like the present in the accounting profession, there is need for an organized systematic program to bring the technical qualifications of the whole profession up to the level of the best performance within it. This aspect of education has received the attention of the AICPA's Division of Professional Development. Excellent progress has been made in this program in creating among members of the profession general recognition of the need for continuous professional education. The program started with a number of "bread-and-butter" courses. New courses have been developed of broadened scope, and the whole program appears to be gradually expanding and carrying the profession along with it. One of the most significant aspects of this program is that it is self-supporting. It appears reasonable to assume that the program does provide a means for advancing the technical competence of the profession. While it is too early to suggest an examination of the professional development program in terms of its educational objectives, it appears that any study directed to a broadening of the university professional program to encompass all phases of measurement and communication of economic data might have implications for the professional development program as well.

In recent years the behavioral sciences and mathematics have developed knowledge that has had an impact on techniques for measuring and communicating information on economic activity. These developments, under such headings as managerial economics and operations research, have not been fully absorbed into the technical accounting education program at the university level. A number of the innovations are merely refinements in the ways of arriving at measurements which have been performed by accountants for some time. As Charles B. Allen, a certified public accountant in industry, said in 1955, mathematical techniques may be used to analyze such accounting problems as cost and profit variation with volume, statistical quality control, product mix for maximum profitability, interrelationship of price-cost-profit, determination of economic lot size purchase or production, and the economics of where to produce, sell, or store. The work of Robert M. Trueblood and others indicates that statistical sampling can provide a refinement in the methods of measuring economic data that have been previously used by accountants, and indicates the need for the use of statistics and probability in accountancy. Aspects of such techniques as linear programming, queueing theory, Monte Carlo technique, and factorial analysis represent other methods for measuring and communicating economic data available to accountants. Every accountant must familiarize himself with electronic data processing. To the extent that these newer techniques provide accountants with improved methods, they represent a part of the accounting technology. There is a need for an organized program to acquaint all members of the profession with these emerging tools. University accounting courses need to be re-examined in the light of these developments.

Combining the traditional and the new. The proper view of the accounting curriculum at the university is that it should not try to produce fully qualified professional accountants. Rather, the universities should educate students who are sufficiently grounded in the basic principles of measuring and communicating economic data so that they can learn to be fully qualified professional accountants. This is valid whether the integrated or the sequential approach to university education is followed. In view of the modern attitude toward professional accounting education at the university, and the new techniques of measurement and communication to be included in the accounting curriculum, it seems reasonable to suggest that not much more than 50 to 75 per cent of the traditional accounting courses should continue to be taught at the university level. The 25 to 50 per cent of the traditional accounting courses dropped would be replaced by new accounting courses dealing with electronic data processing, the mathematical and behavioral aspects of accountancy, and the use of statistical and probability techniques in accountancy. The result would be a curriculum dealing with the accounting principles underlying both the traditional and newer measurement and communication technology. There is an added assumption that the university professional education program would include the study of the business functional areas (management, production, distribution, and finance), as well as the role of accounting in each area. Finally, it is expected that environmental factors will cause schools to vary in the emphasis placed on the different aspects of the new program.

Research. Professor R. J. Chambers, outlining "The Conditions of Research in Accounting" (*The Journal of Accountancy,* December 1960, page 33), suggested the requirements for a scientific approach to the development of accounting theory. The impact of proposals like his on the educational aspects of accountancy does not yet appear to have been realized by the profession. There is a great need to extend accounting research back to the social science level, where the implications to accounting of changes in basic human behavior may be examined, and back to measurement methods and communication theory. Familiarity with the motives and stimuli of human behavior is essential if accounting is to measure and communicate significant data.

For example, it has been an assumption underlying accounting procedures that the desire for income motivates economic activity, and the significance of accounting has been that in measuring income it has revealed the extent to which a business has attained this objective. Controversy within the profession regarding many accounting problems can often be traced to different views regarding the nature of the income determination which best reflects the objective of the business. It has been suggested that the current income objective of most businesses is a steady long-run income, rather than a short-run fluctuating income, but there has been no clear enunciation of the nature of the long-run income or why the business objective is the long-run objective. A survey of current articles reveals a variety of concepts of income, any one of which might represent the basic objective of the business. The question of what concept of income best satisfies the needs of the parties interested in the accounting report on income can be answered only by a thorough study of the motives, wants, and needs of these parties.

Since the motives, wants, behavior, and needs of individuals are within the fields of psychology, sociology, and other social sciences, it is evident that basic research in accounting should be concerned with appropriate parts of these areas. The proposal that accounting research be extended back to the social science level appears to be especially appropriate at the present time, in view of the current suggestions that the objectives of business include the nonincome kind. Since these objectives, as well as the income objective, will be the result of individual motives and behavior, it may be that accounting research at the social science level will contribute to a clarification of many of the problems facing the profession today. Recent discoveries in the behavioral sciences generally appear to have potential application to business problems.

If accounting research is extended back to some of the basic social sciences, the classification of accounting as a learned profession will be expedited. Developments in social psychology, anthropology, and sociology suggest that the roots of accounting concepts rest in these basic disciplines, and it seems reasonable to suggest that the profession associate itself with research in these fields. This appears to be an area where university research is particularly appropriate.[2]

Action taken. As a result of these considerations, the Committee on Long-Range Objectives recommended, and the Council in May 1962 adopted, the following objective and implementing resolution:

1. To encourage the description and continuous restating of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice; and
2. To bring about the clarification of the areas of respon-

[2]This concludes direct quotation from Bedford, *ibid.*

sibility of universities, practitioners, and professional societies in the education and training of CPAs.

In furtherance of this objective, the Council requests the Executive Committee to assign a permanent committee, with senior status, the responsibility for accomplishment of the above objective.

The role of continuing education. As has been pointed out, only part of the education of professional men is the responsibility of the universities. The professions themselves have a responsibility to encourage the continuing education of their members after qualification.

It is axiomatic that a professional man should study all his life. But without some incentive, guidance, and assistance, only the most highly motivated individuals are likely to undertake a systematic program of habitual study for their own self-improvement — particularly in areas not immediately related to income-producing capacity.

The late Robert Kane, director of education of the American Institute, made it clear that the accounting profession in the mid-1950s was far behind the recognized learned professions in providing continuing-education courses. Indeed, not only law and medicine, but also business executives, notably through the American Management Association, and quasi-professional groups such as bankers, credit men, and insurance underwriters, have provided more elaborate continuing-education facilities than the accounting profession has developed.

The AICPA began efforts to develop continuing-education courses for its members as long ago as 1956, but it was not until 1959 that a full-time staff was organized to develop a comprehensive adult education program as rapidly as possible.[3] This program could easily be expanded to provide courses in nontechnical areas, such as the social sciences, human relations, and managerial mathematics, for CPAs who have not studied these subjects in college. The program could also be flexible enough to fill gaps that may exist

[3]The program has been described by Louis Matusiak, the Institute's director of professional development, in "The Role of Educators in the American Institute's Professional Development Program," *The Accounting Review*, April 1960, p. 197.

in the education of prospective CPAs until a more or less uniform pattern of university training is developed.

But again, the question of incentive for continuing education arises. How many certified public accountants will study for the intangible, indirect benefits of self-improvement? Would some formal credit or recognition that might enhance their prestige provide an added incentive?

The missing link: formal recognition? The Institute's Committee on Long-Range Objectives believes that a system of formal recognition would supply the needed incentive for self-improvement and professional development on the part of large numbers of CPAs. This, in turn, would raise the general level of competence. Temporarily, at least, formal recognition might also encourage CPAs to fill gaps due to insufficient attention to the broader aspects of the educational program preceding professional qualification. These results would then have an indirect effect on the public image of the profession, which might speed up recognition of CPAs as members of a learned profession and expand their opportunities for service.

The following conditions for formal recognition seem desirable:

1. *The system must apply to all CPAs.* It must not be designed to search out only a relatively few outstanding individuals. It must be available to the general practitioner, not only to specialists. Since the purpose is to stimulate continued study, formal recognition must appeal widely to local practitioners, as well as to partners and members of the staffs of larger firms.

2. *The recognition must be reasonably attainable.* If it is so difficult to attain as to be impracticable for the average practitioner with the will to improve himself, it will not serve as an incentive to study for a large proportion of the members of the profession. The qualifications, therefore, must be reasonably broad in scope. Thus, for the time being at least, the recognition should not be extraordinarily difficult to obtain.

3. *The recognition must have significance.* It must be neither too difficult, nor too easy to attain. Candidates should be required to present evidence of advanced study and knowledge in one or more areas. They should also demonstrate personal qualities and conduct characteristic of members of a learned profession.

4. *The recognition must not be competitive with the CPA certificate.* It is not intended as a "super degree," but rather as a strictly intraprofessional recognition of members who demonstrate the required qualities. The symbol of recognition might be the title and publication of one's name in a roster.

5. *The system should be sponsored by, and administered within, the AICPA, since the system must be an integral part of the over-all professional structure.* Whatever type of organization may be formed for the purpose, its function should be confined to the single task of formal recognition of CPAs who give evidence of advanced study and knowledge.

Precedents. There are precedents in other professional and vocational groups for a system of higher accreditation. The medical profession provides the most varied and extensive examples. For example, the College of Physicians provides a mark of distinction and competence beyond the minimum requirements for a license to practice in the broad field of medicine. The specialty boards, of which there are now twenty or more, are a means of displaying competence in depth in a narrower field of practice such as ophthalmology, obstetrics, urology, and so on. The Academy of General Practice provides an opportunity for the general practitioner to evidence higher competence.

Any pattern of formal recognition adopted to meet immediate needs could be altered in the light of future developments in both education and practice. But for the time being, what seems to be needed is the simplest, broadest program, and one that is the easiest to administer—a program that will stimulate the largest number of certified public accountants to undertake continuous advanced study and systematic self-improvement at the earliest possible time.

As a result of this line of thinking, the Committee on Long-Range Objectives recommended, and the Council in April 1961 adopted, the following objective and implementing resolution:

> It is an objective of the Institute to encourage CPAs to continue study and self-improvement throughout their professional lives by providing formal recognition of advanced study and superior attainment.

> Be it resolved that Council approves in principle the creation of an Academy of Certified Public Accountants, which would provide higher accreditation for those who satisfy the requirements along the general lines recommended by the Committee on Long-Range Objectives in the paper released by it under the title "Higher Accreditation of CPAs," and published in the March 1961 issue of *The Journal of Accountancy;* and
>
> Be it further resolved that the Executive Committee take such steps as are necessary to formulate and submit to Council recommendations for the establishment of the Academy.

At the May 1962 meeting of Council, the Executive Committee presented for action a plan of organization for an Academy of Professional Accounting, which would provide recognition of advanced study on the part of CPAs. The Council, however, rejected the proposal by a vote of ninety to sixty. The principal argument against the proposal was that it might have a divisive effect.

Experience and on-the-job training. Experience in actual practice is also an essential part of the training of a CPA. In the beginning, before formal academic programs in accounting were available, experience was the only readily available source of technical training, aside from independent reading and study.

However, as the schools of business administration undertook to teach prospective accountants at least the elements of the technical knowledge required in practice, the emphasis on experience began to diminish. Many state laws recognized an interrelationship between education and experience, and therefore required shorter periods of experience from candidates who had had adequate academic training.

In 1956, a report was published by the Commission on Standards of Education and Experience for Certified Public Accountants, after several years of study.[4] The Commission recommended increasing emphasis on the formal educational process, and set as the ultimate goal a professional accounting program at the postgraduate level, after completion of a four-year course, leading to a bachelor's degree, with a generous content of liberal arts.

[4]Several members of the Commission later served on the Institute's Committee on Long-Range Objectives. These were Herman W. Bevis, Clifford V. Heimbucher, J. S. Seidman, and Robert E. Witschey.

The Commission suggested that students who had completed the recommended educational program be permitted to take the examination for the CPA certificate immediately. "Looking toward the future," the report said, "the majority of the Commission envisions that the proposed professional program in the formal educational process can be made so effective and so purposeful in nature that it will constitute the principal method of preparation for a career in public accountancy as a CPA." There was strong minority dissent from this point of view.

As part of its long-range goal, however, the Commission recommended an internship program through which, as part of the formal educational process, students would acquire some experience in actual practice by means of a short tour of duty in a CPA's office.

Recognizing that the ideal situation could not be achieved immediately, the Commission recommended that, as a transitional goal, requirements for the CPA certificate include a four-year college course, including the equivalent of what is generally known as an accounting "major"; satisfactory completion of the uniform CPA examination; and a minimum of two years' practical experience in public accounting under the guidance of a CPA.

"However," the report continued, "if experience in public accountancy is to be continued as one of the features of training of a CPA, pending the development of professional programs in academic institutions, the profession should itself assume a greater degree of responsibility for the type of training to be acquired through such experience. Much of this responsibility must of necessity fall directly on the employing firm, but the profession through its society should also take more responsibility for the effective development of CPAs than has been assumed in the past."

The Institute itself did not accept the Commission's recommendations in their entirety. A special committee, known as the "Bailey Committee" (named after its chairman, George D. Bailey), made an analysis of the Commission's report and recommended adoption of a number of its recommendations, some with modification, but took the position that experience should never be eliminated from the requirements for the CPA certificate, even as a long-range goal, and even assuming the completion of professional programs at a postgraduate level.

The Council adopted the Bailey Committee's recommendations, including the provision that even with optimum formal education, a candidate for the CPA certificate should have at least one year of experience, under the direction of a CPA, involving a substantial amount of work in the area of "third party reliance."

It then became necessary to consider just what constituted acceptable experience under this policy. Another committee, known as the Committee on Qualifying Experience, was formed under the chairmanship of George Hansen of Iowa. After several years of effort, this committee produced a carefully reasoned report, within the limitations implicit in the policies already approved by Council, describing the nature of the experience that should be acceptable as part of the requirements for the CPA certificate. The report stipulated that acceptable experience should include a substantial amount of work involving application of generally accepted auditing standards.

This conclusion was presumably based on the assumption that the attest function of the CPA (which up to now had consisted mainly of the expression of opinion on financial statements, based on independent audit involving application of generally accepted auditing standards) was that part of accounting practice most highly charged with public interest, in view of the fact that persons other than the client might be influenced in important decisions by the added credibility the CPA's opinion could give to financial statements.

Experience in write-up work, taxes, or so-called management services, the report suggests, would not alone be sufficient to qualify a man for practice as a certified public accountant, since the public had learned to assume that a CPA was pre-eminently qualified as an independent auditor.

The Council deferred formal action on the Hansen report, but authorized its distribution among state boards of accountancy and others interested, with an invitation for comment and criticism.

Broader definition of experience? The question now arises whether, if in the years ahead the CPA's attest function is extended beyond the expression of opinion on conventional financial statements, and if the concept of an "integrated service" embracing accounting, auditing, taxation, and management services becomes prevalent, the definition of acceptable experience for the CPA certificate should be broadened.

In those circumstances, perhaps any work a CPA did would conform with standards of competence and responsibility as well defined as those now applying to the expression of opinions on financial statements, and would involve to some extent the attest function. It might then be argued that the independent audit of the usual financial statements, with the implication of "third-party reliance," was no more "professional" in character and no more highly charged with public interest than any of the other services a CPA would customarily render. In other words, if accounting, tax, and management services, when performed by a CPA, required the accumulation, analysis, and interpretation of evidence, and attestation of the results in an appropriate manner, in accordance with generally accepted standards, the distinction between independent auditing of conventional financial statements and other services by CPAs would tend to disappear. In that event, and assuming a broad educational background and completion of a postgraduate professional program in accounting, any type of experience under a CPA that met the accepted standards might be as satisfactory as any other as part of the requirements for qualification as a CPA.

The employer's responsibility. Regardless of what particular type of experience may be acceptable, there is a growing realization that experience on the staff of a CPA firm may not in itself have much significance unless the employer takes some responsibility for the instruction of the staff assistant. "Experience," in the sense of the mere passage of time in the employ of a CPA without any systematic instruction, is quite a different thing from "on-the-job training," which implies a conscious effort on the part of the employer to develop professional competence on the part of the assistant, by giving him a variety of work under competent supervision, and seeing to it that he understands the professional responsibilities involved in what he does.

The larger accounting firms have for many years provided their new staff men with formal training courses, usually extending through two or more weeks, as a means of orienting them to the requirements of actual practice. Many of these firms have also supplemented the junior staff training courses with systematic programs of training for staff assistants at successively higher levels.

In 1960, the professional development division of the Institute offered a junior staff training program for assistants employed by local accounting firms. The program was conducted at five centers in different regions of the country. This program was repeated in

1961 at six centers. It has been well received, and is expected to be a permanent institution with a gradually expanding enrollment. Consideration is now being given to the possibility of a similar program for the training of staff at a senior level.

It should be noted that the Scottish and English chartered accountants, who rely largely on apprenticeship rather than formal education as a means of training candidates, impose specific responsibilities on the employer for the training of the "articled clerks" he is permitted to take on his staff. It is presumed that the employer will provide a variety of experience, instruction, and time for study sufficient to enable the apprentice to pass the examinations.

The common body of knowledge. In discussions of how the CPA should learn what he needs to know – by formal academic education, at undergraduate and postgraduate levels, by continuing-education courses sponsored by the professional societies, and by practical experience and on-the-job training – it has become clear that final answers are virtually impossible without the answer to a more fundamental question – what does he need to know?

The Institute has recognized the need for a description of the "common body of knowledge" which all CPAs should have. The objective proposed by the Committee on Long-Range Objectives and adopted by the Council in May 1962 calls for such a description. With such a description available it should then be possible for teachers and practitioners to decide what might best be taught at the universities, what should be taught in continuing-education courses, and what should be taught by employers to their staff men.

A description of the body of knowledge that should be common to all CPAs would also afford a basis for intelligent evaluation of the scope and depth of the CPA examination – to determine whether the examination needs to be modified, in view of the broadening scope and increasing depth of services rendered by CPAs, if it is to serve as a realistic test of competence to practice in the modern environment. The influence of the CPA examination on education and training programs was pointed out earlier in this chapter.

One of the seven characteristics of a profession stated by the Commission on Standards of Education and Experience for CPAs is "a body of specialized knowledge." In 1961 it began to be realized that there was no authoritative description of such a body of knowledge for CPAs. Discussions of the problem took place in both the

Executive Committee and the Committee on Long-Range Objectives. It was concluded that a research project should be undertaken to describe the common body of knowledge of CPAs – including what was necessary for the CPA to begin practice immediately, and what was necessary to enable him to progress, develop, and adapt himself to changing but unforeseeable requirements in the future.

On the recommendation of the Executive Committee, the Council of the Institute in October 1961 approved an appropriation of $50,000, contingent upon a matching grant from other sources, to finance such a research project. If the project can be carried to a successful conclusion, it will greatly facilitate the task of integrating formal academic training, on-the-job training, and continuing education into one logical and systematic program, and afford a sound basis for adapting the CPA examination to the realities of modern practice. Years of trial and error, inconclusive argument, and un-co-ordinated approaches to the problem may be avoided.

All in all, the profession has made an encouraging start, particularly in the past ten years, in the effort to determine how CPAs may be equipped for their expanding opportunities. There is reason to hope that within the next few years the profession will be able to agree on a logical and consistent approach to education and training. Progress should be rapid after that.

8

The structure of the profession

A MASS OF individuals working in isolation, without organization for co-operative effort, technical or ethical standards and machinery for self-discipline, without ready means for exchange of information and ideas among themselves, common objectives, facilities for research, or means of communicating as a group with the public, could never command recognition as a profession. Without effective organization the CPAs of today, if they existed at all, would be merely individual technicians, varying widely in ability, lacking clear identification as a group in the public mind.

Three of the seven characteristics of a profession laid down by the Commission on Standards of Education and Experience for CPAs[1] are:

A standard of professional qualifications governing admission
Recognition of status
An organization devoted to the advancement of social obligations of the profession

The structure of the accounting profession, including the mechanism for admission and recognition, and organization for development and maintenance of standards and discharge of social obligations, is of fundamental importance to its future progress.

The individual CPA, intent on his own daily problems, may be inclined to take for granted the fact that somebody is attending to the needs of the profession as a whole. Yet even a superficial review of the history of the accounting profession in the United States

[1]See Chap. 3, pp. 26-27.

shows clearly that its remarkable progress has been made possible largely by the organized efforts of thousands of able CPAs who have served as officers, directors, or committee members of the professional societies, and as members of the state boards of accountancy.

Although their accomplishments have been noteworthy, it cannot be assumed that the organizations charged with the responsibility of conducting the affairs of the profession as a whole – the state societies, the state boards, the Institute, and related groups – are even yet as good as they should be. Their decisions and actions have a vital impact on the professional lives and future opportunities of all CPAs. It is imperative that the structure and procedures of these organizations be under continuous scrutiny.

In most countries other than the United States, standards for admission to the profession are set, and the title or symbol of professional qualification is bestowed, by self-governing professional societies, such as the institutes of chartered accountants in Scotland and in England and Wales, whose authority to act in this capacity and whose exclusive right to use of the selected title or symbol is derived from royal charter or legislative action. These same organizations set technical and ethical standards, and perform the other functions of professional societies in the United States.

In the United States, however, the accreditation and regulation of professions is traditionally a function of the states, usually by means of legislation.

Looking back. In the late nineteenth century, a group of practicing accountants in New York decided that the time had come to set standards for admission to the accounting profession, and to create a title or symbol of qualification. It was natural, in the American environment, that they should ask the New York State Legislature to enact a law to provide these things. This was done in 1896.

Thereafter, all the states followed suit. But each state CPA law contained provisions different from the others, which for one reason or another seemed to the CPAs of the state concerned, or to the state legislature, most suitable in view of local conditions or attitudes.

As the CPA laws were enacted, independent and autonomous state societies of CPAs were organized in each state. Their structures, bylaws, and procedures varied as widely as the CPA laws themselves. The national organization that has become the Institute was founded in 1887. At first it was in effect a federation of state societies. In 1916, it became an independent national organization, setting its own standards of admission and rules of conduct applicable to all its members.

The accounting profession presently operates under a multiplicity of accounting jurisdictions.[2] The number fifty-three is cited only as the number of state boards or other accrediting agencies in the legal sense. Actually the number is much greater if we count the AICPA and the state societies, all of which exercise some control over public practice. The existence of this large number of authorities for promulgating rules and defining standards has inevitably brought about a diversity of criteria for determining qualifications of admission to the profession, for issuing licenses to practice, for judging and enforcing acceptable behavior, and for granting rights to practice across jurisdictional lines. Yet it is well recognized that accounting principles and auditing standards used in carrying on the practice of public accounting are national and even international in scope. They are not based on statutes nor on any other considerations arising out of geographical boundaries. The services furnished, particularly in such fields as Federal tax matters and management services, are also national in character.

Historically this multiplicity of jurisdictions is a result of our emphasis on states rights, and also, possibly, of early actual variations in local needs and conditions.

The effects on the profession of the different standards produced by these many authorities have received much previous consideration in piecemeal fashion, particularly with reference to such matters as the CPA examination and the education and experience requirements. The examination was finally made uniform after years of effort. Four years of intensive study were carried out before a report was issued by the Commission on Standards of Education and Experience for CPAs. Portions of that report in turn have been subjected to further study by special groups. Many other cases could be cited of constructive attention devoted to specific problems arising out of the multiplicity of jurisdictions. Not enough attention, however, has been directed to a study of the over-all

[2]What follows is directly quoted from Clifford V. Heimbucher, "Fifty-three Jurisdictions," *The Journal of Accountancy*, November 1961.

long-range effects on the broad basic character of the accounting practice of the future. In order to shape the form of future accounting practice properly, do we need uniformity in some or many of the areas presently under the control of many authorities? If so, how can such uniformity best be achieved?

Regulatory versus permissive statutes. At the outset, the problem of regulation of the entire accounting profession is compounded by basic differences between the regulatory statutes in thirty-four jurisdictions and permissive statutes in the remaining nineteen.

The basic philosophy underlying the regulatory statutes is that the independent audit function is so affected with the public interest that all who engage in such practice should be required to meet certain statutory standards of qualification and conduct. Generally, such laws attempt to bring about this result by restricting the use of public accounting titles and certain types of public practice to those who have met prescribed qualifications. Because of their restrictive nature, such laws must provide for licensing of public accountants already in practice as well as certified public accountants. The variations in the methods of licensing noncertified public accountants produce another set of diverse standards for admission to public practice.

The permissive statutes, on the other hand, provide only for granting the CPA title to those who qualify, and permit anyone else to use similar titles, such as "public accountant," and to perform all types of accounting services, including audits leading to opinions on financial statements.

One important consequence of this dual philosophy is that the titles CPA and PA mean different things in different jurisdictions, both legally and practically. In some states, both designations constitute licenses to practice and signify that the holders have met some statutory qualifications. In other states, the CPA title is a mark of distinction, and the PA title is a self-designated appellation.

This duality leads to such incongruities as that contained in the newly adopted regulations of the Small Business Administration requiring Small Business Investment Companies to submit annual financial statements accompanied by an opinion that "shall be based on an audit conducted in accordance with generally accepted auditing standards and shall be rendered by an independent certified public accountant; independent licensed public accountant, certified or licensed by a regulatory authority of a State or other political subdivisions of the United States; or, in States or political subdivisions of the United States which do not license public accountants, an independent public accountant of recognized standing with ten or more years of public accounting experience; selected or approved by SBA."

The Institute has attempted to bring order out of this chaotic condition by adopting a policy in favor of regulatory legislation. This important part of the whole problem of uniform standards has been exhaustively treated elsewhere, so it will not be treated in detail here.[3]

In respect to CPA standards, the rules or criteria among which jurisdictional variations exist may be considered in three categories, as follows:

1. Qualifications for the issuance of CPA certificates and licenses to practice
2. Ethics
3. Interstate rights to practice

Admission requirements. Of the three areas, education, experience, and the other admission requirements, the first has received the most attention. There is general recognition that the average caliber or level of competence of recruits to the profession will foreshadow to a considerable degree the profession's ability to meet the needs of the future and to gain public acceptance as a learned profession. The need for uniformity in standards of education, experience, and examination is well recognized. The uniform examination is an accomplished fact. In the fields of education and experience, however, disparities among the many jurisdictions continue. Among the fifty-three jurisdictions, we find the following variations in minimum formal educational requirements for a CPA certificate:

	Number of Jurisdictions	
	Present	*By 1965*
High school only	41	33
College — 2 years	7	8
3 years	—	1
4 years	5	11

[3]See Chap. 3, pp. 38-40.

In many jurisdictions additional education beyond the minimum required may be substituted for a portion or all of the experience requirement.

The projected increase in the number of jurisdictions requiring four years of college education is very encouraging. However, with thirty-three jurisdictions still requiring only high school graduation as a minimum, we will still be far short of an adequate national standard. The consequences of this are quite serious for the future of the profession. So long as it is possible to qualify for a CPA certificate in a large number of jurisdictions with only a high school education, there is little incentive for educators to develop adequate professional accounting curricula and to encourage highly qualified students to undertake such a course of study. Nor is a career requiring so little formal preparation likely to attract a fair share of the intelligent youth.

The fact that a large majority of all those receiving certificates, including those in the low-standard jurisdictions, are actually college graduates does not overcome the difficulty. This merely indicates that many of the state requirements are behind the times; they are still in the horse-and-buggy age. It nevertheless remains true that the national standard of education is high school graduation. This influences the attitude of educators, students, and the public generally.

Variations in the experience requirements of the fifty-three jurisdictions are as follows:

Minimum Years Required	*Number of Jurisdictions*
None	10
1	12
1½	1
2	22
3	7
4	1

More important, probably, than the variations in the period of experience required is the lack of uniformity in the type of experience accepted. In some cases, any general bookkeeping experience suffices, while in others at least some of the required experience must be obtained under the direction of a CPA. Even in the latter cases, requirements vary because sometimes the type and variety of the work performed must conform to stated standards, while at other times the only requirement is that it be done in the employ of a CPA. A further diversity is introduced by the different standards of evaluation used by the fifty-three different state boards or other accrediting agencies.[4]

Although these differences in experience requirements again demonstrate the lack of a national standard and thus contribute to the confusion, they are not as significant in the long run as the variations in educational requirements. Differences in competence due to inequalities in initial experience tend to disappear with the passage of time. Contrariwise, initial differences in educational achievements tend to remain fixed and to create inequalities in levels of competence which can be overcome only by unusual individual effort.

Other qualifications for the issuance of CPA certificates and for licenses to practice include citizenship, age, character, references, fees, and state residence. In all jurisdictions, there is substantial similarity in all of these requirements, with one important exception. That one is the matter of defining state residence. In about half of the jurisdictions a place of business fulfills the residence requirement; in the other half it does not. This difference generally becomes important only when practice is restricted to local CPAs and licensed PAs, as will be discussed later.

Ethics. One of the essential characteristics of a profession is the existence and acceptance of a standard of conduct governing the relationships of the practitioners with clients, colleagues, and the public. In thirty-six of the fifty-three legal jurisdictions, codes of professional conduct are in effect, either by statute or by regulation. The remaining seventeen do not have such codes, although in some of them a certificate may be revoked for "unprofessional conduct." In addition, the AICPA and virtually all of the state societies have adopted codes of ethics.

The only national standard of ethics is the Code of Professional Ethics of the AICPA. Although expulsion from the Institute can have no legal effect, experience has shown that the persuasive force is very powerful. A member may be warned, suspended, or expelled not only for violation of a specific rule of conduct, but for commission of *any* act held to be discreditable to the profession.

[4]See Chap. 7, pp. 114-118.

The resultant humiliation and harm to professional reputation are strong deterrents to improper conduct.

Although the standards adopted by the professional organizations apply only to the members of such organizations, those enacted as a part of CPA legislation or board regulations apply to all practitioners certified by the particular jurisdiction.

All of the legal codes are similar, but some significant distinctions arise out of local interests or political considerations. For example, in California a general rule prohibiting advertising, like that contained in many other codes, was removed from the regulations by legislative action and replaced by a less specific rule applicable to businesses and professions generally.

Of the thirty-six legal codes of ethics, only those in the twenty-four jurisdictions having regulatory laws may be considered fully enforceable in the sense that a violation may result in the revocation of the license to practice public accounting. In the other twelve jurisdictions, which have statutes of the permissive type, the codes of ethics do not apply to noncertified public accountants at all. In the permissive states even the former holder of a CPA certificate whose certificate has been revoked for cause may continue to practice as before, provided only that he no longer describes himself as a certified public accountant.

Legal enforcement procedures and effectiveness also vary widely from state to state, ranging from jurisdictions where forceful documented action must be brought by the public against an offending practitioner, to others where vigilant policing by full-time investigators is carried on by the state authorities. All of the professional bodies have enforcement committees.

Clearly, under such circumstances, there is no legally enforceable uniformity among the standards of ethics. The harmful effects of this diversity in legal standards can be substantial. Ethics, evoking connotations of high standards of personal conduct and responsibility, are a very sensitive matter both in the eyes of the profession and of the public generally. Consequently, isolated instances of practitioners, not members of professional organizations, engaging in conduct at variance with the national code of the AICPA can reflect on the standing of the profession as a whole, even though such conduct may not be illegal in a given jurisdiction. The differences among the codes of the individual state societies and the AICPA create additional opportunities for confusion.

Interstate practice. In the area of interstate practice the diversity of rules and legal rights and prohibitions reaches an absurdity.

The form of regulatory public accountancy bill approved by the committee on state legislation of the AICPA incorporates the following basic principles relating to interstate matters:

1. Certificates should be issued to out-of-state CPAs on an equivalent-standards basis, not by reciprocal agreements. The residence requirement for such a certificate should be satisfied by personal domicile, a place of business, or regular employment within the state.
2. An accounting firm should be permitted to use the CPA title if its local partners hold local certificates and every other partner holds a certificate from some state.
3. A CPA should have full freedom to enter any state to carry out engagements incident to his regular practice.
4. Reasonable provision should be made for the use of his title and the practice of his profession by a holder of a foreign certificate or license.

None of these four principles can be said to have reached a status approaching a national standard.

It is difficult to summarize precisely the facts relating to the issuance of certificates by reciprocity. Often the accrediting agency has discretionary authority to issue certificates to qualified CPAs of other states. In some cases, this discretion is exercised by the establishment of unwritten reciprocal arrangements, which are subject to change. It appears, however, that only twenty-one states issue certificates on the basis of equivalent standards. The others issue them only on the basis of reciprocal privilege. In twenty-four jurisdictions a place of business within the state does not fulfill the residence requirement, actual personal domicile being mandatory. Further artificial bars to reciprocity certificates are enacted by means of detailed course-credit specifications to meet the equivalent educational requirements. In many cases provisions of this kind, though petty, constitute a serious obstacle.

Use of CPA title. Restrictions in many jurisdictions prevent well-known accounting firms from using the CPA designation. Eight jurisdictions have no restrictions on the use of the title by firms.

Seven require that, in order to use the CPA title, all partners practicing within the state be local CPAs. Seven others require, in addition, that each resident manager be a local CPA and that each nonresident partner be a CPA of some state. Thirteen others require, still further, that one of the general partners possess a local certificate.

Eighteen jurisdictions adopt the extreme position that a firm may not use the CPA designation unless every partner of the firm holds a certificate from that state. Nine of these are states with regulatory laws, so that a firm cannot even practice as a PA firm unless every partner is registered locally, either as a CPA or a PA. To compound the confusion, nine of the eighteen are among the twenty-four previously mentioned that do not accept a place of business within the state as satisfying the residence requirement. This in effect restricts the use of the CPA title to firms in which partners actually reside, or once resided, within the state.

Provisions for temporary practice by CPAs of other states vary widely in the different jurisdictions. In some states, such temporary practice is freely permitted. In others, registration, payment of fees, and fulfillment of certain qualifications are required, with varying degrees of difficulty or onerousness. About twenty jurisdictions make no provisions for such temporary practice. Most of these are states having accounting laws of the permissive type, so that the effect of this deficiency is merely to deny the use of the CPA title to an out-of-state CPA. A few of them, however, are regulatory states. In such cases an auditor entering the state on a temporary engagement may not use either the CPA or PA title and, presumably, may not express opinions or issue audit reports within the state.

In some states where temporary practice is not permitted, it may be possible to obtain a local CPA certificate by reciprocity, provided the residence requirements can be met. In twelve of these jurisdictions, however, a place of business does not fulfill the residence requirement, actual personal domicile being mandatory. In such cases, a CPA of an adjoining state can never qualify for practice as a CPA, even temporarily, unless he moves his residence.

In the matter of recognition for foreign accountants, the recommendations embodied in the model form bill of the AICPA include provision for the issuance of CPA certificates to qualified foreign accountants and also for temporary practice by such persons. Several states do provide for such certificates, but very few permit accountants of other countries to register and practice temporarily under their own titles.

Need for uniformity. It is significant to note that although practitioners qualify for their certificates or licenses under a wide diversity of standards in the various jurisdictions, they are all being accredited to do the same things. Although the legal codes of ethics by which they are regulated differ and the interstate arrangements under which they may operate vary, they are all expected to conform to the same generally accepted accounting principles and auditing standards.

Early differences between states in the availability of educational facilities, as well as in the type of services performed in industrialized areas in contrast to rural areas, may have produced some of the present variations in standards. If so, the reasons for these differences have long been outgrown by the rapid pace of development and speed of communication in recent years. Variations in the services performed by CPAs today result from other factors, such as specialization, varying levels of personal competence, and size of practice rather than from jurisdictional location.

The AICPA and its members are presently expending large amounts of top-level talent and funds through the Accounting Principles Board in an effort to speed up the development of generally accepted accounting principles. It is expected that these principles, which know no state boundaries, when developed and published will have nationwide application.

The need for uniformity in qualifications to enter the profession appears to be generally acknowledged. The accomplishment of the uniform examination is itself evidence of this. However, the variations in terms of education and experience are so great that it is almost impossible to prepare an adequate examination consistent with these differing standards. The result is a fairly high level of failure by candidates.

Substantial variations in requirements for the CPA certificate tend to create confusion as to what the certificate really means. Many other effects harmful to the profession result from this disparity. Educators may be motivated not to develop high-level educational opportunities. This may contribute to the diversion of promising students to other more clearly defined professions. A wide range of levels of competence within the profession delays public acceptance of it as a learned profession.

The variations in legal standards of ethics give rise to similar undesirable effects, such as leading the public and members of other professions to think of all CPAs in terms of a lowest common denominator. There is a further, more subtle effect, which may be very harmful in the long run. There is a danger that the wide disparity of competence among the whole body of practitioners may lower our sights for the future on such matters as standards of performance and continuing education. In other words, we may become all too content to try to raise the level of competence of the lowest practitioners up to a minimum basis, instead of starting our improvement efforts at that point and aiming for something higher.

The public practice of CPAs is basically interstate in character. The increasing size of large companies, and the extension of their activities across state lines with branch factories, stores, warehouses, and sales agencies with their transportation and communication problems, accentuate this character. Investment capital, products, taxes, rate regulation, securities controls, and consulting services of many kinds all move freely across state lines. If our states had tariff barriers, import restrictions, or different currencies, a different situation might obtain.

Jurisdictional restrictions against free interstate movement of accounting services are detrimental to the entire profession. Such obstacles curtail the freedom of businessmen to select their own advisers. This is a serious defect because it implies that our services and our relationships with clients are not personal and based wholly on free choice.

It should be noted that restrictions against interstate practice apply not only to national firms; they also hamper any local practitioner who wishes to practice across a state line. Furthermore, such restrictions tend to isolate the practitioners in the "protected" jurisdiction from free interchange of ideas and opportunities for personal development arising out of a wholesome professional fellowship on a national scale.

The claim is sometimes advanced that barriers against free interstate practice and use of titles are necessary in order to protect the public from practice by CPAs who obtained their certificates in states having lower entrance requirements. Actually, quite the reverse appears to be the case. As an example, of the twenty states which do not provide for temporary interstate practice by out-of-state CPAs, only two require education above the high school level for issuance of their own certificates. Most of these twenty jurisdictions have permissive-type laws, so the practical effect is merely to deny the use of the CPA title to CPAs of other states that have educational requirements at least as high as those of the state imposing the restriction. This suggests that it is not the public which is being safeguarded.

A second reason, based on personal economic grounds rather than on social philosophical arguments, is often advanced, namely, that such restrictions are necessary in order to protect the small local practitioner from encroachments on his practice by large multi-office firms from out of the state.

Future of the small firm. The rapid growth of the large firms undoubtedly raises important questions as to the shape of the profession of the future. The small firms face serious obstacles to continued growth. First, their larger clients tend to merge into large national industries already being served by national accounting firms. Second, others of their larger clients develop a need for some of the specialized services that only a larger firm is equipped to offer. It has been suggested that closer co-operation between national and local firms could produce a climate in which small firms might have a better opportunity to grow and continue to contribute to the advancement of the profession. There is a crying need for a comprehensive study of this problem and the development of a program for the future.

No comprehensive statistics relating directly to the effect of interstate practice restrictions on the relative growth of local and national firms appear to be available. One interesting comparison has been made in California, a state that issues reciprocity certificates and permits temporary interstate practice on a fairly liberal basis. A study of sixty-one local firm offices and twenty-seven offices of thirteen national firms shows the following relative changes in gross fees between 1951 and 1956. Seventy-six per cent of the local offices reporting and all of the national offices were located in the three largest metropolitan areas of the state.

Percentage Increase in Gross Fees	*Percentage of Total Offices*	
	Local	*National*
Over 400%	4.9%	– %
201 to 400%	6.6	3.7
	11.5	3.7
101 to 200%	24.6	22.3
	36.1	26.0
51 to 100%	14.8	33.3
	50.9	59.3
21 to 50%	37.7	33.3
	88.6	92.6
6 to 20%	4.9	7.4
	93.5	100.0
Under 6%	6.5	–
	100.0%	100.0%

This comparison shows that during the five-year period 36.1 per cent of the local firm offices more than doubled their revenues while only 26 per cent of those of the national firms did so. This limited evidence would indicate that competent local practitioners are able to hold their own against the national firms in a jurisdiction which does not restrict interstate practice.

The small local firms will continue to flourish and fulfill their important role in the future development of the profession. But this will not depend upon the principle of jurisdictional obstacles to free interstate practice. In the first place, such restrictions are contrary to the public interest because they inhibit freedom of choice and may lead to economic waste. Secondly, it is quite likely that these barriers can be more harmful to individual practitioners and to local firms than to larger organizations which already have offices established in many states.

There are indications that the larger firms are generally able to find a way to comply with any legal requirement when they so desire. A restrictive law can often be met, for example, by the formation of a separate local partnership using the same name as that of the parent firm. Another possible means of meeting other laws is for a firm to hire a local CPA as a branch manager and then install one of its partners in the office, as an employee. After the latter has served the required period as an employee, he may obtain a reciprocal local certificate and then become the resident partner. Such circumventions could be criticized if the laws themselves were not subject to criticism.

Laws which unfairly restrict free interstate practice and thus invite subterfuges in order to achieve technical compliance cannot serve the best interests of the profession.

These restrictions against the use of the CPA title may operate more severely against smaller firms, which are less likely to have among their partners one who is qualified in another state in which they would like to operate, or which have less capacity to go the long way around restrictions. Thus, a combination of the restriction against the use of the CPA title and the reciprocity requirement can prevent such a firm from opening an office in another state if it does not already have a partner with a local certificate. Consequently, the firm is caught in a vicious circle, since none of its partners can qualify for a reciprocal certificate because the firm does not have a local office.

The public image of the CPA. Members of the profession, the AICPA, and the state societies all have expended much time and resources to improve the public image of the CPA title. Paradoxically, many prominent firms may not use that title in some jurisdictions. This produces a feed-back effect, which is not beneficial. Because of the restrictions in some jurisdictions, many leading firms refrain from the use of the CPA title in all areas. The auditors of only thirty-one of more than six hundred companies with published annual reports refer to themselves as CPAs. Therefore, because of legislative restrictions, an important public relations advantage for the entire profession is lost. And it is the smaller practitioners who have the most to gain from the wider use of the CPA title.

The rising industrial efficiency and prosperity of the nations of the European Common Market, the outer seven, and of other nations in the Western community are causing far-reaching changes in the attitudes of American industry toward world trade, foreign subsidiaries, international joint ventures, and mutual know-how exchanges. These widened horizons for American business are, of course, facilitated by the rapid transportation and communication facilities of the jet age. One of the really new characteristics of this internationalism is that it is reaching down to the medium and even small units of American industry. This offers a challenge and an opportunity to all practitioners to increase their services to clients. So long as we have anachronistic restrictions among the states within our own nation and a lack of uniform national standards, are we prepared to cope with the inescapable variations involved in international practice? Furthermore, how can we expect other nations to grant us rights to practice abroad if our own laws contain undue restrictions against practice by their nationals in the United States?

Meeting the need. One device by which uniform national standards in these areas might conceivably be achieved in one fell swoop would be by superimposing a new law on those of the fifty-three jurisdictions; that is, by nationalizing the CPA certificate.

Such a solution would involve questions of constitutional law which cannot be resolved here. Nevertheless, the same ingenuity of man that compressed time and distance has also brought about a concomitant extension of Federal regulation over matters formerly considered to be solely under local sovereignty. It is not unreasonable to assume that Federal regulation of the accounting profession could be legally justified, in view of the interstate operations of a substantial percentage of the clients and, more significantly, of the services provided to the ever-increasing number of business units that operate under Federal regulation of some kind.

Assuming that a national CPA certificate is legally possible, is it desirable? It would bring about uniform standards for accreditation, ethics, and policing of competence. It would remove all impediments to interstate practice. It would enable colleges to gear their programs to a single educational standard. On the other hand, is it not likely that all of these goals, even if the legal hurdles were overcome, would turn out to be illusory?

The established laws of the fifty-three jurisdictions could not be superseded all at once. A gradual transition would be necessary. Experience has shown that any regulatory legislation tends to start at a relatively low level. This is necessary in order to protect established interests and to render legislation politically palatable to as wide a group as possible. Therefore, it is quite likely that the standards set up for Federal accreditation would be based at or below the mean level of the present fifty-three jurisdictions. This is too high a price to pay for uniformity.

Furthermore, nationalization of the CPA certificate by legal means could result in lessened control over standards by the practitioners themselves, with greater emphasis being placed on political considerations. Although this has already happened at times in some of the state jurisdictions, it is not so damaging because there are always some states in which the political climate is receptive to efforts to raise standards. In an extreme situation, legal nationalization of accreditation could result in CPAs becoming, in effect, civil servants of the government, as has been the tendency in some other countries.

If, then, a superlaw is not the means by which to achieve the desired end of uniform high standards, some way must be found to reach this end within the framework of the fifty-three jurisdictions. We must rely on such forces and tools as co-operation, discussion, persuasion, and possibly ridicule. This is essentially what we have been and are now doing. Many individuals and groups within the profession are devoting time and effort to raising and unifying the standards of the many jurisdictions, and are making slow but steady progress. Why is this program so slow? What is wrong with the approach?

Shortcomings of current efforts. A study of the methods being followed reveals two gaps that may be significant. First, there is no single high-level authoritative body working on the whole problem at once. Many groups are working on individual facets of the situation. The Board of Examiners has developed an examination that has achieved acceptance in all jurisdictions. Yet the percentage of examinees who pass, classified by jurisdictions, recently ranged from 15 to 52 per cent. Coping with this problem, which is clearly due to lack of uniformity in educational and other standards, is outside the scope of the work of the Board of Examiners. The Commission on Standards of Education and Experience produced a valuable document in these two areas, but touched only incidentally on such matters as ethics and interstate practice. No real implementation of the recommendations in the report has taken place. The committee on state legislation has developed a model regulatory bill for reference purposes, but is not charged with making a complete presentation of the desired standards, and has not specifically advocated adoption of the model bill.

There is no one authoritative body that has documented and submitted to the profession and to the public a forceful statement of the anomaly of a unified profession serving a unified nation in the modern world under a diversity of standards governing basic attributes of the profession. Consequently, the full impact of the absurdity of the situation, and how it works to the long-term disadvantage of all concerned, is lost.

A second gap that appears to exist in the methods being followed is that most of the groups that have worked or are working on piecemeal portions of the problem are study groups and not action groups. In almost every instance, the group concerned has produced a sound document, and then either disbanded or merely held itself ready to offer assistance if requested.

What is needed is a new look at the problem by an agency capable of rising above the methods and framework currently in use and dedicated to putting the whole problem in focus and to taking action in solving it.

Need for AICPA action. The AICPA is the only organization that represents CPAs on a national basis and that has an obligation to consider national CPA problems. As long ago as 1930, the Institute published a declaration of policy, which stated in part:

> It is the carefully considered opinion of the American Institute of Accountants that accountancy, unlike some other professions, is national rather than local in character. The Institute desires that the American business public recognize certified public accountants as accredited members of a unified profession, regardless of the part of the country where they happen to practice. It believes that nationwide acceptance of certified public accountants as qualified professional practitioners should be the ideal of the profession as a whole.

Not only is the AICPA the national organization of the profession, but its governing body, the Council, is truly representative of all the states. The Council is composed of about 190 members, including the 53 presidents of the state societies and an additional 101 members elected on a jurisdictional representational basis. It is the co-ordinator, the forum, the only place where well-informed members of the profession from all jurisdictions can get together in a co-operative, forward-looking spirit to make the decisions that will determine the shape of the profession of the future.

Since the publication of the 1930 declaration of policy on the national character of the profession, the Council has never lost sight of that objective. Implementation has taken the form of making recommendations and adopting policy statements such as those outlined below:

1953. Council approved a report of the committee on interstate practice recommending specific principles to be written into laws to promote uniformity in free interstate practice and use of the CPA title.

1956. Council abandoned a neutral position on regulatory versus permissive laws and adopted a policy favoring legislation of the regulatory type. Council also approved a policy statement advocating freedom of movement in interstate practice.

1960. Council adopted the following proposal submitted by the Committee on Long-Range Objectives: "It is an objective of the Institute that, by voluntary agreement, the plans, programs, procedures, and activities of the state societies and the Institute be co-ordinated to the fullest extent possible and their respective areas of responsibility clearly delineated; and, in particular, that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures."

Council also approved an amendment to the bylaws of the Institute to permit any state society that desired to do so to enter into a voluntary agreement with the Institute to establish concurrent membership as a requirement for membership in both organizations.

1961. Council authorized the committee on state legislation to initiate a program informing state societies of deviations from Institute policy and from the form bill, and to encourage them to initiate legislation to amend accountancy statutes to conform to the model bill in the following areas:

1. The use of the CPA title by firms
2. Temporary practice provisions
3. Issuance of reciprocal certificates
4. Practice by foreign accountants

These events show that the AICPA has been growing increasingly aware of the need for action on this problem, but has not yet co-ordinated all phases of it. The Institute's own policies must be discussed, further refined, and incorporated into the model bill. This cannot be done by any one of the committees currently charged with working on separate facets of the problem. The job should not be done by the committee on state legislation alone, because the ground covered in a state accountancy law is the concern of many other groups. For example, the experience requirement must be studied from several different angles. The committee on qualifying experience for the CPA certificate can discuss it from the point of view of what is ultimately desirable, the committee on state legislation from the point of view of what is politically feasible, and the committee on relations with public accountants from the point of view of developing a joint policy with the latter.

Similarly, the educational requirements should be studied by a number of committees, including those on state legislation, relations with universities, and members in education. The area where the quickest progress might be achieved is in the reduction of variations between the codes of ethics of the Institute and those of the state societies. This involves the committee on relations with state societies, among others.

The Council of the AICPA is the only agency of the organized profession which can bring about the required co-ordination of activities of the many groups concerned. The AICPA is the only organization of CPAs that can deal with a national problem. While the Council, composed as it is of representatives from all states, has understandably been considerate of both states rights philosophies and other aspects of local self-determination, it must now see in these the possibility of long-run injury to the CPA national designation.

Therefore, the Council must close the two gaps which have hampered efforts in solving the problem of fifty-three jurisdictions up to now. One gap has been the absence of a single authoritative body working on all facets of the whole problem. The other has been the lack of an effective means of initiating action. In order to close these gaps, the Council must immediately set up machinery to consolidate the many aspects of the problem into a single package and take vigorous action to bring about a solution. This must inevitably include the unpleasant task of identifying to the entire profession those laws, regulations, rules, and practices that are in need of revision.[5]

---

[5]This concludes direct quotation from Heimbucher, *op. cit.*

Action taken. After extensive consideration of these problems, the Long-Range Objectives Committee recommended, and the Council adopted at its meeting in May 1962, the following objective and implementing resolution:

> It is an objective of the Institute to bring about uniform national standards applicable to the requirements for issuance of CPA certificates and recognition of qualified accountants of other countries, freedom of movement in interstate and international accounting practice, and codes of ethics and enforcement procedures.
>
> In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:
>
> 1. To develop and recommend to Council the revision or adoption of policies as deemed necessary or desirable
> 2. To develop and publish comparative statements describing laws, regulations, rules, and practices in the fifty-three jurisdictions inconsistent with Institute policies
> 3. To take steps, in co-operation with state societies and state boards, to implement the adoption of uniform standards by changes in: (a) Institute bylaws, rules, policies, and the form bill; (b) bylaws and rules of state societies; (c) state accountancy laws, regulations, and administrative practices.

At best, it will take years to accomplish these objectives. But without the active interest and support of CPAs generally, it may take decades. Each CPA should understand that, in his own self-interest, it is desirable for him to assist in the elimination of obstacles that impede the growth and development of his profession as a whole.

The state societies and the Institute

THE NATIONAL ORGANIZATION that was the lineal progenitor of the present AICPA was formed in 1887. The state societies of certified public accountants were formed over a period of some twenty-five years, beginning in New York in 1896, as CPA laws were enacted successively in the several states.

Historically, the state societies have been autonomous and independent bodies. One of their principal functions has been to assist in the development and maintenance of standards for the CPA certificate under the laws of their respective states. As a natural consequence of their spontaneous and unco-ordinated growth, the societies present as many diversities in their organizational structure, procedures, size, and programs of activity, as do the provisions of state CPA laws.

The relations between the Institute and the state societies have always been pleasant and co-operative, as might be expected in view of the fact that the same people constitute a majority of the membership of both. However, it became clear some twenty years ago that there was a need for better co-ordination of their policies and activities. In the interest of professional unity and consistency, as well as efficiency and economy, it seemed desirable to minimize duplication of efforts and expenditures, inadequate communications between the state societies and the Institute and among the state societies themselves, and the possibility of conflict or contradictory positions on specific questions.

In the 1940s, efforts were begun to develop a systematic plan of co-ordination between the state societies and the Institute. Much progress has been made. However, the variation in the size of the state societies, in their resources, and in their organizational patterns, have made it difficult to achieve a completely unified system of professional organization.

The Long-Range Objectives Committee addressed itself to this problem in 1959, and in the spring of 1960 submitted a report on the subject to the Council of the Institute.[6]

Importance of Institute-state society co-operation. At present both the Institute and the state societies are increasing expenditures. This is caused by rising costs due to inflation, expansion of existing activities and services, and addition of new projects. There is also a hidden cost – the expenditure of time and energy by members who serve as volunteers on committees, as officers, and in other capacities. This hidden cost may well constitute a greater contribution to the work of the professional associations than actual cash paid in dues and assessments.

[6]What follows is directly quoted from the text of that report.

It seems obviously desirable that the activities of the state and national groups be planned and co-ordinated so as to avoid waste of time and money through duplication of effort, jurisdictional conflicts, confusion as to objectives or methods, and imperfect communications. The responsibilities and authorities of the national and state professional organizations should be clearly delineated, agreement should be reached among them as to objectives and methods, and each should perform efficiently and economically the tasks assigned to it. Planning is also necessary to assure that both the local and national organizations will have adequate financial means to carry out their obligations effectively.

Ultimately, it may be assumed, the membership will demand a pattern of organization and activity that will produce the greatest range and quality of services and the widest opportunities for personal participation at the lowest cost in money, time, and energy. To these ends a common membership in the state societies and the Institute is highly desirable.

The present situation. Since 1942 the Institute's committee on co-ordination with state societies and the staff's state society department have been working toward this objective: "To co-ordinate the activities of the American Institute and the state societies so as to produce by the most efficient means the most useful results for their members."

Currently, the principal activities being conducted in implementation of this objective are:

1. Semiannual meetings with state society presidents and executives
2. Visits by Institute representatives to state societies and chapters
3. Issuance of a *State Society Newsletter* and a public relations newsletter
4. Maintenance of a speakers' bureau for state societies
5. Consultation and advice on state legislation, ethics, and other specific programs
6. Issuance of manuals, kits, programs, and studies dealing with state society organization and activities
7. Distribution of information – minutes of Council and Executive Committee meetings and various other materials
8. Miscellaneous advice and information

In 1960 the cost to the Institute of this and related work was about $80,000.

In 1959 a survey was made to appraise the success of the state society department in achieving its objectives. While there was some negative reaction, the replies on the whole were overwhelmingly favorable. There was no evidence of significant duplication of effort and expense, or conflict between activities of the Institute and the state societies. When it is considered that the relationship between the state and national organizations is purely voluntary, that persuasion is the only influence either can exercise on the other, that no contractual obligations exist between the two groups, and that there has been no clear delineation of responsibility and authority in the various areas of activity, the record on the whole is surprisingly good. But it must be observed that over-all planning and control, in the sense in which these terms are used in modern business management, are not being applied to the problem of co-ordination.

What of the future? Inherent in the present situation are basic problems, which may become troublesome in the future.

There are estimated to be 75,000 CPAs in the United States. At the present time, the Institute comprises about 43,000 members; the total aggregate membership in the state societies is about 49,000. While precise statistics are not available, it is believed that several thousand members of the Institute – mainly among those not engaged in public accounting practice – are not members of state societies. There are, therefore, many thousands of state society members who are not Institute members.

Clearly also, many thousands of CPAs belong neither to a state society nor to the Institute. This is cause for concern. It means that the profession is not effectively united, and that many of its members are not exposed to information and ideas essential to full professional maturity and competence. As long as so many are satisfied to remain outside the organized ranks, and so many are content to belong to either the national or the state organization, but not to both, the question must remain whether the profession's organizational structure is sound for the long future.

There is no doubt that the activities of the state societies and the Institute are of value to every CPA. Every CPA who does not belong to both is therefore getting something for nothing. The existing structure tempts a firm of two or more partners to divide their memberships between the state and national organizations, thus deriving maximum benefits at the expense of other members who belong to both groups.

State societies that include a considerable number of members who do not belong to the Institute are under some pressure to make available for their non-Institute members some of the services that the Institute already provides. This may lead to duplication of expense and effort, which is uneconomic from the viewpoint of the profession as a whole.

Meetings. The Institute, except for its annual meeting, holds no meetings under its own auspices. Members therefore may not identify themselves very strongly with the Institute, or find opportunities to participate in its activities as extensively as in the case of the state societies. As the Institute's membership grows larger (it is estimated to reach 62,000 by 1970), the problem of maintaining adequate communications with the members will increase.

To deal with this problem there has been some consideration of creating sections within the Institute, or of holding area conferences of the Institute. The question immediately arises whether section meetings or area conferences would overlap or conflict with meetings programs of the state societies, particularly the larger ones. On the other hand, a desire has been expressed for technical meetings under the auspices of the Institute in the states where societies are smaller and not as well organized. In some states, there is evidence that some CPAs value the services the Institute provides more highly than those of the state societies.

The question must be faced, therefore, whether an economic recession would result in substantial withdrawals either from Institute or state society membership, and a consequent sharp drop in revenues of either or both. Increased efforts to minimize this danger by increasing activities, opportunities for participation, direct services, and local meetings of various kinds, may tend to bring the state and national organizations into wasteful competition. An all-out effort by the Institute to serve its members directly throughout the country might weaken the state societies. On the other hand, the more the Institute helps the state societies to expand and improve their services to members, the more it may be exposed to the danger of impairing its own financial ability to do the things that only a national organization can do.

It must be conceded that these dangers at present are more potential than real. Both the Institute and the state societies have simultaneously made substantial gains in membership. In both, the annual losses due to resignation and nonpayment of dues are notably small. As far as can be determined, both have a strong hold on the loyalties and interests of their members. It may be argued that the more useful the Institute becomes to the state societies, the more they will promote and encourage Institute membership, and vice versa. Up to the present time this seems to have been true; but with all good will on both sides, there is no built-in guarantee that the present happy state of affairs will continue in the face of adverse conditions.

Duplication of effort and expense. In the past, there have been some examples of unnecessary duplication of effort and expense on the part of the Institute and the state societies. For example, some years ago some of the larger state societies appeared at congressional hearings on tax and other proposed legislation, where the Institute was also testifying. Some state societies have prepared public relations documents and similar publications, which did not differ substantially from materials already available through the Institute, or which the Institute might have prepared for the use of all state societies. Obvious duplications of this nature have been virtually eliminated through improvement of communications and closer co-operative relations.

Possibly analysis would show that even better co-ordination could result in savings – particularly savings in time of volunteer CPAs serving as members of committees. For example, the independent solicitation of members for the state societies and the Institute is costly in time and effort. Under present conditions, however, if an effort were made to solicit for both organizations at once, the resistance of prospects might increase due to the substantial aggregate dues.

In the field of ethics, there should be uniformity, not only in the codes themselves but, even more important, in the enforcement procedures. Since the state societies and the Institute are independent and autonomous, a violator who belongs to both must now be independently tried and disciplined by two organizations, often in addition to the state board of accountancy. Recently there have been cases in which the findings of the Institute trial board have differed radically from those of the state societies that had already heard the cases.

Many of the state societies publish membership directories, as does the Institute. This is an expensive procedure, particularly when large numbers of copies of the directories are sent to banks. If there were a common membership, the geographical sections of the Institute's directory should serve the purposes of the state societies. The publications of the state societies and the Institute occasionally overlap to some extent, more frequently in the reporting of professional news, less frequently in the reprinting of articles. In the large metropolitan areas particularly, both the state societies and the Institute have found themselves approaching the same newspaper and magazine editors for public relations purposes.

It seems likely that many of the state society committees dealing with the same subject matter as similar Institute committees are unnecessarily going over the same ground and failing to benefit from the work that has already been done by others. It has been suggested that direct lines of communication should be established between Institute committees and the counterpart state society committees. Objection has been raised on the grounds that the state society president and executive might lose administrative control over their programs as a whole, if their committees received materials and suggestions from Institute committees. On the other hand, the clearance of such materials through the state president or executive puts a heavy burden on him in their appraisal and distribution, which may result in bottlenecks. It is impossible to determine the precise extent to which there may be unnecessary duplication of effort by volunteer manpower in the professional organization, but it can be assumed that some duplication exists.

Conflicts. Direct conflicts or outright differences between state societies and the Institute are fortunately rare. The possibility of such incidents in the future, however, must be considered. There have in the recent past been isolated illustrations of situations in which a state society has taken a position directly opposed to that of the Institute on a matter which, while transpiring within the borders of the state concerned, was affected with vital national import. There have also been a few cases of state societies taking on projects, without any intention of so doing, that were in direct competition with established programs of the Institute and tended to impair the value of such programs for the profession as a whole. An example is group life insurance programs.

Organizational weaknesses. If the state societies and the Institute are conceived as parts of the same thing — the organized profession of certified public accountants in the United States — the present organizational structure and administrative procedures would not bear comparison with those of a well-managed business corporation.

There is lack of clear delineation of responsibility for end results. There is no systematic measurement of the accomplishments of each unit in comparison with those of others, or in relation to expenditures of dollars and volunteer man-hours. There has been no formal agreement on long-range objectives or on priorities for a given year. It seems likely that efficiency and economy could be improved by a unified organizational pattern and standardized procedures in the state societies and the Institute.

Alternative courses. It is recognized that in all human group activity conducted under the principles of freedom and democracy, there will be diversity, contention, and conflict. These elements exist even within the best-managed business corporations. But difference of opinion is useful only when it is channeled in an orderly way to at least a tentative conclusion, which may then govern until changed.

The present system of voluntary co-operation between the Institute and the state societies is undeniably working surprisingly well. But the profession should have clear long-range objectives in this as in other areas. What situation will be best for the profession twenty years from now?

There are several possible courses available, and doubtless many possible variations of each. An obvious suggestion would be to merge the state societies and the Institute, either in the form of a federation of state societies (like the Canadian Institute of Chartered Accountants), or a strong national organization with local chapters (like the Controllers Institute of America). But both types of organization have weaknesses, and proposals to move in either direction would undoubtedly meet strong resistance within the profession.

The committee believes that the present policy of voluntary co-operation may be extended to eliminate some of the weaknesses discussed in the preceding sections, without altering the present structure or impairing the independence of either the state societies or the Institute.

Common membership. Solution of most existing problems would be greatly facilitated by common membership in the state societies and the Institute, and surely this is a desirable goal in itself. The goal could be attained by simple voluntary agreements between the Institute and state societies to admit as members only CPAs who would join both the state and national organizations. Such agreements could only be prospective, not retroactive. The existing dues structure of either the state societies or the Institute would not need to be altered; each could continue to collect its own dues. However, resultant economies (as in membership solicitation, publication of directories, and the like) might in time permit reduction of dues. Most important, such a policy would eliminate the temptation to an individual CPA to make a choice between the state society and the Institute, thus deriving the principal benefits of both without paying the full cost. This would make competition for member interest unnecessary, and minimize the danger that either group might suffer sudden substantial membership losses in a period of recession.

Planning. It seems to this committee that certain management policies that would maximize economy and efficiency could be adopted on a voluntary basis. It should not be difficult to develop specific agreements on the areas of activities that properly fall within the jurisdiction of the state and national organizations. For example, it seems reasonable that the national organization should assume primary responsibility for research, development of technical and ethical standards, uniform requirements for the CPA certificate, federal legislation, recruiting and public relations materials (such as films, pamphlets, etc.), and similar matters. The local organizations should have primary responsibility for dealing with state legislatures, state taxation authorities, and relations with local bar, banking, business, educational, and governmental organizations. The state societies should also have responsibility for implementing programs agreed upon as uniform national policy.

With such agreement, it should be practicable to develop long- and short-range objectives in each area of activity; to prepare work programs designed to achieve stated objectives; to assign responsibility for end results; to develop a system of periodic reporting; and to measure accomplishments. Uniform administrative, budgeting, and accounting procedures might follow as a matter of course.[7]

Action taken. After extensive discussion of these problems, the committee recommended to Council the following objectives:

1. It is an objective of the Institute that every eligible CPA, in furtherance of his own development and fulfillment of his professional responsibilities, be encouraged to become a member of a state society and the American Institute of Certified Public Accountants, and that membership in both be required to be concurrent as soon as possible.
2. It is an objective of the Institute that by voluntary agreement the plans, programs, procedures, and activities of the state societies and the Institute be co-ordinated to the full extent possible, and their respective areas of responsibility be clearly delineated; and, in particular, that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

After extended and somewhat heated debate, the first objective recommended by the committee was rejected by the Council, though by a close vote. The debate revealed concern that compulsory concurrent membership in the Institute and the state societies would lead to domination of the latter by the national organization.

The second objective, proposing voluntary agreement on plans for co-ordination of Institute and state society activities, was adopted. The committee on co-ordination with state societies subsequently presented a report, after consultation with the state societies, recommending a systematic program of co-ordination, which was approved by the Council at its meeting in May 1962.

Meanwhile, the Executive Committee gave further study to the proposal for concurrent membership in state societies and the Institute. In the fall of 1960, the Executive Committee recommended to Council that any state society that desired voluntarily to enter into an agreement with the Institute providing that neither organization would accept as members individuals who did not join the other, be permitted to do so. Council adopted this recommendation by a substantial majority. Bylaw amendments to provide for its implementation are being prepared.

[7]This concludes direct quotation from the LRO Committee's report.

Possible developments. Two gradual developments are therefore possible. First, at their own initiative, the individual state societies may one by one enter into agreements with the Institute, under which each organization will require membership in the other as a condition to membership in itself (in other words, no CPA could choose between his state and national professional society — he would be required to join them both simultaneously, exception being made for members admitted prior to the date of the agreement). Second, some kind of planning mechanism may be created, through which the state societies and the Institute might voluntarily agree on major objectives and priorities for a period of years, as well as on the appropriate part each organization should play in the activities designed to attain the objectives.

These two developments could result in substantial economy, greater efficiency, better communications, and a heightened sense of unity among the members of the profession throughout the nation.

The Institute itself

THE AMERICAN INSTITUTE of Certified Public Accountants is the only national organization in the United States that limits its membership to CPAs. It therefore properly describes itself as the national organization of certified public accountants, although there are a number of national accounting organizations to which CPAs are admitted, along with others.

Generally speaking, the Institute will admit to membership any certified public accountant whose certificate was issued by one of the political subdivisions of the United States, on the basis of an examination satisfactory to the Institute's committee on admissions, provided the applicant is of good moral character, is sponsored by a member of the Institute, and has experience deemed to be the equivalent of two years' public accounting experience. (The latter requirement is waived for CPAs otherwise eligible who wish to become "associates" of the Institute.)

Orientation. Historically, the Institute has been oriented toward the CPAs engaged in professional public accounting practice, rather than toward CPAs who have accepted employment in industry, government, or teaching. Recently, however, the trend has been away from this historical orientation.[8]

From the beginning, the bylaws have provided that membership on the Council and certain committees (such as ethics and nominations), and election as officers of the Institute, were available only to CPAs engaged "in practice." In 1962, the Executive Committee recommended that this limitation be waived. The Council, however, referred the matter back to the Executive Committee for further consideration.

Successive presidents of the Institute in recent years have appointed to technical committees members of the Institute who were not in practice but whose knowledge and experience could be useful in the work of such committees.

In 1958, the Committee on Long-Range Objectives reported to the Council that it had studied the general question of the place of the nonpracticing CPA in the Institute. The report said that it is in the "public practice" that accountancy acquires some of the essential characteristics of a profession.[9] It is the "public practice" that has provided the primary motivation to the states to exercise their licensing power by providing for the CPA certificate.

However, the report continued, a person who has qualified for the public practice of accountancy does not cease to be a member of the profession merely because he does not exercise his right to offer services to the public generally.

CPAs in practice require a national professional society that can deal effectively with the special problems of the practitioner, such as ethics, legislation affecting practice, continuing education of practitioners, standards of auditing and reporting, and similar matters. The Institute must continue to fulfill these needs.

However, both CPAs in practice and CPAs out of practice require a national professional society that can deal effectively with the areas of common concern, such as maintaining the prestige of the CPA certificate, accounting education, technical research, exchange of information on accounting in management, and similar matters. CPAs in practice and out of practice have sufficient community of interests to warrant their inclusion in one national professional society — the American Institute of Certified Public

[8]See Chap. 3, pp. 40-41.
[9]*Ibid.*

Accountants. Each CPA becomes stronger and adds strength to the other CPAs by mutual association.

Action taken. The committee recommended to the Council the following objective, which was adopted:

> It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

The committee suggested as a means of implementing this objective that groups be formed within the membership of the Institute, so that those with common interests could get together in an organized way for discussion and exchange of opinion on matters of current interest. This suggestion was referred for further study to a special committee, which a year later recommended no action at that time. Two years later, another ad hoc committee to review the proposal was appointed. It presented a report recommending the creation of "sections" within the Institute, similar to those developed by other professional and business organizations. This report was exposed to the entire membership for comment. The Council discussed the proposal at length in May 1962, but in the face of widespread opposition referred it to the Executive Committee for further study.

Communication and participation. The membership of the Institute has grown phenomenally – from about nine thousand at the close of World War II to more than forty-two thousand in 1962. The Institute policy makers and administrators have tried to maintain effective communications with the members in many ways: for example, through regional conferences in co-operation with groups of state societies in various parts of the country; and through field trips by Institute officers and senior staff members to discuss Institute affairs at local meetings. In addition, members of the Council of the Institute are charged with the responsibility of reporting regularly at meetings of local societies on what the Institute is doing, and seeking the views of their constituents as to what it should do. In the main, however, the Institute has had to rely on the printed word for direct communication between headquarters and its individual members.

A fundamental question confronts the Institute: can a membership of fifty, sixty, or a hundred thousand be held together, and maintain an active and creative interest in the organization's affairs, without means of direct participation in its activities and without opportunity for face-to-face discussion with other members outside their own states and with the Institute's leaders?

Some members feel that the present structure is entirely satisfactory, and point to the impressive progress the Institute has made as evidence that there is nothing wrong with it. Others, however, argue that under present conditions thousands of members cannot find an adequate opportunity for participation in the affairs of the national organization. Still others are convinced that closer ties between the state societies and the Institute will enable any member who desires to do so to participate in national activities through the medium of his local group.

During the seventy-five years in which an organized accounting profession has existed in the United States, there have been several different national organizations, which at times have been competitive with one another. Eventually all of them merged into what is now the Institute. However, if the Institute fails to serve the needs of any substantial number of CPAs, there is always the possibility of fragmentation. Minority groups could split off and form separate organizations designed to provide what such groups feel they need. This has happened to some extent in the other professions, such as law and medicine. Since in unity there is strength, and in disunity there is disoord, confusion, and inefficiency, it seems desirable that to the extent possible the Institute provide programs, services, and activities desired by any substantial numbers of its members, so long as they are willing to support these activities financially.

Unsolved problems. Broadly speaking, the Institute works at the national level in the following fields: research in various areas of the accounting function; professional ethics; CPA standards and examinations; education at the university level; continuing education through the professional development program; representation of the profession before the Federal government and in relations with other national organizations; public relations in general; publication of information and ideas useful to CPAs; and various specific services to its members.

In many of these areas, the Long-Range Objectives Committee has as yet done little probing. However, its first chairman, J. S. Seidman, attempted to tabulate the unsolved problems of the profession in these and other areas, as best he could see them.[10] Many of these problems were discussed in the preceding chapters of this book. Among others are the following:

Will CPAs continue to be leaders in the development of accounting principles, or will government or the courts assume a dominant role?

Will the Code of Ethics be expanded to include specific standards applicable to tax practice and management services?

Will the legal liabilities of CPAs be broadened to an extent that will discourage assumption of the risks inherent in public accounting practice, or will ways be found to keep such liabilities within realistic bounds?

If the demand for the CPA's attest function extends suddenly to areas where it is not now prevalent (such as banks, labor unions, pension funds, etc.), will the profession be able to recruit sufficient competent personnel to satisfy the public's needs?

Will specialization develop in public accounting? If so, will it lead to accreditation of specialists, as in medicine? Will the practice of referrals from general practitioners to specialists become common?

Will the accounting firm become the recognized unit of practice, rather than the individual CPA? If so, will this raise new problems of responsibility, ethics, and legislation? Will mergers tend to divide the profession into very large and very small firms?

Will the public acquire a clearer understanding of the CPA than at present? Will the CPA take a more active and influential part in public affairs?

Will new fields of service open up to CPAs, such as receiver, liquidator, corporate secretary, professional director, master, or referee, and advisor to individuals on personal financial management?

Will machine accounting and data processing equipment eliminate write-up work as a field of activity for CPAs? Or will CPAs

[10]See J. S. Seidman, "What is the Future of the Accounting Profession?" *The Journal of Accountancy*, March 1959.

operate service centers utilizing such equipment to serve the accounting needs of small business?

Will electronic data processing so change the nature of audit trails that the junior accountant will become obsolete?

These and many other questions are on the present agenda of the Long-Range Objectives Committee.

It seems clear that an enormous amount of work remains to be done before the accounting profession will have completed a structure of legal regulation and organization that will serve its members and the public most effectively.

9

A program for the profession

IF THE ASSUMPTIONS and the objectives outlined in the preceding chapters are sound, then a program of action begins to emerge that may enable the CPAs of the United States to get where they want to go.

The environment. Let us recapitulate the main assumptions and objectives.

The following probable developments in the economic, political, and social environment point to greatly increased demand for the accounting function:

1. Formation of larger pools of capital, with greater accountability on the part of the managers
2. Development of standards to measure the performance of top management in terms of public interest
3. Expanding international investment and trade
4. Increasing numbers of small business units
5. Increasing government participation in economic affairs
6. Possible economic planning on a voluntary co-operative basis, by management, labor, and government
7. Rapid expansion and refinement of internal accounting processes
8. Efforts to stabilize labor relations
9. Increasing accountability of nonprofit institutions
10. Reorganization of local governments as urban communities spread over existing city, county, and state lines
11. A high rate of economic growth

The accounting function. The accounting function is the measurement and communication of financial and other economic data —

both internal, for management purposes, and external for information of outsiders. It exists in all economic units — profit or nonprofit, private or governmental, large or small. No matter how crudely executed, accounting exists in any unit conducting the production or exchange of goods or services. The function assumes greatest importance in an industrialized, free-enterprise, democratic society. The function is carried out by persons commonly classified as bookkeepers, accountants, and auditors, who may be employed by economic units or become "practitioners," offering their services to the public generally. The practitioners may fill "voids" in the accounting organization of any economic unit. Qualified practitioners may also "attest" to financial representations, to enhance their reliability to outsiders.

The position of the CPA. The CPAs are a small part (75,000) of the many different kinds of people engaged in many different kinds of tasks within the accounting function. But the CPAs have the strongest claim to professional status. They satisfy the seven criteria of what constitutes a profession — a body of specialized knowledge; a formal educational process; standards of qualifications for admission; standards of conduct; recognition of status; public interest in their work; an organization devoted to the discharge of their social obligations. Essentially, professional status is based on acceptance of responsibility. As independent auditors, CPAs accept a special responsibility to outsiders who may rely on their opinions and reports, apart from their responsibility to clients themselves. But in all their work CPAs implicitly accept professional responsibility, and may be held to a higher standard than non-CPAs who do the same things.

Certified public accountants cannot claim superiority or monopoly in all phases of the accounting function. They may reasonably claim the exclusive right to express opinions on financial representations as a result of independent examination. They may, of course, also participate in all other phases of the accounting function, but they must recognize that the other phases are also open to non-CPAs. As the identified professionals in the field, CPAs should accept some responsibility for the quality and effectiveness of the accounting function as a whole. To this end, they should maintain close relations and co-operate in the pursuit of common objectives with all other groups in the accounting function. The overriding goal is to make the accounting function as a whole of greatest benefit to the public.

The CPA's practice. The CPA's practice is generally described as consisting of auditing, taxes, and management services. There has been some tendency to specialize in these areas. A subconscious feeling of "compartmentalization" may be developing. Are not these three areas, however, actually parts of one integrated whole? Surely they are all parts of the function of measuring and communicating economic data. If CPAs acquired professional status by the acceptance of responsibility – historically by expressing opinions based on independent audit – to what extent does their professional responsibility carry over into the tax and management service fields? In all the CPA's work there are (or should be) three essential elements: gathering information or evidence; analysis and arrangement of data in a significant manner; and a report, opinion, recommendation, or statement of advice. Like a physician, the CPA engages in "examination, diagnosis, and prescription," though perhaps the latter two steps have been neglected more than they should be. The idea of an integrated accounting service, including auditing, tax, and management services for every client – all conducted under the same standards of competence, independence, and responsibility – has much appeal.

The attest function. The "attest function" of the CPA has been identified principally with the expression of opinion on financial statements as the result of independent audit. But there is no reason why attestation need be so limited. It can be applied to any communication of financial or other economic data by one party to another – thus imparting added credibility to the representation – provided appropriate standards exist or can be developed against which the fairness of the representation can be measured. Hence the CPA may in time exercise his peculiar professional qualifications in attesting to a wide variety of statements dealing with economic resources – their source, nature, quantity, accumulation, allocation, and exhaustion. The attest function need not be confined to statements expressed in monetary terms.

The attest function of the CPA is now in common use in conjunction with reports of business units to stockholders, creditors, and government agencies, and to some extent in reports of local government units to taxpayers, nonprofit organizations to contributors, membership associations to members, and so forth. Its use might eventually be extended in existing as well as to new areas, such as reports to taxing authorities, internal reports to management, cost statements for government procurement purposes, rate regulation, labor contracts, the over-all performance of management, statistical compilations for various purposes, and in many other fields.

The principal prerequisites to attestation are:

1. Availability of economic data measurable in quantitative terms
2. Accepted standards for measurement and summarization of the data for the purposes indicated
3. Competent evidential matter that can be examined to support the validity of the data
4. Availability of all relevant data
5. An accepted format for communication of the data
6. Practicability of adequate timeliness to meet the user's needs
7. Competence, independence, and responsibility on the part of the independent attestor

The accounting profession should educate issuers and users of economic data to the attest function's purpose and value. It should identify those areas in society where need for the function exists. It should develop the necessary standards, and assist its members in equipping themselves to discharge the attest function wherever a useful social purpose is served.

Tax practice. The tax practice of CPAs includes tax advice and planning, preparation of tax returns (of primary importance, the returns of business enterprises), and representation of taxpayers in settlement of tax liabilities with the government. Certified public accountants have made a substantial contribution to the stability of the self-assessing income-tax system, both by encouraging voluntary compliance and by expediting timely settlements, thus avoiding an unmanageable burden of governmental investigation and litigation.

Certified public accountants share the field of tax practice with other groups, and have not been requested to assume responsibilities different from those imposed on other return preparers and taxpayer representatives. The ethical responsibilities of CPAs in tax practice have not yet been clearly defined. Questions which require consideration are: (1) May the public or the government assume that the CPA's professional characteristic of independence and his attest function are to some extent implicitly carried over into his tax practice? (2) Does the administration of the income-tax law involve some of the elements of an "adversary proceeding," and, if so, could an assumption that CPAs represent clients in some degree as "advocates" impair public confidence in the accounting profession as independent attestors to financial and other economic data? (3) How can CPAs be restrained from intrusion, albeit unintentional, into legal aspects of taxation that might revive controversies with the organized bar? (4) Is it likely that simplification of the income-tax laws will minimize the need for CPAs in this field? Authoritative answers are not yet available, but the questions deserve, and are getting, intensive study.

Management services. Management services offer attractive and rapidly expanding opportunities for constructive activities by CPAs. Such services are a natural outgrowth of their work as independent auditors, which requires thorough familiarity with the information and control system of a business. The expression of opinion on financial statements involves evaluation of internal control, which includes the systems and procedures used to generate the financial information under audit. It is natural and proper that the CPA analyze and offer advice on possible improvements in these systems and procedures. Budgets, cost systems, inventory control, production control, financial management, and in general all procedures yielding data used as a basis for decision making are within the natural scope of the CPA's management services.

However, a degree of competence beyond that expected so far of CPAs will now be required to keep abreast of the rapidly changing techniques and methodologies of business management. Mathematics and EDP, for example, are being used more and more in the planning, decision-making, and control procedures of management. These procedures will spread from the large to the medium-sized and eventually to the small companies. It should be borne in mind that the CPA will have to be familiar with these processes even to fulfill his role as independent auditor.

Ethical problems also arise in the management services area. As in the tax field, there is a need for authoritative statements of the responsibilities and limitations of the CPA in the management services, that will discourage attitudes and activities inconsistent with his peculiar professional characteristic as "attestor" to financial and economic data. If public confidence in the profession is to be maintained and steadily strengthened, certified public accountants must carry the qualities of competence, independence, objectivity, and responsibility into every phase of their professional practice.

This suggests that standards, or criteria, for the conduct of management services must be defined — much as the profession has defined, in considerable detail, the standards and procedures governing independent audits of financial statements.

With such standards and criteria in being, some thoughtful CPAs believe that the attest function may be applied in the management services area. In other words, the CPA may express a professional opinion as to whether or not management's information, control, and decision-making procedures, in whole or in part, are in accordance with accepted standards.

A program for action. Opportunities for CPAs are practically unlimited. A bright future beckons. But success will not drop into the profession's lap like a ripe apple.

The organized profession of accounting is a social institution. All social institutions exist only as long as they serve a purpose useful to society. In times of rapid change, such as those in which we live, there is a constant danger that the original purposes of any institution may become inadequate to meet the needs of society, or may even become obsolete. The members of the institutional group, or those who control it, may become preoccupied with the preservation of the institution itself, for its own sake, and lose sight of the necessity for continual adaptation to meet society's changing needs. But those who cling to the comfortable, familiar ways may gradually slip into obscurity. The future belongs to those who are energetic, imaginative, and bold.

What do CPAs have to do to take full advantage of their opportunities? Here is the tentative outline of a program of action (part of which is already under way, but part of which has not even been started):

1. Continuous study of the environment — social, political, economic, and international — to foresee emerging needs for professional accounting services
2. Detailed analysis of the present activities of, and present needs for, the services of CPAs to determine the extent to which the profession is keeping pace with the potential demand
   a. Studies of probable trends toward specialization, the desirability of accreditation of specialists, and the possibilities of referrals of special engagements to specialists
   b. Studies of the firm as a unit of practice, the optimum sizes of firms for varying types of practice, the possibility of associations of firms to pool resources and information for mutual benefit, correspondent arrangements, and internal management problems of accounting firms
3. Description of the core of knowledge (the "common body of knowledge") that all CPAs should have to permit professional growth and adaptation to probable new demands
   a. Modification of university curricula as necessary to permit acquisition of that part of the common body of knowledge that can best be acquired through formal academic instruction
   b. Systematic development both of formal continuing-education courses and of informal on-the-job training programs, for acquisition of those parts of the common body of knowledge that can best be acquired after completion of formal academic education
   c. Modification of the CPA examination as necessary to test candidates' familiarity with this common body of knowledge
4. Development of a nationwide recruiting program at the high school and college levels to attract desirable young people to the profession
   a. Development of selection procedures to weed out at an early stage candidates who are unlikely to succeed in accounting
   b. Improvement of personnel policies and administration within firms, including compensation and fringe benefits, so as to retain the most desirable staff assistants and reduce turnover
   c. Studies of effective utilization of available personnel —

how to organize staff of varying interests and abilities to get the work done most efficiently

5. Clarification of the ethical responsibilities of CPAs, particularly in tax practice and management services
   a. Re-examination of the concept of independence in relation to the idea of a comprehensive, integrated professional accounting service to every client
   b. Extension and improvement of educational and enforcement procedures in the area of ethics
6. Broadening and co-ordination of the research activities of the profession, not only in accounting principles and auditing procedure, but in all areas of service – financial reporting, taxation, management services – directed to the formulation of standards and criteria
7. Studies of the position of the CPA in society – public attitudes toward the profession, improved communication with the public, co-operative activities with other groups sharing common interests with CPAs, and opportunities for public service by CPAs
8. Improvement of the organization and procedures of the profession itself so as to get all this work done as speedily, economically, and efficiently as possible
   a. Uniform CPA legislation to sharpen the identification of CPAs as professional accountants as distinguished from accounting technicians, and to maintain common standards of education, training, and ethics throughout the nation
   b. Better co-ordination of activities of the state societies and the Institute to facilitate simultaneous efforts to achieve common objectives, and also an efficient division of labor
   c. Re-examination of the structure of the Institute itself to permit wider participation of the membership in policy formation and continuing activities at the national level – to put all available manpower to work
   d. Improvement of intraprofessional communications through publications, meetings, library, and information services so as to keep the entire profession informed of current developments
   e. Closer co-operation with university faculties in such areas as recruiting, education, research, and publications

f. Continuous exchange of information and co-operation with organizations of noncertified accountants in industry, government, teaching, and public practice

These are, of course, only the broadest outlines of a comprehensive program for advancement of the accounting profession. But to fill in the details, including procedures designed to accomplish the desired results, would not be a difficult task once general agreement was reached on the broad objectives.

This is the agenda of the Committee on Long-Range Objectives – to formulate the objectives in each major area for the next decade and to suggest the means of achieving them. In this tremendous task the committee needs and invites the comments, suggestions, advice, and criticism of every certified public accountant who is concerned about the future of his profession.

Appendix

Objectives proposed by the Long-Range Objectives Committee

FOLLOWING ARE OBJECTIVES and implementing resolutions submitted to the Council of the AICPA by its Committee on Long-Range Objectives from the time the committee was created in 1957 through May 1962. The action taken by the Council is indicated parenthetically in each instance. The objectives are set forth in the chronological order of their presentation.

April 1958

Objective:

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

(Adopted by Council on April 21, 1958)

October 1958

Objective:

It is an objective of the Institute to encourage co-operation and consultation among national organizations of accountants to the end that the entire accounting function may make its greatest contribution to the public welfare.

Implementing Resolution:

RESOLVED, That the matter of developing a specific program for carrying out the objective of encouraging co-operation and consultation among national organizations of accountants be referred to the Executive Committee with power to proceed.

(Adopted by Council on October 11, 1958)

April 1959

Objective:

Pending the time when public practitioners within the accounting function are either CPAs or those with a clearly differentiating title, there will be a group of non-CPAs who are presently permitted to practice as "public accountants" and whose right to continue to do so during their lifetime must be respected. It is an objective of the Institute that CPAs and their professional societies should develop and maintain friendly co-operative relations with this transitional group, with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

(Adopted by Council on April 23, 1959)

Objective:

It is an objective of the Institute that non-CPAs who are permitted to offer bookkeeping and other technical services to the public be encouraged, with help from CPAs, to form a national association to develop appropriate standards and confer on its members an appropriate title clearly differentiating them from accountants or auditors.

(Rejected by Council on April 23, 1959)

May 1960

Objective:

It is an objective of the Institute that by voluntary agreement the plans, programs, procedures, and activities of the state societies and the Institute be co-ordinated to the full extent possible, and their respective areas of responsibility be clearly delineated; and, in particular, that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

(Adopted by Council on May 3, 1960)

September 1960

Objective:

It is an objective of the Institute that every eligible CPA, in furtherance of his own development and fulfillment of his professional responsibilities, be encouraged to become a member of a state society and of the AICPA, and that membership in both be required to be concurrent as soon as possible.

(A motion to adopt this objective at the May 1960 meeting of Council failed of passage by a Council vote of 79 opposed to 74 in favor.)

(The Executive Committee reported to Council on September 23, 1960 that it had reconsidered the proposal in the light of the close vote, and recommended that any state society desiring to do so be permitted to enter into a voluntary agreement with the Institute to establish concurrent membership in both organizations as a future requirement for membership in either; and, if Council approved the recommendation, that the Bylaws Committee be instructed to prepare an appropriate amendment to the bylaws to give effect to the recommendation.

Following extended discussion, it was moved that the recommendation of the Executive Committee be approved. The motion was seconded, put to a vote, and carried by a vote of 86 in favor and 57 against.)

April 1961

Objective:

It is an objective of the Institute to provide encouragement to CPAs to continue study and self-improvement throughout their professional lives, by providing formal recognition of advanced study and superior attainment.

Implementing Resolution:

BE IT RESOLVED, That Council approve in principle the creation of an Academy, which would provide higher accreditation for those who satisfy the requirements along the general lines recommended by the Committee on Long-Range Objectives in the paper released by it under the title "Higher Accreditation for CPAs" and published in the March 1961 issue of *The Journal of Accountancy;* and

BE IT FURTHER RESOLVED, That the Executive Committee take such steps as are necessary to formulate and submit to Council recommendations for the establishment of the Academy.

(Adopted by Council on April 18, 1961)

(At the May 1962 Council meeting a proposal for creation within the Institute of an Academy was rejected by a vote of 90 to 60.)

Objective:

It is an objective of the Institute, recognizing that management service activities are a proper function of CPAs, to encourage all CPAs to perform the entire range of management services consistent with their professional competence, ethical standards, and responsibility.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To encourage educational institutions to broaden the curriculum for prospective CPAs to include subjects relating to management services developments affecting the accounting function
2. To undertake and to encourage research in fundamental areas affecting the practice of management services by the CPA
3. To provide machinery for referrals among CPAs of engagements requiring specialized knowledge in the field of management services
4. To clarify professional rules of conduct applicable to the management service practice of CPAs

(Adopted by Council on April 18, 1961)

May 1962

Objective:

It is an objective of the Institute:

1. To encourage the description and continuous restating of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice; and
2. To bring about the clarification of the areas of responsibility of universities, practitioners, and professional societies in the education and training of CPAs.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to assign a permanent committee with senior status the responsibility for accomplishment of the above objective.

(Adopted by Council in May 1962)

Objective:

It is an objective of the Institute:

1. To identify those areas in society where the need for the CPA's attest function exists, and to promulgate such information to its members and the interested public; and

2. To assist its members in equipping themselves to discharge the attest function wherever a useful social purpose is served.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To arrange for the development of a systematic plan whereby, over a period of years, issuers, users, potential issuers and users of economic data, and the interested public, may be informed of the purpose, nature, and value of the CPA's attest function.

2. To develop a plan for informing practicing CPAs of the areas in which the attest function is appropriate, and through the professional development program, the Institute's publications, and such other media as may be available, to provide technical assistance in equipping them to discharge this function.

(Adopted by Council in May 1962)

Objective:

It is an objective of the Institute to bring about uniform national standards applicable to the requirements for issuance of CPA certificates and recognition of qualified accountants of other countries, freedom of movement in interstate and international accounting practice, and codes of ethics and enforcement procedures.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To develop and recommend to Council the revision or adoption of policies as deemed necessary or desirable

2. To develop and publish comparative statements describing laws, regulations, rules, and practices in the fifty-three jurisdictions, inconsistent with Institute policies

3. To take steps, in co-operation with state societies and state boards, to implement the adoption of uniform standards by changes in:

(a) Institute bylaws, rules, policies, and the form bill

(b) Bylaws and rules of state societies

(c) State accountancy laws, regulations, and administrative practices

(Adopted by Council in May 1962)