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**Washington D. C. Seminar: The CPA Plans for the Future,
Kenwood Golf and Country Club, November 19 and 20, 1965**

American Institute of Certified Public Accountants. Long Range Objectives Committee

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Washington D. C. Seminar
THE CPA PLANS FOR THE FUTURE

Kenwood Golf and Country Club
November 19 and 20, 1965

Seminar on Long-Range Planning

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AGENDA

	Participant Who Will Start Discussion
I. Scope of Practice	
a. Financial Reporting to Investors	- Art Ransom
b. External Reports to Creditors Grantors and Special Reports	- Joe Switkes
c. Opportunities in Accounting and Auditing	- Walter Charlton
d. Change in Character of Tax Practice (Relations with Bar, Tax Accounting v. Business Accounting, Attest Function and Tax Return)	- "Gabe" Egger
e. Scope of Management Services - the CPA and Business Information Systems - Extension of Attest Function	- Charlie Gastrock
f. CPA Services to Government	- Chris Moran
II. Professional Standards	
a. Education and training	- Tony Mastro
b. Public Interest and Social Obligation (Public Relations)	- Bob Bernstein
c. Liability	- Hugh Cason
d. Ethics	- Bob Harris
III. Structure of the Profession	
a. Concept of the Firm	- Chuck Hass
b. Specialization - Referrals - Accreditation - Competition	- Julian Kay
c. Research	- Mike Sullivan
d. Publications	- Don McMullen
e. Professional Societies - What Should They Do ? - AICPA - State Society Relationship	- Harry Linowes

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P R O C E E D I N G S

MODERATOR: Gentlemen, as you know, this seminar is one of a series of about twelve or fifteen that they are holding throughout the country, and it is an attempt to give some assistance to the planning committee of the American Institute of CPA's to come up with some sort of an action program, hopefully two or three years hence, to plan for the future of the profession itself. Those of us who are here today are hopefully a cross section of the practice in this particular area. As you can see, we have the national firms, the large local firms and individual practitioners here. It is a free-swinging event, with no holds barred.

The proceedings are being taken down, as you can see. However, there will be no names hooked onto any comment that anyone makes, and this is the only practical way that the planning committee can get a feedback as to what at least this group of the membership feels. As I say, there are going to be ten or twelve of them. I think about five have been held. They had the pilot in New York last May. The one in San Francisco was held last week, and one in Chicago was also held last week. There are plans for several more throughout the country, down in Florida, Texas, another in Illinois.

Again I apologize for not having name tags. I felt that everyone would know everyone else, and I think in perhaps the next half hour or so we will, for those of us who don't.

As I indicated, we do have a recorder here who will take everything down that is said, but there will be no names, so feel

free. But we would like to get everything down that is said, and the remarks will just be attributed to a participant, and will not be, as I say, with any names at all.

The transcripts are principally for members of the planning committee, but any of those here who would like a copy, if you will just let me know before today and tomorrow are over, we will be delighted to send you a copy.

Let me give you just a little rundown of what we plan to do. We are going to meet today, breaking for coffee and lunch, until about five o'clock, five or five-thirty this afternoon, cocktails and dinner, and then hopefully perhaps a bull session for those of us who are going to spend the night. Tomorrow what I would like to do, if it is agreeable to everyone, is to meet from about nine until noon, have refreshments and lunch, and then go our merry ways.

I have made, as you can see, an agenda of what we hope to discuss today and tomorrow. It is not something that is so rigid or firm that we won't digress from it occasionally, by design or otherwise, and I have in most cases I think assigned individuals to lead off a discussion in some of these areas arbitrarily on my part. Hopefully I picked something that you either have an interest or expertise in. The fellow that kicks it off, it is not intended that he have any formal remarks, something maybe ten or fifteen minutes in duration, to spark the conversation of the group. As I say, there are no fences built around the

conversations. Say anything that comes to your mind. Some of the proposals I am sure will be fairly far out, but this is all part of the exercise. We are not supposed to come to any conclusion necessarily. I can say this. I sent you a list of the questions, I believe, that the long range planning committee has indicated that the answers to these questions would perhaps form a basis for any plans that they may have.

I can tell you now that I am going to try to get you to spend a little bit more time on one of the questions than some of the others, because along with one of the other fellows in the planning committee, I was assigned this question. This has to do with what are the implications of the firm as a unit of practice rather than the individual CPA. In other words, the concept of the firm fifteen, twenty, twenty-five years from now. So if I have an opportunity, I am perhaps going to ask for a little more expression of opinion on that.

The first thing that is on the agenda here deals with the scope of practice, and I have indicated Art Ransom to start that off in the areas of financial reporting to investors. Art, do you want to be the guinea pig and start things off.

PARTICIPANT: I will be the guinea pig. Financial reporting to investors is as I would see it one of the more significant phases of the practice of public accounting. It is the one phase which gives us our greatest exposure to shareholders specifically, and to the public in general. Much of our utility

in the economic spectrum is based on the performance when reporting to the investor. I thought just in order to get the discussion kicked off that I would give a brief review of Chapter 7 of Mr. Carey's book, "The CPA Plans for the Future". The reason for giving the review is that maybe some of you are in the same boat as I am. I have read quite frankly quite a few of the chapters of the book. I have not read them all. Obviously I have had to read this one, since it is the topic assigned to me, but I may not have read some of the topics assigned to the others, so that I feel a brief rundown of what Mr. Carey has to say in this area at least as a starting point would be in line.

In the earlier parts of the chapter, Mr. Carey traces the historical use made of the financial statements. In the early days, and this goes back not to the early days in the U. S., but apparently on the continent, the auditor was required to state his opinion as to whether the balance sheet was true and correct, or as it later evolved, true and fair. However, accountancy being in its infancy at that time had no standards upon which the auditor could base his opinion.

Then, as now, management was free to select its own principles, those to which it wished to ascribe. The only ground rules were that there would be some safeguard of the assets, and this was left to the bailiwick of the auditor to provide the assurance that such safeguards were present, and within that framework the management felt itself free to select principles and to go

on its merry way.

This is pretty much true today, except with certain of our regulated industries, and more specifically, the public utility line.

As we have grown, business has grown, those using the financial statements, the make-up of such persons has changed. You have not only your shareholder now, but your analyst, your economic counsellor for your banks, for example, and with the new group of users of the financial statements coming into play, the need for additional information is finding its way into the financial statements. Your investor is quite interested in the data that is comparable with a prior period. There is a great deal of emphasis now being placed on the earnings per share. I can recall that when I was in school some twenty or twenty-five years ago, the teacher that I had was emphasizing the trend which was new at that time of the income statement being the most important financial statement as opposed to the balance sheet. I think Mr. Carey is saying here now that there is a small portion of the financial statement which is taking prominence.

Mr. Carey expresses considerable concern at the outset as to whether the reader of the financial statements really understand them. He quotes Gerald Philippe, President of General Electric, and I will quote him: "The public expects, and, in fact, really believes that financial statements say a lot more, and more accurately, than they do." There is a lot to be said for

that.

Maybe I am biased, and maybe we are all biased, but over the years we have seen considerable improvement in the financial statements. When we express our opinions at this time, we are expressing them that the financial statements are presented in accordance with accepted accounting principles. We say generally accepted accounting principles applied on a consistent basis.

The SEC Acts of 1933 and 1934 have had a profound effect upon this. These Acts provided the Commission with the power to prescribe accounting procedures. However, the Commission has not used this power to a great extent, but there is always the fear, and I have heard it expressed at our own D. C. Institute meetings from time to time, that when there is public dissatisfaction with certain financial reports, that the SEC, the Congress or some other governmental agency will step in and prescribe our ground rules for us, our standards.

The security acts I think are generally known as disclosure acts. The SEC has recognized three basic concepts in their administering of the acts, that is, that footnote disclosures are in line for the protection of the investor, that materiality is a very important concept. My only question is what is materiality. And that the primary responsibilities for the financial statements rest with management. With the number of lawsuits popping up with the CPA as the defendant, I am just

wondering if it is understood that the financial statement responsibility is that of management.

The Institute over the last twenty-five or thirty years has formalized in writing what we now refer to as generally accepted accounting principles. Such statements as I just indicated a moment ago are a considerable improvement over those which were developed in the early years, and I think it might be said safely that the financial statements which the investor or the reader in this country gets are equal to or better than the financial statements emanating anywhere else in the world.

Mr. Carey has identified in this particular chapter seven problem areas, accounting principles, uniformity and comparability, public criticism, status of the APB bulletins, disclosure, materiality, responsibilities -- there are nine, not seven -- earnings per share, and intelligibility. To my mind the one which he has placed at the head of his list, accounting principles, is the most significant. This is open to debate, but this is my own opinion of it. Even with the accounting principles that we have today, I think we are all cognizant that there are alternatives to any specified principle, and in this area, Mr. Carey has identified seven areas, among others, where such variation creeps in. For example, evaluation of inventory, depreciation and depletion policies, income tax allocation, treatment of pensions, research and development costs, treatment of good will, and the all-inclusive concept of the realization

of income, as opposed to the current operating performance.

When applying alternative principles in like companies with a given situation, you can get a very severe jolt in the results.

In the uniformity and comparability area, this I think ties right in with your accounting principles when applying an alternative principle with two companies of about the same size and the same industry having a similar material transaction; by applying one principle as opposed to the other in the same situation, you come up with very different results. The same CPA could see his way clear under our present structure to give a clean opinion on both statements. If I am not mistaken, this has occurred more recently in the various ways that we were treating the investment credit.

Public criticism. This I think generally, at least in Mr. Carey's opinion, stems from the varying results which emanate from the application of the alternative principles. Everything that comes up in these various problems goes right back to the accounting principles. As I indicated earlier, there is evidence that there is a considerable amount of public criticism in a number of lawsuits which are cropping up.

Status of the APB bulletins. This would appear, again going back to the principles, that this is a step in the right direction, in that those of us following the APB pronouncements are required to indicate either in the footnotes or in our

report that we are deviating from those principles which have general acceptance.

Disclosure. Just what is meant by disclosure? Carey indicates that the reader of the financial statement is looking for more than conventionally appears in the annual reports of companies which have such documents. They are looking for the earnings by division, earnings by product line. There is also a great deal of interest today in the so-called fund statement or cash flow statements. However, your analyst even goes further. He wants such information, and he seems to want the CPA to express his opinion on it, what is his opinion of the quality of management? Is management providing adequate successors? What is the company's share within the market? What is the trend of sales by product? How sound is the organizational structure? Are the planning and controls effective in the company? Is the research and development program adequate?

I would like to raise a question at this point which we may later want to bat around. Does the CPA generally have credentials in these areas to express an opinion?

Materiality. I think the only thing that need be said about that is just what is it, what do we use as a guideline for materiality. I ask this question knowing full well, or at least it is my understanding that there is a study going on within the Institute for some definition.

In the area of responsibility, who is actually

responsible for the financial statements? Is it management or is it the auditor? The SEC has taken a position that the financial statements are the responsibility of management. I don't know that the public understands this, and after several recent engagements, I don't even know that management understands it.

Carey also raises a very valid question in my opinion on the earnings per share. He states an opinion which I think is quite valid, that the emphasis now placed on such figures is not the doings of the CPA, but apparently the orientation which the possibly sophisticated, but maybe the unsophisticated investor is receiving. This figure of earnings per share, since it is a very small figure, generally expressed in the matter of cents or possibly dollars and cents, certainly indicates a precision which maybe we should not be reading into it.

Intelligibility of statements. There is without a doubt a great deal of room for improvement in this area, I would believe. I believe you have probably had the same experience which I have had in attempting to read a footnote, and after reading it, sitting back for a moment and then saying, "Well, what has the guy said?" I will make a confession. I received a report from one of our other offices which came across my desk yesterday. I looked at the certificate and it had a consistency qualification in the treatment of a certain item, and it referred to Footnote 2. So I read Footnote 2. After I got through reading Footnote 2, I

just didn't have any idea of what that guy was trying to say. So here I tried it on several of my colleagues, and they came up with more or less the same opinion I did, that it really was not clear. And we are trained in accounting. What is the untrained, the economist, the scientist, who reads these, what is he going to get out of it? It is going to mean nothing to him.

This is a very brief summary of this Chapter 7. It has generated to my way of thinking many questions for the profession. In Mr. Carey's summary, he has indicated that it is his belief that as long as the profession recognizes that it has problems and takes steps to identify and to resolve such problems, that it will tend to lessen or dispel any criticism. He feels also that whatever solutions are to come about from the investigations and the research into the problems, they should be effectively communicated to the public to let them know what the profession itself is doing in attempting to handle these problems.

I would like to throw it open now, Paul, if I may, to batting around.

MODERATOR: Does anybody have any comments on what Art has said?

PARTICIPANT: Well, in the interest of getting it started, on this question of who is responsible for the financial statements, I personally would take the stand that the CPA is. I like to think if we are engaged to do an audit that it is left up to us as to what we are going to report. Now, the fact that the

SEC takes the other stand, of course, is neither here nor there, as far as I am concerned. I take exception to them from time to time. I would like to think that we in the profession were the ones who should be held responsible. Sure, you cooperate with, you work with, you discuss the report with the client, and particularly in the larger cases where they are publicly held things, but it seems to me that it is up to us to follow through.

PARTICIPANT: Who is going to be the official arbiter in the final analysis where you get differing opinions?

PARTICIPANT: Let us put it this way. What you are suggesting is that every CPA is his own judge as to what and how he reports, and that that is acceptable as a general premise, then who is going to be the final judge as to whether -- or should there be any judgment? Is that the end of it?

PARTICIPANT: Well, now, of course I am probably business-wise or staff-wise conceivably the smallest one here which does not necessarily change too much, except that we don't get caught perhaps in the same situations that the national firms or even larger local firms do. I have always taken the stand that it is my decision. Fortunately, we have never had a stalemate that we could not settle. Now, this is not strictly on my own, but if we have a question of opinion that seems to be somewhat debatable, I of course have checked it out with other CPA's. As I say, we have been lucky. But I would hate very much to feel that I would have to back down. Come to think about it, I guess

this week we came as near -- maybe it is not settled yet -- to a decision. We had been asked to do an audit strictly for report purposes. The client had prepared the tax return and we took that. In discussing it with the treasurer of the corporation, he said, "Well, suppose the board does not go along with this?" I felt I had no choice, and I said, "If that is the case, you had better plan to change auditors."

PARTICIPANT: Well, Bob, isn't this the reason for a qualified disclaimer of opinion actually? I think the philosophy is that these are the statements of management, even though -- and I think this is not necessarily only true in the local or smaller practice, I think it is true in the national firms as well -- even though the accountant may physically prepare the financial statements himself, the financial statements as such are basically the responsibility of management, and the notes to the statements are the responsibility of management. The only thing that is ours is the letter, the opinion.

PARTICIPANT: Of course, if the exceptions were so great that you refused to express an opinion on the statements, I think this as a practical matter would result in nothing being prepared from your standpoint.

PARTICIPANT: Right. This was not the problem. It was just that he was taking exception to our handling or treatment of these two items.

PARTICIPANT: I would like to raise one question on it.

Generally, and I am not speaking of this particular client, but who has decided the principles that will be applied, the policies to be applied? Are these the accountants?

PARTICIPANT: You mean, for example, as to whether general administrative expenses should be inventoried or treated as a periodic cost? Who makes these decisions?

PARTICIPANTS: Are you going to capitalize R. and D., or are you writing it off? Are these the accountant's or the management's decisions? And in those cases where it is management's decision and you believe -- you can go along with it, although you believe it should be treated otherwise, whose responsibility is that?

PARTICIPANT: I would agree that those are certainly management decisions, because they are usually made long before the accountant even gets in the picture.

PARTICIPANT: This is true where you are a successor accountant, and there are many engagements now with the age of the business being what it is that we are successor accountants on any engagement we come on. I am not talking now necessarily of the brand new company where you counsel very closely with management as to what its policies will be.

PARTICIPANT: But any older established outfit, even though you have been the accounting firm for the last twenty years, they are going to make most of these decisions without consulting with the accountant. So I would guess we would have

to admit that there are management decisions, and they of course are basically in control. All we do is take what is left after they get through and either accept them and put them down, or --

PARTICIPANT: Disagree for a reason.

PARTICIPANT: Yes.

PARTICIPANT: Actually, Art brought up a very good question. I think it is something that maybe many of us will have to face in the future, and this deals with -- I think the term they have used is management audits. Is there any quantitative method that can be devised for the audit of the performance of management, or is the CPA qualified to do such a thing?

PARTICIPANT: I think your first comment is the most important there. Is there any standard for it.

PARTICIPANT: Right.

PARTICIPANT: That is the basic.

PARTICIPANT: You mentioned one as being has management provided for successors, and there are many others, I think, that you could fit in.

PARTICIPANT: Quantitatively maybe yes, but qualitatively have not.

PARTICIPANT: Maybe no.

PARTICIPANT: I think this is another area actually that the outside users of the services of the CPA quite often would be more interested in this type of thing than they would in the dollars and cents, looking to the future.

PARTICIPANT: Well, if you don't have standards, how can you assume responsibility?

PARTICIPANT: Can standards be devised?

PARTICIPANT: This is the problem.

PARTICIPANT: I would like to comment on Roscoe's question about who has the ultimate -- what was your question, Roscoe -- decision as to --

PARTICIPANT: We were starting out with the assumption that the financial statement presentation, I suppose, was that of the accountant or the auditor, as distinguished from the management.

PARTICIPANT: And who makes the ultimate decision?

PARTICIPANT: And assuming that this is so, then I don't necessarily agree with that, but assuming that is so, and you have a conflict between the particular auditor and the particular management, then who goes where, and is there any place to resolve that conflict? To whom do you turn, or is this just something where if you butt heads and you can't finally agree, that is the end of it.

PARTICIPANT: Well, now, I think the comments up to this point are appropriate as to the situation at the present, but in the book, Carey talks about this evolving society where the additional role of government and so forth enters. At the present time, the ultimate decision in the society we live in resides in the courts. So if anybody wants to push that hard, and

there is a question of a suit involved, or who is right and who is wrong, presumably you can go to a court. Many times, if there is a government agency involved, as a practical matter, you don't ever get to court. You can't. It is an impractical type of thing. But take the question as to whose statements are they, management's or the auditor's, if standards are evolved and related to existing laws, and so forth, and standardized properly, and there is an audit function which renders an opinion on statements, the opinions are either correct within limits of reasonableness or incorrect. The only question is there should be no difference. Of course, the way it is in existing situations there many times is, but this is because proper standards and fair presentation has not evolved at this point.

PARTICIPANT: I think we could start with a much simpler illustration, namely, that of simply financial statements, where there is this conflict as to what these statements should show, and how certain aspects should be presented, and if you take the first assumption, which is that this really is the accountant's statement, and not the statement of management, you have one set of problems, and if you take the other side of it, where the statement really belongs to the management and only the opinion is the accountant's, then you have got a quite different situation. This is what I was trying to bring out. Because in the final analysis the accountant has the choices of rendering no opinion or an opinion with exceptions, or an

unqualified opinion, any of these major gradations. . But if the statement is such as his, then you can't really render your own statement and qualify your opinion on it. You have to just iron out the differences of these two approaches, that is all.

PARTICIPANT: But what I was getting at is if there is one correct way, and only one correct way, and everybody knows what it is, there is no problem. If management's statements deviate from this, they are just wrong. Somebody has to decide whether they are or not, Then if the accountant deviates from this, then he is wrong. The way I see it, the problem is that nobody knows what this one correct way is.

MODERATOR: Well, is there one correct way, or is it even desirable to attempt to find one correct way? Doesn't this remove completely the judgment of management and the accountant, or does it?

PARTICIPANT: Then you get into actually the philosophy of accounting, and all of this. Right now, obviously there is no one correct way, but with whatever the committee is supposed to do, boil things down to the ultimate essence, they apparently are trying to get to it.

PARTICIPANT: I think the SEC is very interested in developing a rigid and generally accepted accounting standard.

PARTICIPANT: Now, if this was ever developed, there is not any problem. It is either right or wrong.

PARTICIPANT: Put it this way. If I were company

management by myself and I wanted my financial statements to show something in thus and so a way, I might be perfectly willing to live with the qualification of opinion on those statements, feeling that I could in one fashion or another overcome that. But it is quite different if you don't have any control at all over what your statements say. I think that management must have that opportunity even in the face of getting a no opinion report.

PARTICIPANT: I would question that whole idea right now. Obviously that is the way it is now. I believe this to be incorrect.

MODERATOR: You feel there should be an attempt made to set down rigid standards as to how things should be presented.

PARTICIPANT: I think as the philosophy of accounting and as the mathematics of accounting and all of this develops within the next ten or twenty years, this problem will cease to be as large as it is now, because of accepted and mathematically correct ways of doing things in relation to the laws and everything else.

PARTICIPANT: Is the APB an approach towards this? The opinions that the Accounting Principles Board is issuing?

PARTICIPANT: I would think that all of these things are tending in that direction, but we are a long ways away from them.

PARTICIPANT: Yes. I think another possible angle here is that when we disclaim responsibility for the statements themselves, not for the report, we are also concerned with disclaiming

personal liability. In a large company under conventional auditing procedures, you could turn out a statement for investors and there might be an embezzlement of several hundred thousand dollars. Now, this is not only civil liability, but this also affects your professional standing. I think if you took the position that you were responsible for the statement itself, then the very next step would be you would be responsible for this embezzlement, perhaps, to the stockholders. I think this is maybe one reason why the accounting profession always insists that the statement is an expression of management. We are not weighmasters. This is merely our opinion as to the fairness of the statements. I think if we accepted responsibility for the statements, I think we would be in trouble on this other question.

PARTICIPANT: In accordance with some greatly undefined generally accepted accounting principles, I think Mr. Grady's book came out at least attempting to inventory, not to set out any accounting principles, but at least inventory what were now at least thought to be generally accepted accounting principles.

PARTICIPANT: Back when I grew up, part of my father's law practice was to receive transcripts of real estate title from our local bank and to review that title transcript, and then give his opinion as to the current status of the title to the real property. He did this for the bank in order to satisfy them when they agreed to make loans secured by the lien on the real estate. I always tend to draw an analogy there between the opinion that

attorneys in those circumstances would render on a real estate title to the opinion that an accountant gives on a set of financial statements. Obviously the thing is a very vague general analogy, but it is that type of thing as distinguished from simply going to the client's records and saying, "Okay, from here on the auditor takes over." This is the line of distinction. I think that represents current thinking in the practice, but I don't know whether it represents necessarily what everybody has in mind for the future.

PARTICIPANT: I have problems with rendering an opinion on my own statements.

PARTICIPANT: What do you consider to be your own statements? The ones that you actually prepare, or do you always have to have statements presented to you?

PARTICIPANT: Prepared so far as to format and counseling there is the proper alignment. This gives me no problem. I will take that responsibility. But their content and the principles on which they evolve.

PARTICIPANT: Again going back to capitalization of expenses or R. and D.

PARTICIPANT: That is right. This is where I have the problem.

PARTICIPANT: Well, in many cases, by the time we finish making audit adjustments, we have decided a lot of these questions for the client.

PARTICIPANT: Well, of course, as a practical matter, I think that in some cases where you do too many audit adjustments there is some thought that you can't render an independent opinion.

PARTICIPANT: This is a very vast practical difference between a small practice and a large practice. We have many clients that are to my way of thinking pretty large businesses. They are not national in scope, but there are a couple of hundred employees. As a practical matter, we decide -- well, we don't decide, but we prepare the final statements.

PARTICIPANT: You physically prepare them.

PARTICIPANT: We physically prepare them, and there is no one else in the company capable of doing this.

PARTICIPANT: But the company has accepted the approach. You have led them, you have encouraged them, you have, you might say, sold them on an idea which you know fits the pattern that we are willing to accept today.

PARTICIPANT: It is just like Art said. Do you decide yourself whether to expense or capitalize R. and D.?

PARTICIPANT: Sure, all of these things.

PARTICIPANT: Without discussion with management?

PARTICIPANT: Of course. He doesn't have any idea what the word "capitalization" means. All he knows is how much money he has got in the bank, and he has no concept of it whatsoever.

PARTICIPANT: How is it possible therefore to render

an opinion on something of this nature if you have done all of the accounting for the client?

PARTICIPANT: Because we know it is right, because we did it, that is all.

MODERATOR: That may be, Charley, but I have to agree with what Tony is bringing up here.

PARTICIPANT: I think you still have an opinion. The question is, is it an independent opinion.

PARTICIPANT: Of course, you have made the adjustments in the client, and if the client booked them, they are still his figures, aren't they?

PARTICIPANT: Don't you think a lot of this comes from -- what you are saying is true, we make adjustments and then the accountant in the firm books them, but don't you think a lot of the problem of what we are afraid of, and what Walter is talking about, is the fact that we prepare the statement makes us feel like these are not management statements. I don't feel that way. I feel like, sure, we prepare them for every one of our clients. We don't have a client that presents to us -- I will take it back, one savings and loan association presents us the statements. We audit those statements and that is the way they wind up, just the way they gave them to us. But that is the only one. But I still feel like these are management statements.

I have never heard it expressed quite the way you did, Paul, but they are management statements, but our opinion, and I

think this is where we can cover ourselves.

PARTICIPANT: Isn't part of the solution the approach to the rendering of the opinion. If each month or each accounting period you walk in and prepare these so-called adjusting entries, the true adjusting entry in my mind would evolve as a matter of error on the part of the accountant preparing the financial statements. I do not conceive of adjusting entries as the reason that the accountant is not able to prepare it. In other words, the client does not have the ability in his staff to prepare entries and therefore you come in and prepare adjusting entries. In simple terms, a depreciation entry in my mind is not an adjusting entry. This is simply an accounting entry performed by the accountant in the organization. On that basis, if you were to build into the structure and bring into play here management advisory services, and you set up a simple system device whereby the client can periodically come up with standard journal entries for such things as are often called adjusting journal entries, such as the monthly depreciation entry, then there is no reason why the client could not make this entry, given even a minimum amount of capability on the accountant's part that is employed by the client. Therefore, the only adjusting entries to be resolved would come about in the normal course of an audit, in the event that any errors are discovered during the audit engagement. So I would say that some of this stems in part from the approach to the audit. If a system is devised whereby the client can make

these so-called adjusting entries, and rely upon audit to be just that, an audit, then I think that would resolve a great deal of it.

PARTICIPANT: Well, a lot of it is a matter of expediency too. You could have the client make these audit adjustments. You could go to the client's accountant each time you found something that required adjustment and say, "Here, make an adjustment," and have him bring everything up, and then take a trial balance off and go from there. But who wants to run an audit in this fashion? So nine times out of ten the client is completely aware of what adjustments you have made, what the final result of them is, and they are as much his adjustments as they are the accountant's.

PARTICIPANT: What adjustments are you referring to?

PARTICIPANT: Reclassifications, and things of this nature, posting errors, or things like this.

PARTICIPANT: All right, they are normal audit adjustments.

PARTICIPANT: That is right.

MODERATOR: I think what Tony was referring to was perhaps creating the entry recording depreciation on the books.

PARTICIPANT: Which is often left to the accountant.

PARTICIPANT: This is not an adjusting entry.

PARTICIPANT: I agree.

MODERATOR: He does not consider that to be an audit adjustment.

PARTICIPANT: Would it be all right for you to give the

accountant this entry, let us say, at the beginning of the year, and tell him how much to take over the twelve months. Then you came in at the end of the year and of course adjusted it to the proper figure, which would be, let us say, a small amount, but nevertheless would be an adjustment. In fact, you, the CPA, have made the whole adjustment by giving the bookkeeper the entry in the beginning, and then adjusting it later. Would you say that then you could not, just taking that one item, but this could be true of a number of items, prepaid insurance, prepaid interest, a whole list, would you say then that the CPA was not in a position to render an opinion on the statements because he had made too many of the bookkeeping entries as such, or did I misunderstand what you said?

PARTICIPANT: No, I think you understood it all the way. What I am saying is that I believe part of the problem is in what is constantly being called and invariably -- I am aware I am in the minority in this, because all of the textbooks come up in this fashion as well -- that they constantly call these types of entries adjusting journal entries, and they are not. They are the normal course of accounting events, month in and month out. It is simply allocation of costs and estimate of bad debts, and so on, right down the line. These types of entries should be made by the client. Now, if it is a matter of the client not having the capability, then here is a golden opportunity on the part of the CPA to advise client that perhaps

it is part of his system that is at fault here. Now, I don't know whether this is a problem in costs where management says that if we do this, we have to add one body, and therefore the cost of that one body at about X dollars per year is less than your doing this in a more rapid fashion, coming in each month. I am sure that is a practical problem. But if we can bring into play there management advisory services, I have seen this time and time again where clients of the CPA will not have a system, and the CPA works through what the client has, just keeps on pushing all of the weeds aside to get to the end result. They do get to the end result. There is no question in my mind about that. They come up with proper opinions, but the work to get to this opinion, a great deal of it oftentimes is a normal function of management staff.

PARTICIPANT: I think as a matter of simple economics, some smaller clients can't even afford the expertise necessary to make some of these entries on questions of whether they capitalize something, and questions of depreciation, so I think it is almost an economic necessity that the public accountant does this, and certainly this is what the client wants.

PARTICIPANT: How far would you carry this thinking so far as the limitation on the ability of the accountant to express an opinion? In other words, at what point would you draw the line? Do you have any thoughts on that?

PARTICIPANT: Actually, to come right down to it, I

don't think it limits the CPA from rendering an opinion.

PARTICIPANT: I misunderstood you, then.

PARTICIPANT: What I am saying is that it does not limit his ability to render the opinion. What it does is cloud the issue in terms of the foundation stone of the profession which is independence.

PARTICIPANT: Well, I meant independent opinion when I said opinion.

PARTICIPANT: Well, in that respect, yes. Once there is any single bit of doubt in there that independence exists, the fact that the doubt exists, not that it does not exist. I know that sounds redundant, but it is not.

PARTICIPANT: Let us go back to this point of the client who has such a limited staff or staff with such limited experience and background that at best they can get the cash entries made and a few other things, but when it comes to anything like depreciation or recording any of these other things that involve some knowledge of accounting principles over and above just the routine bookkeeping, the most basic routine bookkeeping, that this is left for the outside auditor. I use that term advisedly now.

Now, you have got this thing where you have got gradations all the way from maybe just a year-end depreciation adjustment being provided or made by the outside auditor, as against the one where the whole gamut of stuff is done monthly.

PARTICIPANT: An opinion can be rendered even though you do all of the things you have indicated, as I understand it, as long as you are not dealing with the SEC, under Carey's book on special ethics, or whatever that is.

PARTICIPANT: Well, I don't think there is any reason that you can't with the SEC up to a point. I think it is a matter of degree.

PARTICIPANT: An opinion is an opinion, and if you simply pull in the law, if you wish to classify that as SEC, and say only because the law dictates this, and therefore you cannot render an opinion, I don't think this should be any different than an opinion per se, just because it is rendered to the SEC.

PARTICIPANT: Speaking of the SEC and independence and journal entries and so forth, there is an interesting story going around at our American Institute seminar we had a couple of years ago on the SEC. It seems that this corporation wanted to go public and they had had the same CPA for years, but the CPA firm had made it a practice of typing journal entries and sending them to the client and the bookkeeper seeing no need to copy these, would just stick them in the general journal instead of writing them out in longhand. So the SEC ruled that this CPA firm was not independent because they had actually been doing the bookkeeping.

PARTICIPANT: Well, that might just be another example of a government error.

PARTICIPANT: We had a similar situation with SEC. We had a publicly listed company, and we had put in an automated accounting system for them. Finally, they resolved it that even though we set the system up and prescribed the accounting setup, if they had a key puncher who did the key punching, it was all right for us to run it through the computer.

MODERATOR: We are going to get into your area a little later.

PARTICIPANT: Yes, but this was just an illustration of how far SEC goes in this area.

PARTICIPANT: I had a similar case that came up. Actually what we did, we went in once a month and did the bank rate facilities, affiliations and saw that all the subsidiaries checked out on the small brokerage firm. We had it set up on a punch tape through a service bureau. We would take the blotter totals and punch it ourselves in our office. SEC said if we had arranged to get it key punched some place else, we were fine, we could go ahead and do a certified audit on it.

PARTICIPANT: But on this point of ultimate decision on this question, if anybody did not buy this, they could take it to court and have a court decide. There are a lot of bad judges around, but in these two examples given, I cannot conceive of a judge agreeing with the SEC on this point. It might happen, so now maybe this is the way it is, but somebody has got to get the SEC shaped up with reality. That is all.

PARTICIPANT: If you can't conceive of a judge agreeing with the SEC on that or some other point, I think you are being naive.

PARTICIPANT: Yes, I agree with that.

PARTICIPANT: Throughout Carey's text and his recent article in the November Journal, the size of the firm, and so on, as you also mentioned this morning, have come into play, I was wondering, could you set the scene as to the number of CPAs in the American Institute now? He quotes in his article 14,000 firms. Do you know what the breakdown is, by any chance?

MODERATOR: No, I am sorry I don't. This is one of the things I think we will perhaps have to find out before we can even think about the subject basically, as to the size now.

PARTICIPANT: Break it down in size?

MODERATOR: These 14,000 firms who are included in the membership.

PARTICIPANT: Of course, it is woven through this whole thing, as I see it, and I was just wondering.

MODERATOR: Yes. This goes all the way from the individual practitioner to the big ones. Ernst and Ernst is one of the 14,000.

PARTICIPANT: And I would be one also?

MODERATOR: You would be one also.

PARTICIPANT: Anybody listed is.

MODERATOR: As a firm, yes.

PARTICIPANT: Yes, in Chapter 18 he says that. "In this group" -- and he is speaking of firms now -- "the overwhelming majority, in fact, only a little less than half of the total of all practice units include from two to six partners and less than twenty professional people."

MODERATOR: Shall we take a break for coffee, and perhaps break off on this subject and get into the next one.

(Brief recess.)

MODERATOR: May we resume, please.

PARTICIPANT: May I make a remark here? I was thinking out loud, and I wonder if it is not somewhat presumptuous on the part of us sitting here trying to even casually discuss a book of nearly 500 pages or more that has taken the long range objectives committee many years of study and consideration, plus Mr. Carey several years to compose, and here in a day and a half we are going to try to review the contents. I am just wondering whether maybe we should reduce the scope?

MODERATOR: Well, I think as a practical matter we will, Harry, but actually we are not necessarily trying to review the book, as much as we are trying to elicit the views of those of us here as to specific areas.

PARTICIPANT: It is just an observation.

MODERATOR: I think actually the scope will be reduced. We are not going to cover all of these.

PARTICIPANT: Because I can see that many of us could --

well, there is no question, we could spend weeks on just Chapter 7 in this.

PARTICIPANTS: Aren't there a number of committees, however, of this nature that over the period of the next two years you indicated would --

MODERATOR: Well, no, over the period of the next several months, there are going to be this type of seminar discussions throughout the country. Several have been held, as I mentioned earlier, and more are planned for the rest of this month, December, and even into January. There will be a total of about fifteen.

PARTICIPANTS: Even though I know that you would prefer to cut off this discussion, I was just wondering, is there a possibility of making a couple of comments about several of the other items? One in particular that interests me is this earnings per share, where you see more and more of cash flow per share. There are more public statements on the cash flow. You say earnings per share is becoming important. I find that cash flow is becoming extremely important. Companies that show far in excess of their earnings per share in cash flow, and this becomes an extremely important consideration for the investor as well as for the creditor.

PARTICIPANT: You are getting into Chapter 8.

PARTICIPANT: Oh, I am? I don't want to take anything away from you.

MODERATOR: Joe is next on the list.

PARTICIPANT: I haven't much material.

MODERATOR: This is for Joe. External reports to credit grantors and special reports.

PARTICIPANT: Have we exhausted the other?

MODERATOR: I doubt it.

PARTICIPANT: I take note that Harry was trying to shorten the program, and I notice who is the last speaker.

MODERATOR: Go ahead, Joe.

PARTICIPANT: I would happily let Harry take my slot here, except that what I am going to say is so closely related to what he said that it would be inappropriate if we did not discuss the two together. As a matter of fact, my reason for subsiding in the preceding discussion was that I didn't want to steal my own thunder out of place, because what I have to say is largely an extension of the remarks that Art made, very closely related, and I believe from the comments that Art will give that I will probably provoke or stimulate you to even more intense discussion or perhaps recognition of more intensive problems in this general area. It is possible that everybody here will not appreciate or recognize the particular problems that I have, but being selfish, I am going to discuss something that is affecting us very closely in our practice. I think perhaps also a half a dozen or so people here.

Just by way of introduction, but not by way of review,

Chapter 8 in Mr. Carey's book here deals with the future of the accounting profession in so far as it deals with preparation or certification of statements for purposes other than primarily investor information or investor satisfaction, that is, statements, for example, for various government agencies, regulatory agencies, statements for nonprofit organizations, statements for creditors, in the sense of banks or other lenders, and in connection with that, rather than review the chapter, because the chapter, as Harry points out with the whole book, the chapter does an excellent job of highlighting these features and what will probably be the trend for the future, that is, that we will be doing more and more of this type of activity in the future.

Rather than review all of that, I would just like to highlight a portion there that appears to me to be a very serious problem, which will probably get worse before it gets better, and if the purpose of this meeting is to stimulate discussion and get opinions as to these things that will probably affect our work in the future, being it attest function or the preparation of statements or what have you, then I believe it is appropriate that these remarks be made.

I would like to just read from this Chapter 8 two little sections that will perhaps start to point out what I consider the most serious portions of this subject. If you will bear with me for a minute to read this, I am on page 153.

"For example, the complaint has been made that some CPAs still handle the audit of clients of long standing in the same way year after year, despite the fact that actual conditions have changed. Instances have been cited in which expenses had been allocated for good reason in a certain manner some years ago but despite the fact that the reason for such allocation has disappeared, the accounts continue to be presented in the same manner. This leads to the suggestion that accounting firms should rotate staff personnel on the audit of regular clients, as many accounting firms customarily do, so as to bring in a fresh point of view at reasonably frequent intervals. Some bankers contend that the shortage of fully trained personnel which is likely to become more acute tends some CPA firms to delegate too much authority to junior staff. Staff men sometimes approach the audit as a routine repetitive task without much appreciation of the importance of changing conditions to the banker who will be reading the statement."

I would like you to keep that in mind in connection with the discussion we will shortly have regarding all of the talk about the judgment of the CPA, the professional expertise that he has in developing or certifying the statements relative to this particular comment about in fact what he is saying here is that this stuff is treated as such routine, and I think that we are discussing it on one level here when in fact it is probably actually performed on a level entirely other than that which we

will be discussing.

"The sameness of the standard short form of auditor's opinion tends bankers to ignore it. They are inclined to rely more on the reputation of the CPA firm whose name appears on the opinion than on the exact language in the opinion itself. Sometimes important exceptions are overlooked. While they desire a clear statement of the extent of responsibility the CPA assumes, many bankers would like CPAs to write opinions which are tailor made to the affairs of the client concerned."

My reason for reading this, or highlighting this, is to keep in mind that before we had a general discussion about a somewhat conformed opinion, or possibly a disclaimer, qualified opinion, unqualified or lack of an opinion, here we see an indication of a trend of bankers wanting something which in effect is in conflict with what the American Institute and its supporting bodies feel should be the way in which the statements are prepared and/or certified.

The last thing I want to read here is on page 155. Again I feel it is very significant.

"Whether audited statements bear a disclaimer by a CPA or a qualified or a clean opinion does not seem to affect the crediting rating agency's evaluation of the figures. It is doubtful whether all field reporters are even aware of the significance of these distinctions. Yet common sense would indicate that a small business man who presents financial

statements on which a CPA expresses an unqualified opinion would be considered a better credit risk, all other things being equal, than one who handed a report or a statement compiled by his own bookkeeper."

The first part of that paragraph I think is exceptionally significant in that -- and they are speaking here of credit agencies like the mercantile agencies and that sort of thing -- apparently all of this that we have been discussion, which is so significant to us, so important from the point of view of ethics or legal liability or accounting principles or auditing standards, it means so much to us, it is quite obvious from this first sentence here that it does not mean so very much to everybody else, that is, to the users of the statements, in so far as this particular category of users.

I guess it was about twelve or fifteen years ago when I went into practice on my own, and had come out of school and remembered that there were basically two ways that you would prepare or certify to a financial statement. Then it was highly touted that you would use the short form report, or what was referred to as the long form report, and these words are still prevalent today. Subsequent to that date, it appeared gradually over the succeeding years that the basis of cost less depreciation on property, particularly on real estate, was the foundation on which these financial statements were designed and prepared and/or opinioned, if you want to use that term.

Now, I had always assumed that this was the proper way to do it. I had read articles that there was some school of thought that since prices were rising in a rising economy that market values or something resembling market values were more significant than the original cost figures. Since that time I was shocked at one time to find -- apparently I was not the only one shocked -- that a lot of accounting firms are preparing statements based on a market value, and when I say this, I don't mean market value with a formal appraisal, but market value which is developed either by the client or by the accountant or through a conference between the client and the accountant.

I brought this point up at two study groups quite recently, study groups which I belong to, and have talked to many accountants individually about this in recent months, that is, whether accounting firms can do this, and if they should not do it, what are they violating. Is it ethics, is it legal liability, is it being dishonest, are they in effect issuing a statement which is misleading, and are they aware of the fact that these statements are misleading if they are misleading?

Briefly, what this whole thing boils down to is that I don't feel personally that the principles and the dicta that have been laid down by the American Institute have gone far enough to provide us with what we need to be able to practice accounting in today's economy with a clear conscience, and know generally that what we are doing is right. It appears that certain rules

have been set down, for example, the rules that say an opinion on a financial statement should take one of four forms, the unqualified opinion, the qualified opinion, the disclaimer or the lack of an opinion. This does not go far enough, because, and perhaps the problem is particularly acute here in Washington since the business of real estate is such a large part of our economy here, and I am particularly conscious of it because a good part of my practice is built around real estate clients, I don't think that these four rules take into account all of the situations that can arise in the preparation of these statements, and all of the untenable positions in which we get involved, in order to maintain our living as we are accustomed to it.

Now, certain people I have spoken to have told me very bluntly that if they did not prepare statements and/or issue opinions on certain types of statements for certain clients as they thought they should be done, rather than as it is apparent the American Institute and its committees think it should be done, that they would not have any practice. They told me that they are not heroes. We are talking about, for example, depletion, depreciation, and certain bases of accounting that might be very archaic in today's economy, but the title of this book is "The CPA Plans for the Future". So I think unless we become cognizant of what is the trend in the economy, and what is the trend as far as the client is concerned, and what is he going to want from us in the future, and what is his banker going to want

from us, if we keep burying our heads in the sand and trying to design our function around certain rules that may have been appropriate twenty or thirty years ago, but without recognizing that these things are changing, I think we are going to dig ourselves a deeper and deeper hole.

By way of certain illustration of this, I would like to point out I just mentioned market value statements very casually. Certain accountants told me that they will prepare statements for a client which show market values parenthetically with the caption of the account, but the original cost basis in the column of the statement to be added up and included into the final net worth figure. Others have said they would do it just the reverse. They will put the fair market value figure, or this alleged fair market value figure into the body of the statement, and the cost figure parenthetically. Others will prepare statements with two columns, one cost and one market value, so that the reader is aware of what he is saying, and it is pretty much saying to the reader, "Well, here are both of them. You take which one you like."

In virtually every case, disclosure has been made that this condition existed. There has been complete disclosure. I don't believe anybody attempts to show market values and delude the reader into thinking that they are some sort of cost basis. But the problem arises as to what constitutes complete disclosure. Others might show a market value figure with no

cost figures, and then footnotes perhaps in very small type with the statement these are market values, and have been submitted by the client, and they are not based on recognized appraisals, and so forth and so on.

Well, why is this a particular problem? Not only for the reasons I have stated, but because strangely enough the recipients of the statement, that is, the eventual recipients, the bankers, they want the statements with market values. It would be easier to say that the banks don't want it. If you go to the client and say the banks don't want it, and the client says, "Well, if the banks don't want it, and it won't jeopardize my borrowing ability, fine, give me a conventional type of statement."

Strangely enough, if you issue the conventional statement the banker will get back to you and he will say he wants the market value. This same thing goes for other lenders, too.

So what does this produce? It produces a situation where the client is of course anxious to develop as high a net worth as possible, and in addition, as much liquidity as possible.

Just digressing for a moment, but to resolve the question you raised before, banks today are primarily interested in liquidity and cash flow, and not so much in earnings per share. Earnings per share are significant as far as the value of the

stock and stock quotations and SEC and that sort of thing, but generally not with bankers. They will look more to -- they don't care if the corporation is profitable or not. They want to get the loan and they want to get their interest repaid, and that is it. But I have found that we encountered the damndest problems with this situation where the client wants a market value statement pursuant to request from one of his prospective lenders or existing lenders. He will say, "This piece of ground, I bought it ten years ago for \$20,000. It has been rezoned, and it is worth a million dollars now."

Well, I don't know exactly what my position is.

MODERATOR: Well, Joe, I saw some heads nodding around here. Let us see what they mean. I saw Harry's particularly nodding. Maybe he would care to comment.

PARTICIPANT: Well, I have had some unfortunate happenings with bankers where a financial statement was prepared based on the AICPA pronouncements of how a financial statement should be prepared, keeping conservative and showing cost and not ballooning it with the actual market value, and the banker was critical as hell of it. He said, "You are doing an injustice to your client." And rightfully so. I had to agree. Of course, the statement was made that it was cost and did not truly reflect the market value, but the bigger question is how do you do it? You are neither fish nor fowl here. If you stick the market value on and you get a ballooned net worth, you can

be criticized by the lending agency, saying, "Well, you are overstating this. How do you know it to be a fact?" Even though you very plainly and bluntly state on it that these are figures and estimates received from management or from the client or what have you, and extending this one step further -- and to this day each time a client, and we try to keep it to a very minimum, each time a client asks us for a personal financial statement, I truly don't know what to do, how to present a proper financial statement, whether it should be on our stationery, or on the bank's form, or a plain piece of stationery with a statement still saying unaudited figures received. There really never has been a concise way of placing this, and I have talked to a number of practicing public accountants on personal financial statements, and they just can't seem to give you a straight answer. They say, "Well, we do it this way," and some of them tell you that they do it a certain way, and they don't do it, you find out subsequently.

PARTICIPANT: As Paul originally defined this as being done, I guess I was naive and assumed what the textbook said and what they taught me in school was what you did in practice.

PARTICIPANT: Did you read Lyndon Baines' financial statement that H. and S. put out?

PARTICIPANT: Well, that is a good example, but I daresay nobody in this room is aware of how prevalent this practice is today, and what I am concerned with is that it is growing. It is not decreasing, and it is going to get to be

more significant, and it seems to me that with all of the stuff that has been published regarding financial statements and rules to use, and all of that, that certainly somebody somewhere is going to have to become more specific and set forth a whole new set of rules as to how to cope with this situation, when it is right and when it is not.

Now, I should add that we issue this type of statement and the covering letter is a disclaimer. It says everything, prepared without audit, we don't know whether these values are right or wrong, you, the client, gave us this data provided by you, and on each page of the statement we refer back to the letter. We don't leave ourselves open. However, it is possible later in the discussion, I think somebody is going to cover legal liability, that if this ever came to a showdown, I don't know that an accountant could then refer back to support his position to the body of rules or what is considered practice published by the American Institute.

PARTICIPANT: Joe brings out a very interesting thought in earlier discussion which those of you who have seen mercantile reports or Dun and Bradstreet, in particular, they always quote the name of the CPA, and very infrequently will they state what kind of opinion, if any, has been given by the CPA. They will emphasize that this statement was presented by so and so, CPAs, you know, but they don't begin to tell the public what the CPA said in his report. This to me is an extremely dangerous

thing, and seems to me a matter of education, and again the profession taking a stand with these reporting agencies of some nature.

MODERATOR: Well, other than something like LBJ, is this a problem that is confined to the small practitioner or to the national practitioner?

PARTICIPANT: I think it is more prevalent with the smaller practitioner.

PARTICIPANT: I don't believe so.

PARTICIPANT: I don't believe that larger firms have this problem.

MODERATOR: Do you all have this?

PARTICIPANT: I have had it.

PARTICIPANT: Sure, I would think the larger firms would have it.

PARTICIPANT: Well, the first time I encountered it, I almost fell off the chair, because the first time it hits you, you begin to wonder where you go, just like Joe said.

PARTICIPANT: Our more frequent experience has been somebody starts out that way, and what we usually wind up doing is helping to instruct the guy's bookkeeper how to go about putting one together.

PARTICIPANT: This is an interesting point, because as near as I can ascertain from what has been printed to date, we are as much responsible by instructing that bookkeeper what to do

even if they put it on the client's stationery as you would be if you prepared it in your own office. I am quite sure of this point.

PARTICIPANT: Isn't that in the area of management services?

PARTICIPANT: You are a party to preparing this statement by helping the bookkeeper.

PARTICIPANT: I say oh, no, because I don't agree, but what I have suggested we might have done in this case was to prepare the statement. This is not so. What has been done is to help create a system of record keeping from which they prepare their own statements. I am not talking about going over and saying, "Okay, now, you put this down on this statement", or casting the format of the statement or anything.

PARTICIPANT: Providing him with the data.

PARTICIPANT: Only the fundamental data, the bookkeeping data.

PARTICIPANT: I would think that most clients that ever demand a personal financial statement generally don't want their bookkeeper even knowing what their personal financial condition is. That is the other problem. Even if they have a bookkeeper, they don't want that bookkeeper knowing their overall financial position. They mostly entrust it to the CPA and not the bookkeeper.

PARTICIPANT: I would presume we all agree that the

financial statement is prepared for the investor, which is item 1, and that prepared for the bank, et cetera, would be one and the same. Is that a correct assumption?

PARTICIPANT: I think that assumption is wrong.

PARTICIPANT: I think this is a specialized thing.

PARTICIPANT: They can give a statement to anybody they want to.

PARTICIPANT: Are we expressing an opinion on more than one statement as of a certain date?

PARTICIPANT: I don't think in any case you are going to be able to express an opinion on these statements.

PARTICIPANT: Well, we are using "opinion" rather loosely here. I don't know whether what has been described has the full effect of his opinion. You did say they had a full disclaimer.

PARTICIPANT: That is right.

PARTICIPANT: However, you were saying some other people had other things, so I don't know just what we have, but we would assume if an opinion statement were to go out, or even if it is a denial of opinion, it would be the same going to the investors as well as to the credit people.

PARTICIPANT: Mostly these statements you are talking about, Joe, I think are personal statements which are a collection of corporate enterprises, as distinguished from something normally going to an investor, by and large.

PARTICIPANT: Joe, you I think suggested, and you might have said it even more strongly than a suggestion, that perhaps for this purpose, the purpose for which you are preparing this statement, maybe the rules are wrong, or at least poorly defined. Now, I would like to tell a story that would amplify this point. You did say that, didn't you?

PARTICIPANT: Definitely.

PARTICIPANT: One of our largest clients now, it is not real estate, but there is a lot of real estate involved, is a building operation. We are his auditors. He has a bank, and his attorney is on the executive committee of the bank. Now, because of conservatism and our sticking to American Institute rules, do you know who prepares his financial statement for the bank? It is his attorney. His attorney prepares the financial statement for the bank.

PARTICIPANT: That is unauthorized practice.

PARTICIPANT: No, it is not, because if the statement he prepares is the kind of statement Joe is talking about, and in accordance with Maryland laws his statement is correct, it is entirely proper for the attorney to prepare it, and furthermore the statement he gives the bank is far superior from the bank's viewpoint, from the attorney's viewpoint, from the client's viewpoint, from anybody else's viewpoint, than the one we give the bank. So if we follow the rules of the American Institute, we cannot perform the service that the public demands, the bank

demands, and the laws demand.

PARTICIPANT: Can we separate this into two areas, one the personal, and then the other -- your referring to the bank is certainly not the same thing.

PARTICIPANT: No, personal is really a bigger concern, yes.

PARTICIPANT: It is not the same client.

PARTICIPANT: No, it is not the same client.

PARTICIPANT: We all agree, though, appraisals under proper conditions can be recognized, but we are inferring here these appraisals are pie in the sky, pull the number out of the air situations.

PARTICIPANT: Well, they may or may not be. That is the question.

PARTICIPANT: They are not until they are supported by authority, and in this case we do not have authority.

PARTICIPANT: Well, the man himself is probably better authority than the appraiser.

PARTICIPANT: In the world.

PARTICIPANT: I think in this area of the personal report, the opinion, it will be a very long time before that is resolved, if it is ever resolved, and this has been stated by a number of us in writing in this area. However, in talking to the point of rendering a statement for the bank, as in the case here where the attorney prepared it, I don't think there is too

much cause for alarm in the sense that we have to keep the reader of the financial statement in mind, and the big problem is the fact that you present this statement to the specific reader if it is the bank in question, what does the bank then do with it? If there is some way to tailor the report such that we can specify the purpose of the report, for example, if we prepare this for a single organization, and that organization would use this for credit purposes in obtaining a loan from a bank, then why not simply prepare it in accordance with, as we know them today, the generally accepted accounting principles, and use the cost basis of setting forth the assets of the company, and then as complementary statements to these statements, as Jones and a number of other authors have indicated, as well as practitioners have indicated, use complementary statements that will on the one hand set down market values, and prepare financial statements by converting the cost basis statements to market values tailored to that specific company. Or other than market values, you can give another type of complementary statement known as the price level approach, using current dollars. This is all right, too, as long as you have some consistent approach, some point from which to depart, and that is the cost basis.

I would agree with you that if you do not do this, if you simply state market values, or in the case of the three or four alternatives, with a parenthetical expression, footnotes and what have you, this will cause confusion. However, if you

have the cost basis stated year in and year out, you have a basis for departure, and then you can establish market values granted as indicated there by Julian that you have authorities in setting forth the appraisals. There is nothing wrong with that. In other words, you are saying for what purpose you are placing these reports. So you can set forth these in a complementary manner. The difficulty exists, and this has not been resolved, that if you do use it on the basis of price index, how do you compare this from one year to the next, so comparability is thrown out of line. But basically my response would be that there is nothing to be alarmed about if you use these statements as complementary statements to a cost basis statement.

PARTICIPANT: You are suggesting that we prepare two sets of statements.

PARTICIPANT: Yes, sir.

PARTICIPANT: I think that is a good idea, and in many cases we do that, not quite as sharply defined as you have put it, but in effect, a normal statement and a market value statement but limiting our remarks to the market value statement. I don't see where the fact that you have issued two statements improves the situation of the client saying this is worth a million dollars when you know in your heart it is worth \$600,000.

PARTICIPANT: We are talking about that you have an appraiser that has the ability to do this, and is recognized in the field.

PARTICIPANT: Well, the whole problem would be non-existent if you had formal appraisals of these assets.

PARTICIPANT: Oh. Well, then, that is another issue, isn't it?

PARTICIPANT: I think the rules cover that very well with appraisal surplus being created, and that sort of thing, from a recognized appraisal. That is fine. But these are not formal appraisals. This is the client saying he is not going to go and take his twenty or thirty pieces of property and get them appraised every year. The cost would be a burden on him, the cost of the appraisal. The second thing is he says there would be a delay in time, and maybe it is just an excuse or an alibi that he is using to put in an inflated figure into his statement which he knows a recognized appraisal would not support. In many cases just the opposite is true, which I think is just as wrong. A man goes into the bank for a loan, and he wants a market value statement prepared, and he has assets that are worth a million dollars. But he does not want to show a million dollars. He shows less than the assets are worth. This is all supposition, because I am not an appraiser, and I can't say, but I have some vague idea of certain methods of appraising real estate, which is the big problem with me, that is, real estate, and I know generally what a piece of property is worth, certainly within the scope of \$400,000, within the latitude of \$400,000. But he is figuring maybe next year won't be as good as this year, and

he does not want to go in the second year with a statement that looks worse than this year. So he undervalues the assets in the earlier year in order to get the loan he needs this year. He does not need as much of a loan. Then when he gets a loan the next year, if he has a bad year, he has got the cushion all built in already, and he would be going with an \$800,000 figure the next year.

PARTICIPANT: Well, Joe, what is the result of a situation such as this?

PARTICIPANT: Well, I say it is supposition. I am not an appraiser, and I don't know. I am associating myself with clients, I will say that. I don't know with individuals such as this, but I am saying what happens if this situation exists?

PARTICIPANT: What is the question, now that you have changed the statements there?

PARTICIPANT: This is what we are here to discuss.

PARTICIPANT: What is the question, now that you have changed your initial assumptions?

PARTICIPANT: The question is, what is the general scope of function within which we can operate with a clear conscience as regards rules of ethics, threat of liability, and general appeal to clients to keep a practice intact. In other words, to give them what they want, to give them what the bankers want, and still not do anything which could be wrong, or as you have suggested, might be wrong.

PARTICIPANT: May we have a consensus around the table here as to how many people are faced with this, if it is a problem? Maybe it isn't a problem.

PARTICIPANT: Well, it is a problem.

PARTICIPANT: Is it a problem?

PARTICIPANT: I think it is a problem.

PARTICIPANT: Isn't that a problem in any phase of it?

PARTICIPANT: I think Joe's original question could be expanded to make a general problem out of it which will cover maybe a lot more than the real estate problem, which will be the rules of the American Institute as to generally accepted practice and all are limited in scope and application. Whenever you get outside of these rules and somebody demands it, the public demands something, what do we do to avoid liability, to do the job properly? In other words, the rules of generally accepted practice were developed for a small segment of the total practice of accounting, namely, auditing certified statements. Now, in the example I gave of the banker and builder type thing, nobody wants a certified statement. They don't want to pay for certified audits. They could care less about them. What he wants is for somebody to take fifteen or twenty minutes to total up a sheet of paper.

PARTICIPANT: We are not talking about the same thing, are we?

PARTICIPANT: Well, we are.

PARTICIPANT: You see, the distinction is there are no outside stockholders in this typical corporation that wants the individual statement. That is not what Art was talking about, where you are preparing a statement for a wide body of owners.

PARTICIPANT: Let us put it on the theory basis, and go back to Tony's remark going to the price level. That is really what we are talking about. We get back into the theory of should we have statements based on price levels, current value. Obviously it means something to certain people, the statement on a price level basis. We certainly are in position to come up with a special report, and come out with a proper comment, opinion or lack of opinion, or denial of a full disclosure situation. I think we are serving your client, the banker, what have you, as long as you disclose the way it has been obtained and if it is in a denial situation, you deny it, but you explain that this is the fact in a particular case.

PARTICIPANT: I think what you have is a point of departure.

PARTICIPANT: But you are starting from costs as a point of departure.

PARTICIPANT: But you have a different situation here. When you talk about the client stating that he wants to under-appraise and over-appraise, then you are not, if I may be idealistic, recognizing that I am not, what I do is consult management services on occasion. But involving this, then you

are not talking about the CPA profession per se, and you are not outside of the rules of the American Institute; you are outside of the profession entirely.

PARTICIPANT: This could be a matter of opinion, you see.

PARTICIPANT: The point is, Tony, nobody sitting in this room I would think, if a guy comes up to you and says, "I want a statement for my banker, but I want to under-appraise it; the thing is worth \$100,000 but I only want you to show \$80,000," --

PARTICIPANT: And no one in this room would turn it down? I think some in this room would turn it down.

PARTICIPANT: In many cases you have to rely on his opinion. He is not going to tell you that he is under-appraising or over-appraising.

PARTICIPANT: I want to make very clear that if you know the client is doing this, no problem exists.

PARTICIPANT: There is no question at all.

PARTICIPANT: But what I was saying is to find rules that would tell you or enable you to avoid having to face this situation. If you are doing an opinion audit, and you know that you did not observe the taking of the inventory, the rules are quite specific that you qualify your opinion, providing other procedures were not employed, that you qualify your opinion, period. It is that simple and it is that straightforward.

PARTICIPANT: Just because the rules say it.

PARTICIPANT: Beg pardon?

PARTICIPANT: Just because the rules say to do this.

PARTICIPANT: Well, presumably we are operating within the scope of the rules.

PARTICIPANT: I have a point in saying that. I am sorry to interrupt you.

PARTICIPANT: All right. But where are the rules, or where are the guidelines that tell us that if we don't have a formal appraisal that we can't issue this statement?

PARTICIPANT: Must we have in every case a rule that tells us yes or no, black or white? Think back now in the McKesson-Robbins case where this began in 1937, and as a result of that you have the fact that you have to observe and/or test count the inventories, and also circularize receivables. If you don't do that, you have to qualify your statement. The expert witness on that case, who still has that client, specified that they not only circularized receivables, but they circularized payables, and they do that to this day. There are a number of companies that circularize payables because they feel that it is not a simple fact in recognizing unrecorded liabilities, that this is a very delicate and difficult area, and yet it is not in the rule. It is not a requirement. Yet you have a goodly number of firms, both large and small, that will circularize payables as well as receivables. What I am saying is the profession is failing in its obligation to itself if they look only to rules and black and white all of the time.

MODERATOR: Excuse me. Could I interrupt for half a second for a little housekeeping?

(Administrative matters.)

PARTICIPANT: Tony, let me ask this. Primarily, what is the purpose of a financial statement? In essence its purpose is to provide certain information to the reader. Is that right?

PARTICIPANT: Right.

PARTICIPANT: Now, if that is the prime purpose of the statement, and if we have an area where operating within the rules, as has been suggested here, it is okay as long as complete disclosure occurs that this type of thing be done, where are the rules that are going to make these statements informative or correct or even fair, since it appears within the scope of those rules the client can go up or down or put in whatever he wants to, and the accountant is defenseless to make that statement proper, even if it is on a market value.

PARTICIPANT: I don't think it rests within the rules. I think principally it rests within the individual himself, and his own dictates. If he renders an opinion which he knows in fact that the statements are false, for example, where the individual may be padding them or may be reducing the amount, then it is up to that individual not to look to the safeguard rules. True, we are in a body and collectively we come up with rules which govern the society, but then we have to look to ourselves each time when we render an opinion, and are we

rendering a fair opinion? Do we say, as someone said a moment ago, what about our legal liability? I don't think legal liability has anything to do with it. You put forth an opinion not because you are fearing legal liability, but because you know this to be a proper, fair opinion, not because someone is going to sue you.

PARTICIPANT: I think the context of this thing is so narrow that you lose a little perspective, because the same arguments, the same general thought processes and so on, have to be involved in any situation in which your ordinary common sense or your auditor's suspicion or whatever, tells you that things are not as they should be. You run into this where it is a question of presentation on a tax return. You run into it when it is a question of how you reflect a particular transaction in a financial statement. I think that we kid ourselves, and to some extent I think we downgrade ourselves as a profession if we think that somehow or other we can produce a rule that is going to solve every one of these things, which I believe are really in the judgment area. I think in the final analysis, a great deal of this has to be in the judgment area, and if you are going to look around to find a rule that protects you every time you make a judgment in order that you avoid having to make that judgment, then you can say well, we finally get a whole accumulation of rules so we never have to make any decisions, we don't have to make any judgment.

MODERATOR: Excuse me. I don't know that we can ever

exhaust this subject, but in the interest of time, may I ask Walter to perhaps go into his, opportunities in accounting and auditing. We will come back to this.

PARTICIPANT: We may want equal time.

PARTICIPANT: The trouble with this whole thing is that all of these subjects are interrelated. Many of the things I meant to bring up have already been brought up. I have a preparation here,

MODERATOR: Well, maybe we can skip over that and go into Gage, because again his is interrelated to this same subject.

PARTICIPANT: I think I would like to go ahead, but I will attempt to keep it short.

MODERATOR: As Harry pointed out, this is a tremendous area. I was going to say subject, but that is not the proper identification.

PARTICIPANT: The subject I was assigned here was "Opportunities in Accounting and Auditing." So I base this basically on the two chapters, Chapter 6 and Chapter 10. Anyway, before I go into what the book says about this, I would like to relate, because of all these interrelations, I would like to relate a couple of experiences I have had recently, and then go into it, in the interest of discussing opportunities and problems.

We have a client who is a manufacturer, who has a \$2 million line of credit at the bank, who has no trained accountant, who in a discussion yesterday raised not with me,

but with one of the members of our firm, the question of why they only had \$200 in the bank. It was raised as an aside, a completely different subject. The president of the bank asked this question of one of the members of our firm when he was there on an entirely unrelated matter.

All we are is the auditor, theoretically. Yet we also have the bank as one of our clients, and there is a very large question as to our responsibility perhaps in the management area. I don't want to get into the management services area, but in the management area of this corporation, because we know that they don't have the proper kind of reporting to management, and we know that management in this corporation is very likely to forget about how much money he has in the bank.

So I just raise that as a problem, and go on.

We have a second client in which in the past week I was involved. This client is one of the largest governmental agencies in the area. They have no conception whatsoever as a body of the problems we are talking about.

MODERATOR: You are excluding the federal government, I assume.

PARTICIPANT: No, I include the federal government as one of the largest agencies. I defer to the FBI here. Now, they have no conception at all of the problems of management, fair presentation, audit, and everything else. They just don't have any trained people. It is a country type operation. This

is true, now. I am not kidding about this.

PARTICIPANT: I have already guessed who you are talking about.

PARTICIPANT: Well, probably all of us have a client that generally meets these specifications, but this one is particularly frightening because they are getting ready to spend they said conservatively a million dollars on installing a computer. So the question is where in the practice of accounting -- and one of the subjects here is what is the practice of accounting -- what do we do? Opportunity in accounting, do we go in and attempt to put in their system? Well, obviously we do, and we did. The result of this was that middle management of this operation is very upset that the auditors might be called in as consultants on this, because they want to do it themselves. There is absolutely no one of professional caliber, or even above the level of reasonable intelligence that can accomplish this huge undertaking.

So we have a problem. I will just leave that problem for a minute, and relate another one.

I have been engaged for some time with a third client installing a computer system. The computer system is installed and in the process of installing it, certain difficulties arose, and we rendered an opinion, not an auditing opinion, but an opinion as to the proper functioning of management, the proper functioning of the system, and so forth. And a very interesting

question was raised which opened my eyes somewhat, which was "Gee, how independent are you people? Here you have been doing this work, but now you are rendering an opinion on it."

When a shadow of doubt was raised as to our independence on this, and when that shadow of doubt was raised, it clouded our complete effectiveness in accomplishing this job. There was a very large question in the minds of the clients as to whether we would tell them the truth or not. It became a major problem.

Now, I raise these questions merely to indicate the scope of some of the problems that I have been running into, our firm has been running into, and to determine just a basic question of what is the nature of accounting and auditing, which is the subject of these two chapters.

MODERATOR: I wonder if it would be appropriate to skip down from there and include maybe Charley's remarks on MAS service. I think you have skirted those.

PARTICIPANT: I certainly would welcome that, but I would like before we get into the discussion to just say what is in these two chapters, which relates to what I said which has led into these two chapters.

The first chapter, Chapter 6, I think there are some very interesting comments on the nature, the philosophical nature of the practice of accounting. There are three basic points made, which I think -- well, I was very much impressed by these three

points, because they go far beyond the scope of present accounting principles.

The first one is -- these are actually three ideas -- that the accounting function embraces the measurement and communication of all financial and economic data, all financial and economic data, part of which is the point Joe brought out.

The second point: Accounting can be an integrated service, covering all of management's needs in the measurement and communication of financial and economic data, which are some of the problems which get into the management services area. both for purposes of external reporting to investors, banks, and so forth, and to internal planning, control and decision making. Then there is a very significant sentence: "It is beginning to be understood that a CPA will not be able to make a satisfactory audit under the conditions of a decade or two hence unless he understands the methods by which internal information is generated and communicated, and the basis on which decisions are made", management decisions. We made a tentative management decision in the case of our client with the \$2 million line of credit.. What we are going to do is tell his bookkeeper to understate, or subtract \$50,000 from his checkbook. We are going to make that management decision and see if we can slide it through the bookkeeper.

Is this within the province of accepted accounting practice? I don't know. I imagine there would be an awful lot

of people here that think it would not be.

Third, the attest function up to now, the third idea in this, most prominently identified with CPA's opinion based on an audit of conventional financial statements can naturally and properly be extended to other areas, an opinion as to the functioning of an EDP system, or a statement based on market values to a bank, or various other areas.

There were also remarks made in Chapter 6, which I think if properly answered eventually by the accounting profession would answer an awful lot of these questions that have been raised here already today, which is as to the basic nature of accounting; what is it, the philosophy of accounting.

In the chapter Carey merely raises these questions, and does not attempt to formulate a final answer. I have assumed this is one of the purposes of these seminars.

The auditing chapter I found to be not as significant as perhaps the chapter on accounting. One statement in there which is quoted seems to be interesting. It says, "Without auditing, a degeneration of the accounting process sets in." Also the statement was made in the chapter on auditing that no philosophy of auditing exists. Again, what is auditing? We all know how to do it, but what are we doing?

Standards and procedures relate to the "how" question, but what it is we are doing.

Then there is a brief statement as to the effect of

computers on auditing, and a suggestion that perhaps the concept of audit, whatever it is, can be extended from normal audits and the attest function to forecast audits, an audit of management performance, an audit of information system results.

I believe that is all I have in the summary of these chapters.

MODERATOR: All right, Mike.

PARTICIPANT: It seems to me that we all realize that we are moving off into new functions. We are getting out of just strictly auditing. I think this is the crux of the whole matter. We are moving into new functions in the management surveys and systems surveys, and what have you. I really think the problem here is how to extend the attest function, or do we want to extend the attest function into these areas. I think this is the real problem we have to come to grips with.

MODERATOR: Other than just financial statements.

PARTICIPANT: Other than just financial statements, or even extending the financial statements, getting back to our discussion of financial statements for creditors. This whole area, we are getting away from the traditional auditing as such, and we are going to have to practice in the future. Now we are trying to say we originally performed the attest function. We are expanding the scope of our practice. Do we expand this attest function? If we do, how do we do it. I think this is really the point we have to come to grips with. I would like

throw this open, if I may.

PARTICIPANT: Well, of course, they are thinking in terms, as the book says, of expanding it to economic data. For example, the CPA would attest to a figure such as the gross national product after his examination and analysis of economic data. I know that is one of the things they have in mind.

PARTICIPANT: I think we are opening a real vast field if we begin attesting to information systems. The things that Walter mentioned, there are so many things in a system, once they are installed, the people that are running them, and whether or not we qualify our attest in certain ways or not, we are going to wind up, I think, with a large degree of responsibility that will far exceed the ones we now have in financial statements.

PARTICIPANT: I want to ask Walter about this \$50,000 checking account. Was the purpose of that, Walter, to -- I assume it was to attest for internal control --

PARTICIPANT: No, I didn't say that. I might have said that, but I didn't mean that. What I said or what I meant to say was the member of our firm who is running this job is going to go to the bookkeeper and say, "Draw a line through that figure in your checkbook and reduce it \$50,000,"

PARTICIPANT: Reduce the bank balance?

PARTICIPANT: No, the checkbook balance.

PARTICIPANT: So as to maintain a balance?

PARTICIPANT: So whenever the client comes in to write

himself a check to buy a hotel or whatever he is going to buy, he thinks he has got \$50,000 less than he has got.

PARTICIPANT: He is going to love you when he finds that out.

PARTICIPANT: A very interesting question was raised here by Charley about the attest function in relation to management services, and Art, Gene and myself have been struggling with this question quite a bit recently with the Office of Economic Opportunities. They, without consultation with this committee, put out an accounting manual pretty much putting the independent CPA on the spot, that the CPA would have had to have attested to the adequacy of the accounting system as well as personnel, and a whole bunch of other things --

PARTICIPANT: Management audit.

PARTICIPANT: Yes, management audit, right. Of course, I think we have gotten them to come around to somewhat along the lines of what you have developed on the SBA questionnaire thing, and I believe we are attaining that, Art. I don't know whether they will ever come around to it, but government agencies and I imagine business is going to get to the point where they feel that the CPA is qualified, and should be qualified, and more than likely is the best of the individuals available to attest to the adequacy of an accounting system or the accounting personnel, or what have you.

PARTICIPANT: When the committee to which Harry is

referring questioned what standards do we have to make such an evaluation, they would keep coming back, "But who is better qualified to tell us?" The specific question we were talking about was is the bookkeeping and/or accounting personnel qualified to do a reasonably good job, and we kept coming back with what standards do we have to evaluate this, and they would keep coming back, "If you don't have standards, who is better qualified to judge this personnel?"

PARTICIPANT: Who is saying this?

PARTICIPANT: This is the government agency.

PARTICIPANT: This is becoming more and more prevalent in practice. What Harry was referring to was what is termed a compliance report to the Small Business Administration, and the examination of SBIC's. The independent auditors are required to complete this compliance report as a submission in part of their overall function, and it gets into the areas of management audit. It is some device for measuring their efficiency. It is not the best, but it is a step.

PARTICIPANT: So here is a government agency expanding the scope of the attest function.

PARTICIPANT: Very definitely.

PARTICIPANT: Let us do one thing, if we don't do anything else here. Let us not run scared. In other words, sure, we all recognize that new functions are opening up for all of us as CPA's.. The mere fact that we don't have standards set down

by the profession as we do in so many of our accounting functions should not hold us back from going into these fields with both feet. I fully believe that the standards will -- maybe they are running behind us, but they will catch up as we get into these fields, because in effect, we are going to set these standards. You touched on this earlier.

PARTICIPANT: Who is going to set your standards?

PARTICIPANT: I think we are,

PARTICIPANT: Wait, wait. You see, I agree with what you all have in the philosophy, but the real danger here is that all that needs to happen is one messy situation comes along, and the entire profession is discredited. We lose not that particular engagement, or that particular problem there, but we lose years of confidence of the public that we have built up, and this is sort of what we are undergoing right now with a couple of these problem audits where the accounting firms are being sued, and it is written up pretty messily in Fortune Magazine, for those of you who have the opportunity to read it. It is tragic.

PARTICIPANT: Harry, I would suggest that somewhere there is a barber back in the old days who had the same attitude and as a result of his attitude, barbers cut hair, and surgeons cut people.

PARTICIPANT: I don't mean to say, Harry, that we do something that is going to necessarily bring us into a legal suit. What I am saying is within our own judgment, now your

judgment might be different from mine, let's face it, this is what we open ourselves to every time we get into anything.

PARTICIPANT: All I wanted to say was that there are really two questions here, one being how far do you extend the attest function, but the other question, which is what I wanted to address myself to, and it just came out automatically, was the whole question of who sets standards. I don't think, and this has to do with the traditional auditing function, too -- this is not just new fields, but the profession must set its own standards. It can't look to some outside organization to provide the standards and then all of us live by them. After all, this is what professions are all about.

PARTICIPANT: What standards are you referring to? The standards for auditing?

PARTICIPANT: Sure.

PARTICIPANT: Then doesn't this stem back to the philosophy of auditing and definition of auditing, that is, to verify, pure and simple, and what are we verifying? If you are dealing with financial statements, then you are verifying the fact that management holds forth that the financial statement is fairly presented, their financial condition. Then this is what is being called an attest function. This is auditing. This does not say, and I would agree here that we should not fear this, when we look to management audits, this is also auditing. However, the question as to who is to establish the

standards, what is the auditor charged with when he renders an opinion? He is charged with the fact that he is verifying a financial statement. If he audits management, then we have to look to whom is management responsible, and someone to whom management is responsible sets forth the objectives of the organization,;if it is the objective of the organization to make a profit, and they state a specific profit, the auditor verifies that that profit picture has been met, then this is attesting to that fact. If they are looking to management to increase the growth of the company at X per cent per year, then the CPA can go in and attest to this. In other words, I am saying that the guidelines have to be established by whoever the management is responsible to for their reporting. If we say these are the stockholders, this becomes rather nebulous because for the most part stockholders are not participating in the company. When you are dealing with absentee management, it becomes a rather vague problem here, because in effect management is reporting to management.

So the guidelines are almost not possible to be established by the profession, because these guidelines are different for every company. Some companies are seeking growth. Some companies are seeking to maintain the status quo.

PARTICIPANT: I guess I am not tracking with you very well, but what I am talking about is the extent to which you must go to satisfy yourself -- let us go back to the traditional

auditing, -- the extent to which you must go to satisfy yourself as to your inquiry into any given phase of the work. It has to be yours. You can't look to the client to establish that for you, or to anyone else.

PARTICIPANT: This is objectives versus standards.

PARTICIPANT: Right. It is based on experience. It is based on training, and is based on all of the things that go to make up our profession.

PARTICIPANT: In other words, in the case several years back where an executive had a conflict of interest with his organization that was beginning to move, then it would be the responsibility of the CPA firm to build this into his opinion? Would you say that to be so? A leading company --

PARTICIPANT: At the present time, or some time in the future?

PARTICIPANT: I would be of the opinion that this is part of the normal attest function, that the CPA firm would report on this as part of the audit, because the financial statements are not fairly presented where this does exist.

PARTICIPANT: I think you have a valid point. I don't think there is any question about that.

PARTICIPANT: I would question that point. It is the responsibility of a firm to move? Was that your point?

PARTICIPANT: Responsibility of the auditors, the CPA firm, to render as part of its opinion where there is a conflict

of interest on the part of management, and this conflict of interest has a bearing on the fairness of the financial statement.

PARTICIPANT: Absolutely, I agree with you.

PARTICIPANT: But perhaps we are talking about two things. In financial reporting to external sources, external reports to the public, you have a series of questions in the attest function. In internal reports to management, you have perhaps the same series of functions in auditing. Are these reports accurate or not?

Now, when you get into questions of the performance of management, I think I misunderstood you, but I have this thought in my mind, the responsibility of the firm you are auditing to move its manufacturing plant down south, you are not talking about statements, you are talking about the performance of management. Now, I believe that not now but some time in the future, CPA's will be experts on the theory of games, the theory of management performance. We could render opinions as Monday morning quarterbacks as to management performance, and why not? We would have an immense advantage of being the Monday morning quarterback rather than the man on the firing line. But nevertheless, using known theory at the present time, it is possible to evaluate management performance.

PARTICIPANT: Let me see if I can come up with a hypothetical example, Tony, to illustrate what I believe you and I

are talking about. Suppose that you have in the organization a situation where one of the officers of the company has sold to the company some property, and the company has that in their accounts at the price at which they bought it from him.

Let us suppose further that if you trace this thing back you find that at some point in time perhaps circumstances would have permitted the company to acquire this property at a more advantageous figure, but because of a whole series of transactions the company pays a given price for it, and there is at least grounds for the possibility that the officer was able to come off with a nice profit of his own as a result of this series of transactions.

Now, you are suggesting, and I certainly would agree, that all of this background must necessarily have a bearing on the financial statements, and the fairness of the financial statements, so that if you fail to make an appropriate reference to it, and I don't want to try to guess what that should be, but an appropriate reference to it, you just have not done your job.

PARTICIPANT: I can think of a specific example, Roscoe, in our clients where this statement is not true. Let me give you some facts.

A man owns 90 per cent of the corporation. He buys and sells to himself, and comes out of it with a personal profit. No, he doesn't own 90 per cent. He owns 45 per cent, and his partner owns the other 45 per cent. The remaining 10 per cent

is held by minority shareholders. We furnish an audit report and these transactions are never disclosed, and I believe appropriately left undisclosed. The other 10 per cent of the shareholders are his employees. They know as general knowledge that this is the way the thing works, but there is never any disclosure made.

PARTICIPANT: This is an audit of a company?

PARTICIPANT: Yes.

PARTICIPANT: In reality it is not an audit of a company when it is that closely held. This goes back to that first point.

PARTICIPANT: We make an audit of the company and render certified reports which go to banks.

PARTICIPANT: One or both officers are profiting in transactions of the corporation?

PARTICIPANT: Yes.

PARTICIPANT: How could you render an opinion on that basis?

PARTICIPANT: The point I am making is, what is wrong with this?

PARTICIPANT: You are saying that the 10 per cent know that it is going on, and they have no objection.

PARTICIPANT: That is exactly right.

PARTICIPANT: What of your service to the readers of the statement, to the banks, and so on? Aren't they being misled?

PARTICIPANT: I don't believe so, under these facts.

PARTICIPANT: Are the values as stated on the balance sheet for the assets, are these purported to be sound?

PARTICIPANT: Yes.

PARTICIPANT: You are saying that they are sound.

PARTICIPANT: Yes, they are sound.

PARTICIPANT: Even though the transactions that are transpiring are not at arms-length?

PARTICIPANT: That is correct.

PARTICIPANT: I don't see how you could rationalize that.

PARTICIPANT: Well, it is a question of the facts. The facts are that the purchase price of the properties are at market but there is a profit involved here. I didn't say that. Roscoe didn't say that. The values are stated at market, and in this case there are no appraisals made, but because of the volume of similar transactions around the market for this property is pretty well established. And it is reasonable, completely within limits.

PARTICIPANT: Well, these would have to be properties then that they have bought some time ago and are sitting on.

PARTICIPANT: That is right. That is what they are. This is a customary modus operandi.

MODERATOR: I think we will probably cut this off now if it is all right with everybody and come back. After lunch we are going to speed things up a little bit, at Harry's suggestion.

PARTICIPANT: We have got to get to that last one on the list.

MODERATOR: We will get to that one. We are going to go out of order a little bit, and do a little snipping, and as I indicated earlier, I think there is nothing wrong with disproportionate amounts of time being spent on a couple of subjects and skipping others.

Anyway, we will recess at this time, and reconvene around 1:30 this afternoon.

(Thereupon at 12:05 p.m., a recess was taken until 1:30 p.m., the same day.)

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AFTERNOON SESSION

1:30 p.m.

MODERATOR: I hope we can move along faster this afternoon, from one subject to another anyway.

We are going to start off with Dave and his changes in the character of tax practices in relation to the Bar, et cetera.

PARTICIPANT: Paul and Lou are trying to follow the specific language you have in this agenda. I want to raise these questions with respect to tax practice in this profession. I want to talk about our function as a profession, our function as firms and our function as individuals, collectively and separately.

First, let us talk about our function in the return preparation area. These questions have been raised and continued to be important questions for discussion. First, to what extent does the attest function spill over into return preparation? Should we under any circumstances be regarded as attesting to or certifying the financial data which appears on the tax return?

Next is whether or not we, as certified public accountants, have a responsibility for return preparation which is different than that of any other professional group including lawyers, non-certified accountants and others who are admitted to practice before the Treasury.

Third, to what extent, if any, does the advent of data processing change the nature of our function in the return preparation area and as a footnote to that one, let us let our thoughts wander a bit to the day when the Government will supply all of the data processing and we will merely be supplying the input. What then will be our function a la return preparation?

Let me switch over to the function of the profession with respect to such things as tax policy in the United States and with respect to the position of the CPA in the whole area of legislation and interpretation and the CPA's part in the administration of the tax laws on a very broad basis. Historically, we have not done much more than act as technicians and I realize I am being much too narrow minded when I say that, but we really have not addressed ourselves as a profession to broad questions of tax policy in the United States vis-a-vis the income tax laws.

Question: To what extent, if any, should the profession now raise its sights or broaden its basis of activities so as to speak with a voice of authority in the question of tax policy? I am not now just talking about changes in the International Revenue Code, technical amendments, but I am talking about real basic policy questions.

Next, what should be the position of the CPA if it is to change, which seems obvious? How do we go about making

that change?

Third, what should be our posture with respect to the administration of the laws? Should the profession, for example, take on some of the auditing functions? Should the International Revenue Service or the Treasury be able to rely more on representations including tax returns prepared by CPA's, than by others? Should there be any way in which returns prepared by CPA's can be accepted on their face without audit, so that this to some extent dovetails with what I said before regarding the attest function, return preparation area?

Now, just a few more things and then I think we will have had enough material for all the discussion we need. What can we do to further improve the image of the profession in the tax practice area by way of education and qualification of our professional members, our specialized, and should we advocate -- should we promote specialization? Should we promote such things as referrals of tax work; to what extent do we want to identify ourselves as tax specialists in the tax area as distinguished from other areas of our practice?

Finally, what should be the real functions of our professional organization and the committees thereof, such as State Societies Committee? Should we continue to do pretty much what these committees have done in the past and to a degree be somewhat freewheeling in the same fashion as have been the American Institute committees in the past, more or

less following whatever pattern is chosen by the General Chairman?

Those are the questions that I think deserve consideration. A lot of it overlaps into our other agenda itself, such as specialization and referral and education and all that, but it does strike me these are the principal questions. In relation to the Bar -- I have not dealt with that specifically here -- but I think all of this comes about, gets dealt with in the same broth that we deal with the question of the image of our profession and to what extent should we aggressively pursue an attempt to promote further the position of the CPA in tax practice.

Should we do more things? Should we go beyond representation of the taxpayer at, say, the appellate division level? Should we be pressing for a right to represent clients before the Tax Court? How far should we go in this area and to what extent will this conflict with the whole argument over practice of law?

There it is. These are the questions I see and I invite anybody to start the arguments.

MODERATOR: Any volunteers?

PARTICIPANT: One question comes to mind. In the attest function, insofar as actually performing an audit, so to speak, for the Government -- the greatest area will be in the tax area, such as repairs versus capital expenditures,

this sort of thing. I would think the Government would still want to take a look at the number of things which are not black and white.

PARTICIPANT: What would you think of the proposition that -- let us start with the corporation tax laws and not deal for the moment with individual taxation -- but in the case of corporations, what would you think of an adaptation of the British system in which the law would require that every corporation be audited by a Certified Public Accountant and that the tax rate be applied to the net income for the accountant's income as agent, as reflected in his reports, and that is the tax of the corporation?

PARTICIPANT: Isn't this a problem of the relationship of the profession as it exists in the country itself? The CPA profession in England has gone in a particular atmosphere. When they moved from Scotland and England over here at the turn of the Century, they had the similar atmosphere as they have there today. But today you find one of coexistence -- to use the term loosely -- of the accounting profession in terms of a total body; the accounting profession, CPA profession, accountants in Government and in industry and the like, but they are outside the Government, so to speak. Whereas, in England and South Africa and Australia, they are more closely aligned to the Government, where, in a sense they are not strictly representatives of the Government, but they, in a loose term, are

arms of the Government. They are charged with that responsibility.

PARTICIPANT: What I was saying, I suppose is, that -- and I mentioned adaptation of the British system -- that is not necessarily a complete pattern, in which you as the certifying accountant would determine, pursuant to the application of the accounting principles. You would determine that income and it would be that which would serve as the basis for the tax, simply applying the rate to that basis.

PARTICIPANT: With the diversity in the accounting principles and the tax law as it exists.

PARTICIPANT: I am assuming that if you did this, we would be starting from scratch. In other words, we would now be dealing with net income a la accounting principles and not a la the International Revenue. It is a real departure.

PARTICIPANT: I heard this idea from you some three years ago and I personally definitely agree with it and think that this is the objective that we as a profession should shoot for, but the problem exists in arriving or going from the place where we are now to this ultimate objective. Because for this result, you must have as a result, if you do this, that there is one way of figuring net income.

Now, if you do this, with our existing variables, you have to have the accounting principles resolved and boiled down to one right way of doing things. You must have those in

conformity with the laws, income tax laws, State laws, corporation laws and all of this. So, this will only work if there is one and only one right answer. Where we are now is the income tax laws are one way and accounting principles are another way and corporation management principles are another way and the State laws are another way, and there is no one answer.

PARTICIPANT: Isn't it true that most of the differences in accounting convention would merely result in reporting net income in one period as against some other period. So that if you adopt accounting conventions on a consistent basis, over a period of time you get the same result. If we had income averaging which really worked, it would not, over the long haul, make much difference in the revenues.

We have a peculiar situation in the country now. We have got a case where the revenues of the country arise from starting with a basis and applying a rate. We do not decide what the budget should be and then decide how we are going to raise that money. So we get these ups and downs in the revenue take of the Federal Government.

That is another subject but at least there is a great deal of room for further work in my opinion on income averaging. If you could get an income averaging convention that would work, then the things you fear would not seem to be there.

PARTICIPANT: I think your idea is the way we should go. But, I am pretty sure the attorneys would not agree with

this and perhaps the Treasury Department would not agree with this. And maybe the Congress would not agree with this. So that as a practice, I think the problem is a practical one rather than a theoretical one.

Every attorney around thinks you follow the tax laws and that is the way to figure taxable income. I think most of them are totally wrong. They just don't understand. But you will never get the attorneys to agree with this and most of them are the ones that influence the laws. So we, as a practical matter, have a very large problem.

PARTICIPANT: That comes back to my other point which is what should be our policy vis-a-vis our position with respect to the U. S. income tax policy.

PARTICIPANT: Is it at all possible to arrive at a similar taxable income following what are now known as sound accounting principles when economic considerations really determine the tax law? You have economic advisors there and others who advocate these. You have lobbyists who advocate certain law based on the feeling of certain of their constituents in their particular State.

Can you realize technically, say, that you can determine net income for tax purposes without these economic considerations; that in one period of four years it may be desirable to reduce taxes and increase such items as Medicare and at the same time, reduce the tax that age 65 and over can

take for medical expenses.

In other words, this gets into technicalities where economic considerations come into play.

PARTICIPANT: Are they really economic considerations or are they specialties?

PARTICIPANT: I think they are a combination. I think based on the statement, where you indicated they do not gain at the top, and say, "How much income do we want to receive;" I think they do this. I think they state how much income do we wish to receive from taxation, from corporate sources versus income from taxation from personal income sources.

PARTICIPANT: Maybe this is only the thought process they go through in attempting to fix the rate. They really back into it. For example, we have not changed the tax rates year by year, except over the last three years when we had this drop down, but for many years we did not change the rate.

PARTICIPANT: But you changed the exemptions, the personal exemptions. Over a period of years they were changed three, four, five, or six times.

PARTICIPANT: No.

PARTICIPANT: The last 20 years.

PARTICIPANT: I don't even think that much.

PARTICIPANT: It was \$600 almost since the beginning of World War II and it has remained that for a long time. It jumped from 400 to 600.

PARTICIPANT: The point I am making is ---

PARTICIPANT: To change the subject -- this is the way we will move along -- I am very facinated in today's problem -- we have been theorizing about something that may happen 10 or 20 years from now. I would like to know what we ought to be thinking about and our responsibilities in relation to data processing of tax returns.

What responsibility -- I am not quite clear what our responsibility is to the clients in notification to that client that we are processing the return with an outside service bureau, and I am sure this has been hashed and rehashed and I would like to get the opinion of the group here.

The American Institute had a pronouncement a year ago and has never come out with anything more current and I am at a loss as to where do we go today.

PARTICIPANT: You are talking about the ethics problem?

PARTICIPANT: Yes.

PARTICIPANT: It seems to me that -- I think the way it was pretty much resolved at the last D. C. meeting -- it seemed to be the consensus that you should let the client know you are going to do it and give him a chance to object. If he does not feel you should, he could then take it from there.

MODERATOR: But basically, the responsibility is still that of the accountant to retain the confidence of this

information.

PARTICIPANT: Are you really letting out the confidence of this information if you send it out to a service bureau?

PARTICIPANT: If he acquiesced in your doing it?

PARTICIPANT: You think we have to ask?

PARTICIPANT: I personally -- if I planned to do it, I would tell him I was planning to do it.

PARTICIPANT: I know many firms who do not believe it is necessary to tell the client. We have kicked this around a good bit in our organization and I think in my own firm many people do not believe it is necessary. I personally feel you ought to give the client a chance to object, if he wants to. But I think you are in the same situation as though you send a report out to an outside printing concern for reproduction and you send that out there and this is confidential information just the same as a man's tax return.

PARTICIPANT: Do you get permission before you send a report to a printer? We don't.

PARTICIPANT: Never.

PARTICIPANT: I doubt it.

PARTICIPANT: Any time information goes out to an outside source, printer or compufax or something of that sort, the client's permission is favored.

PARTICIPANT: I would favor this.

PARTICIPANT: We are talking about a very simple

problem. You ask the client, get his permission, or you do not get it. If you do not get it, do it the same way you have been doing it.

PARTICIPANT: Send a letter saying, "We propose to use XYZ Service Bureau for your tax return this year, and we assume you have no objection, but if you do, let us know."

MODERATOR: Do you think that the tax practice will become a less important part of a CPA's practice as a result of some of these innovations?

PARTICIPANT: I hope so.

PARTICIPANT: I don't think so. I think what is going to happen, the computer or computerization of certain of the functions that we now perform will simply upgrade the service that we provide for our clients. This is happening in every aspect of our practice.

MODERATOR: Would that automatically reduce the proportion of the overall practice as a result of tax service or do you think it would just upgrade it?

PARTICIPANT: Not profession-wide. I think it would on an individual basis. For example, you may pick out a firm that has 70 per cent of their gross revenue for return preparation and that may affect that firm, but I think profession-wide all that can happen is that it upgrades the quality of the service that you have to render your client and all the more reason why you have to pay attention to education and qualification.

PARTICIPANT: It removes a large part of the drudgery involved. It leaves time for professional service and tax planning.

PARTICIPANT: One thing we are planning as a by-product is tax planning. We have not been able to do it because it costs too much to construct a man's return in November or December for year-end tax purposes.

PARTICIPANT: Computerization does not shut off any of your responsibility. All it really comes to -- and I am sure you might agree -- is a good top-flight, high-grade function of typing, reproducing and the computation work. It is the same as though you had a whiz-bang secretary to type the return and a comptometer operator to do the calculation.

MODERATOR: Wouldn't the use of these comptometers send more people -- those who are doing such a great amount of individual return preparation -- it will affect them. A lot of these people will be driven to the likes of H. R. Block and this type of service.

PARTICIPANT: I don't think so. I think with the perfection of computerized tax service the CPA firms can continue to provide a high quality service in the return preparation area, perhaps for no less money but with a better looking and better output product. I think that is what it comes to. I think we are only some few years away from the time when the International Revenue Service itself will do this function

and the job of the CPA will be the input.

PARTICIPANT: I do not remember where I heard this, but to not disagree with you, Roscoe, but I believe you overlooked one point here. To my way of thinking, the most complex phase of income tax practice at all is estate planning. It involves everything, corporation law and individual law and gift taxes, State taxes, the term a man is expected to live and everything, number of children.

Now, so where I heard recently that there is in existence a computer program in New York that will -- you gather certain input data as to the man's background and you run it through this program. It will do his estate planning for him and come out as the end result with certain questions that need to be asked and you feed back the information and it is all done.

Now, I believe this goes far beyond the clerical stage. I mean it is a question of whether it is summarization of all of these laws and interrelation, and all this is not clerical any more; or, is it taking over, professional function or what.

PARTICIPANT: I think you have the same question up in connection with computerized research. For example, yesterday afternoon there was a demonstration here in town of computerized legal research in the tax area and you go in there and you give them two citations, the cases or revenue regulations, and at

that point they will print out a list of citations this long and then, if you want to go further, they will start printing the cases themselves and the first thing you know, if you let it go, it will bring you a truck load of stuff.

The question is, does this really begin to take away your professional function, and the answer is obviously, "no." You still have to have the professional judgment area in which you live. And, as far as I am concerned, the way these computers get programmed is they take Joe Siltz versus the Commissioner and they go through and program every case that is cited in Joe Siltz, and they take each of those cases and check out the cases cited in those decisions and the thing is an inverse pyramid thing. I am sure it will produce a lot of references for you.

But, it cannot decide for you which of these cases really applies to your fact situation. It just cannot do it and it will become more sophisticated. I have no doubt of it. I think it will reach the point where it will be a great help to all of us, but it will never replace the reasoning ability you have to bear on these problems.

PARTICIPANT: This is true in the case of estate planning. The computer will tell you you could make so many gifts to your children and you could do this or that. But when the questions are raised, somebody still has to talk with the client.

PARTICIPANT: This is not going to replace reasoning and judgment.

PARTICIPANT: Could you expand on your question that you had; in addressing ourselves to broad tax policies in the country, what you meant?

PARTICIPANT: Yes. In the past the American Institute Committee has not always appeared, as testified, on proposed tax legislation. It has not recommended specific tax legislation, although it has suggested areas in which changes should be made in the case of regulation.

Invariably, the committee did not appear as a witness in public hearings on regulations but merely filed cryptic written comments on the regulations. I think as a result -- this is my opinion -- as a result the committee has tended to continue the image of the profession as more in the nature of high-grade technicians than in the nature of policy thinkers, you see.

Contrast this with the position of the American Bar Association, when they come out with not only recommendations for broad changes but specific legislative language to affect those changes. Now, I recognize we have a lot of problems in this area. For one, we are not lawyers as a profession. We do not draft legislation historically. We have appeared to be critics of the proposed legislation, but we have tended to shy away from coming out and saying, "We will do away with the

income tax and advocate some other kind of tax like a turn-over tax."

What I am suggesting is that there must be a broadening, in my opinion, of the activity of the profession, acting through the professional organization so that the image of the CPA becomes something more than a preparer of returns. It will carry some weight.

PARTICIPANT: Hasn't this been going on? If I understand correctly, we now have an AICPA office in Washington that acts in terms of reading the legislation as it comes out of the press. In fact, they keep an ear to the ground and as it is being ground up on the Hill, they will advise the New York office and the profession on any legislation which affects the profession.

PARTICIPANT: There is no question about this.

PARTICIPANT: We seem to be moving in the right direction in terms of if they, too, fall in this category. The development credit law as it was changed in 1961 to the present, didn't the profession have a hand in getting that moved over? Right here in the National Press Club there was quite a discussion. A number of people talked to that group.

Then, in addition to that, whether or not it falls in the same category as the Jenks-Keyhoe Bill on retirement for the professional people; then the societies bring this in. They encourage their various captors to participate. Whenever

legislation has anything to do with taxation, they will go to the extent of contributing funds in this direction. If it involves, for example, State societies reopening legislation for the taking of the CPA examination, as in California; and in California, for example, I have seen where men in the profession at their own expense fly out to California to advise the State society there -- they fly out to California and do the same thing.

PARTICIPANT: You are getting a little afield from tax legislation. I certainly agree with you that all of the things that you said are being done. Our own D. C. institute has been active here in bringing about legislative changes governing the profession in the District.

But, this is not to say that there is not a great deal more to do. This is my point: I don't mean to suggest that we have been sitting still trying to trace it historically and saying this is where we were, and this is where we would like to be. I want to encourage the profession to keep working toward this objective.

PARTICIPANT: To amplify what you said, I would like to ask a question. I know for a fact that the D. C. institute does not have a paid lobbyist. We have professional help. Does the American Institute have paid lobbyists in Washington?

MODERATOR: The American Institute is registered as a lobbyist but only as a safeguard. No, they do not have.

PARTICIPANT: I did not think we did. But I mean everybody else has plenty of paid lobbyists around and if we are talking about our profession creating tax law versus the legal profession, half of the legal profession in Washington are acting as lobbyists either for the legal profession or for someone else. The magnitude of the problem is immense compared to what has been done.

PARTICIPANT: I don't necessarily advocate that we have to produce "H. R. Um de Dum" as a proposed bill as the Bar Association did here a month ago. I think our organization is pretty effective in certain areas. For example, as you know, last year and even the year before that, the Bar groups caused to be introduced a bill which would have permitted attorneys to appear before the Treasury Department and to represent a client with no power of attorney. Just walk in. "I am a member of the Bar and I represent Joe Siltz."

I can't begin to tell you the reams of testimony and memoranda that was produced by the American Institute staff to bring about amendments to that legislation so that the Certified Public Accountant would be included in this group. And they were successful and it is law today.

Now, what is going to come of that, I do not know, because unless the Treasury had its own lobbyists in there and they did not want to lose complete control so they built into the law an exception which would permit the Treasury

Department or any Governmental agency, as I understand it, to decide for itself the extent to which it would require some sort of evidence of representation.

My guess is that as a practical matter the International Revenue Service representation mechanics are not going to change materially. But this is an example of where, had it not been for the Institute being fast on their feet, we well might have found ourselves on the outside looking in.

MODERATOR: Let us hear from Hugh.

PARTICIPANT: I want to ask a question. Basically, we are speaking about the American Institute and its so-called power, I guess, in tax legislation. Did the American Institute have anything to do with having them change the investment credit approach to depreciating the 7 per cent portion of the item?

MODERATOR: Actually, yes; and I think they actually advocated something further than that on the recapture. They indicated to reduce the rate, if this were necessary, and forget about the capture division.

PARTICIPANT: But they were very successful in this other?

MODERATOR: They were active. I don't know.

PARTICIPANT: They were not by themselves. But they were very vociferous in this area.

PARTICIPANT: This touches another point. The lawyers

have a lot of people in formal legislature for reasons -- it would help to be a Congressman if you are a lawyer -- et cetera. What is the profession doing to sell some of their own people to run for the Congress and be more active in politics; whether it is in Montgomery County or whether it is going to be in New York City?

Are we deficient in facing up to that problem?

Are we just not getting out and politicizing?

MODERATOR: It may be a little of each and I think it is a subject we could spend the next two days on, and I agree. I think the accountants have perhaps been a little derelict in presenting themselves to the public.

PARTICIPANT: I would like to narrow that to the tax area and suggest that the accountants have not, for some reason which I am unable to describe, but the accountants have not played as large a part in the administration of the tax laws officially as have the lawyers.

For example, I think that the emphasis in personnel in the national office of the Revenue Service as well as in other areas has been on legal training as distinguished from accounting training. It seems to me that one of the things badly needed in the Treasury and the Revenue Service is some further influx of accounting trained personnel so that the accountants' points of view are represented and heard.

PARTICIPANT: How do you get that?

PARTICIPANT: As an aside, Mr. Cohen is going to visit Georgetown to talk to the Georgetown University Accounting Society. They have invited him there and he accepted, and I am certain that the students in accounting will be asking him that very question.

PARTICIPANT: I hope they will. Shelley Cohen is a CPA and a darn fine accountant, and he knows a great deal about the profession. I am hopeful that he will be helpful.

PARTICIPANT: In connection with the bill that you just described regarding the practice before the Treasury without power of attorney and without Treasury card, aside from the clerical bother of obtaining this, is there any real material benefit there to accountants, in the new system of getting your client to sign a power of attorney or apply once in five years for a Treasury card? Am I overlooking something?

PARTICIPANT: No, there is not. But the way the bill was proposed originally, the attorneys would have had this right and the accountants would not, and this would have chopped us off as secondary power.

PARTICIPANT: More as a stature than anything else.

PARTICIPANT: That is right. As a practical matter, it will have little significance to us in tax practice.

PARTICIPANT: I believe that the Treasury Department has already stated that you must still have a power of attorney, too -- and they will intend to enforce the power of attorney

aspect in doing work in behalf of the client.

PARTICIPANT: I don't think they have put out anything. They made an announcement.

PARTICIPANT: Does that apply to CPA's only or CPA's and attorneys both?

PARTICIPANT: CPA's and attorneys both.

PARTICIPANT: What is the requirement for Treasury card waiver? When does this go out?

PARTICIPANT: It may not be waived.

MODERATOR: Charlie?

PARTICIPANT: On the subject of management services scope, I would like to just amplify something I said before. I did not mean to infer that when I said I thought we were taking a lot on with this attest function. I did not mean we should not get in with both feet. What I meant was I did not want us to incur any liability in the process but I am not clearly setting forth what we are doing if we do attest to the system of arriving at managerial decisions and that sort of thing.

I think we all know and it is not necessary to repeat the many phases we are each day getting into that we were not into before. Something Walter said about a client with 200 employees who actually did not have a person too capable of making effective managerial decisions -- this points up something. I think many of our clients, even in the medium size and larger fields, today do not have qualified comptrollers

to advise them in making decisions. This is not true everywhere, but I think there is a big gap in the clients on the staff in this area.

This is one reason we are being drawn into it increasingly. Sometimes, I think in connection with the many things we do including systems installations, that we are being moved into an area where some day we may be plotting comptrollers. I know this will raise a little controversy, but after a system, or some information system is installed, we have the feeling if we leave completely, no one is there to manage it or see that it is implemented. It is not used effectively thereafter.

I think it is fortunate we are getting into these areas, as has been implied, because with the advent of the computer much of the time devoted to tax return preparation and writeup work is diminishing. But I think in all candor it still constitutes a large part of the small practitioners business today.

I think it is fortunate we are getting into these new areas to soak up our time in higher income fee work.

A while back, with respect to information systems, I guess as John Carey says, an information system was a check-book or a simple set of books. I think a client then, logically, if he took on an engagement, if he was just going into business, the first question was, "Can you set me up a set of books?" And we then were prepared to say, "Yes," as rudimentary as

they may have been in those days.

I do think that all of our profession has to become more knowledgeable in computerized systems and be equipped to advise on their installation and I think with all our study committees and speakers and seminars, with all their functions, I think they have acquainted us to this change in character of record keeping and the accountants having to get into the field and the fact that we will have to come to grips with it more rapidly than long-range studies might take care of.

In our firm we have gotten into the direct approach with computer systems. I am glad to hear Walter and the group are getting together on a cooperative basis to set up their own cooperative computer system ultimately.

I would like to raise a question whether the local institute and American Institute should not try to sponsor in certain areas training centers with the practitioners contribution to their maintenance. Once they are established, I think it will take a tremendous volume of business to keep them busy. We will call it "feeding the monster."

MODERATOR: To establish training centers or computer centers?

PARTICIPANT: Computer centers also for use by the accountants.

MODERATOR: You mean for the American Institute or D. C. Institute to establish a service bureau?

PARTICIPANT: That is right.

I think groups are going to form cooperatively, as this group here locally has done, but I wonder if it is going to be rapid enough to meet the challenges.

MODERATOR: You think the American Institute or the State society could do it better or more economically or more efficiently?

PARTICIPANT: I think it needs some central direction to spearhead it rapidly. Within a firm we have disagreement on policies and I think, sometimes, when you get a large group of people in a loose confederation, it is difficult to -- you know -- get any progress, speedy progress.

PARTICIPANT: Would you suggest that the dues of the members be used to finance this venture?

PARTICIPANT: No, I would suggest that it were sponsored but that the participants finance this venture themselves.

PARTICIPANT: At no risk to the State society or to the American Institute?

PARTICIPANT: Right.

PARTICIPANT: You are looking for the State societies and the Institute to just provide direction?

PARTICIPANT: That is right.

PARTICIPANT: What kind of direction? I am curious about this, because it just does not quite come to me that this

is natural. The State society and the American Institute, notwithstanding the excellence of their staffs, are not in the profession. They are simply the professional organization through which the profession itself acts on occasion. And I am a little -- I have a little trouble acknowledging that with your suggestion.

PARTICIPANT: It would be like the colleges teaching the profession, sort of.

PARTICIPANT: I have some trouble with it, I must say.

PARTICIPANT: I would hope to see it on a civil sustaining basis. There may be some initial contribution to get it going.

PARTICIPANT: I would clearly object to financing it with my dues. I would assure you that. But that is only a personal thing.

MODERATOR: It might interest you to note that is not the first time this suggestion has been made. I have heard it before, and this is why I pursued it a little bit you, Charlie, to get some reaction, if we could.

PARTICIPANT: I did not view it as something that would be continually financed by the American or local institute. It is sort of a middle ground. If they would put some money into getting it rolling, we could do it on a revolving basis.

PARTICIPANT: What are you envisioning would be put

into this installation?

PARTICIPANT: You would have to support a director, give him complete authority.

PARTICIPANT: Assuming we have the installation, where do you expect to get the major portion of the business?

PARTICIPANT: From the clients of the participant.

PARTICIPANT: In that connection, I have heard several members of the American Institute criticize the American Institute for not having come out with a program such as that developed by Computax and by you and us whereby the program would be rented out to the members on a royalty basis. There must be a heck of a large expense in making out this program.

PARTICIPANT: It strikes me that this idea may be categorized as one of two possibilities: Either the American Institute is going into the educational business, which it is already into to some extent, but I mean on a large scale; or the American Institute would be going into the data processing business, and I believe this is an inappropriate expansion of the American Institute's functions.

PARTICIPANT: My question was: Isn't the service bureau just another business?

PARTICIPANT: I was thinking about whether they ought to have a car-renting system on the side.

PARTICIPANT: I think it is more related to our profession.

MODERATOR: Julian brought up a good point. He says, is a service bureau another business? I won't direct this to you, Charlie, particularly, but is the operation of a service bureau and the practice of accounting a compatible operation? In other words, can you be independent in the operation of a service bureau at the same time as you are pursuing your professional practice of accounting?

PARTICIPANT: Those are two questions.

PARTICIPANT: Doesn't that go along with, can you operate and manufacture services at the same time you are attesting?

PARTICIPANT: I am not as concerned with the independent aspect there as I am with, are we mixing apples and oranges or something of that sort? Is it compatible for a CPA to have hardware in his office and be running a computer for the purpose of doing a lot of the work that normally would be done in the client's place of business?

Let us forget the other aspect of it, where you are servicing other CPA firms -- I have a real question in my mind as to whether the CPA profession should not be restricted with the soft goods end of the deal and let the hardware end stay where it blends with the service bureau and that they should be definitely distinct entities and it does not mean that the CPA firm could not have an interest in this service bureau, but they should not be mixed together. They are two completely

different entities.

PARTICIPANT: This hardware you are talking about, is merely taking the place of a lot of pencil pushing where the CPA firms have a lot of writeup jobs.

PARTICIPANT: I think you have the same question here we discussed before. Is it right for the CPA to do writeup work and discuss a pin? And I think they are not different.

PARTICIPATE: But this is a different question entirely from the American Institute performing some kind of a function like this.

PARTICIPANT: The computer is just like another clerk.

PARTICIPANT: Don raised a point a while ago about the American Institute producing a program for Federal Income Taxes. They would make this program available on some kind of a fee basis. Who is going to produce this program?

PARTICIPANT: The American Institute.

PARTICIPANT: Who is the American Institute?

PARTICIPANT: That is us.

PARTICIPANT: Is the staff going to do it?

PARTICIPANT: You would have to engage somebody an pay them to do it.

PARTICIPANT: This, then, gets the American Institute into the practice of accounting.

PARTICIPANT: Not the practice of accounting.

PARTICIPANT: If they are going to produce ---

PARTICIPANT: It would have to get them into the practice of being involved as a service bureau.

PARTICIPANT: They are going to produce a program and that contemplates ---

PARTICIPANT: I think we are getting into my end of this picture, but if you would like to discuss it, great.

PARTICIPANT: Harry, you have a problem.

PARTICIPANT: He is on the tailend of the program.

PARTICIPANT: That is right, Harry.

MODERATOR: I think maybe we will cut off here and we will come back to you later, Harry.

What I would like to do now, if you do not mind, is, I am going to skip you, too, Chris, for the time being and go into Tony and his education which maybe should have been up higher in the whole deal.

PARTICIPANT: It seems to me the CPA renders a personal service. He is rendering his ability as a professional person. If he renders this ability as a professional service, then this precludes his rendering of any type of hardware, of saying that he is in the business of rendering service that is performed by machines in this case.

If he is advising the client in terms of management service, develops a system, then he is rendering a personal service. If he is auditing the firm and the attest function, again, this is a personal service.

So it seems to me that unless the CPA renders this personal service, then he is going afield from his professional domain. That is just an observation.

One other quick observation, if I may take the liberty, and it leads into the educational area. Someone said a moment ago -- and it is also, I think, related to the question of whether or not rules exist and, if a rule exists, we have it and, if it doesn't exist, we are lost -- I realize I am going to an extreme in my statement to put a point across; that is, someone indicated that in accounting principles, that because we do not have one right way of doing things, that we are, in a sense, floundering.

I disagree with this. Accounting principles do not say that there is only one right way of doing things. Accounting principles once again represents a foundation, touchstone and they can be interpreted a number of ways and more than likely, they can be interpreted a number of ways depending upon not only the type of industry involved, but the economic environment as well.

This does not mean, therefore, that in the results of this interpretation one person is right and one is wrong. I think this is where the profession, as a whole, may be missing the total framework of reference; that they are looking for the one right way of doing things and this is not an answer, I think, to any profession.

There is not any right way, because each of us as human beings, even with a small number here, we recognize that we may have 15 different ways and, yet, come up with sound results, results that are acceptable and, yet, still follow generally accepted accounting principles.

That leads into educational area. I think on the whole with a brief history on education and accounting, undoubtedly many of you are aware that this only came about at the turn of the Century when it moved here from Scotland and England, and so on. Basically, although it is older than the economics profession -- it came about at the time of Columbus as opposed to 1776 and Adam Smith -- nevertheless, we have this.

In the turn of the Century, we only had a few schools of business administration in the country. You had New York University, and you had the University of Pennsylvania, and Wharton School, and a few others. The vast majority of these schools of business administration, therefore, came into play -- all of them came in within this last half century, with a considerable number between World War I and World War II.

With this in mind, I think the profession should aim its education the way perhaps advertising has done. When they talk about the milk industry, they talk about the industry as a whole. So it is industry, if I may use the term highly, advertising.

What ought to be stressed firstly is business

administration, and then closely aligned to that is accounting. Invariably, you will find in most schools of business administration that the students in accounting tend toward the students at the top of the class in the business administration school. You find this because of perhaps the rigorous programs that exist in accounting.

But, first, to attract the student in the prep school you have to invite him to think about business as an honorable profession. First, think about business as an honorable profession and then you find that accounting falls right in line with it.

With this in mind, we had a shaking of the educational world in business administration when the Ford Foundation -- and this is in Carey's book -- and the Carnegie Foundation sponsored the reports on business schools. Both of these reports strongly favored liberalizing business administration in terms of total education. This meant that the pendulum swung in the other direction.

Instead of 60 or 75 per cent of the courses in accounting being strictly in the vocational area, now you have 60 to 70 per cent in the liberal arts area, and who is to say what is liberal arts, by the way, and the other 30 to 40 per cent, if not less, in the business administration area.

With this in mind -- and I will comment on this later -- they have liberalized the total business administration

area, but they have not suggested liberalizing accounting. I think this is where they are falling short in the recommendations of accounting education.

To make it more specific, those who advocate liberalizing accounting, this means the reduction of the number of accounting courses to be taught at the undergraduate level and the increase of, the stress of accounting in the last two years of the undergraduate.

This is being done in schools such as Pitt and others that advocate the fifth year of accounting and there is a program currently at the University of Pennsylvania, and Florida State has one, and a few others are coming along with this -- this is a move in the direction of liberalizing accounting and this is one, I think, is preferable to liberalizing the total business administration area and, yet, leaving accounting as strictly a vocational aspect, and nothing else.

With this in mind, also, there is greater emphasis, for more reasons than simply advanced education, in advanced degrees such as masters degrees.

To talk on the subject of liberalizing accounting, as pointed out by Mr. Carey, perhaps there is far too much emphasis on education; educating the prospective accountant. There, too, my thinking rests in the industry of accounting and, if you stress this, the CPA usually comes up to the top because of the many, many attractions that exist in the public

accounting profession.

But you should stress accounting so the structure would be business administration, and then stress accounting and, then stress the CPA profession. In liberalizing accounting, therefore, there should be less and less emphasis on CPA problems, courses and that type.

In fact, they should take them out of the undergraduate school and not teach them at all at the undergraduate level. They should not give the student a Cades course in accounting. This is not the approach to be used, in the field.

On the one hand, we say we should educate the student so as to prepare him for the invironment of 10, 20 or 30 years hence. Yet, on the other hand, there is still a number of schools that are training, that are educating the student for his first year or second year of operation. I am certain that a good number, if not all of you, will recognize that the person who is trained in this performance of strictly vocational will move far ahead of anyone who is trained in the other manner within the first year or two.

But, if you are able to hold on to that other fellow who has had the liberalized approach, you will probably find his department in two, ,three, or four years will far surpass this other man. This usually happens. Quite obviously, I am talking in generalities. It is like looking at three students in a class and saying which one of you will be far more advanced in

the next 10 years.

Who is to say? I am not saying that simply there are exceptions. These are just speaking in general terms. So to teach accounting to students in a liberalized manner means that we have to stress these opinions, and we have to stress the fact that accounting is not a precise social science. It is far from it, as we all know.

When we talk about these adjusting journal entries that we discussed this morning, we were talking about estimates, and quite a bit of what is done in accounting is based upon estimates. Several of the cases were promulgated by the Securities and Exchange Commission -- and in their accounting series releases they referred to one in particular where the allowance for bad debts was considered to be understated.

The result of that was so-called "punishment" of one of the parties of the firm for a 15-day period. This was questionable as to the reasonableness of that result. In my own mind, in my own way I thought it was not a fair result because this was based on estimate and then along came someone on an aligned sight viewpoint and said, "You should have created a greater amount," at that time called a reserve.

Pointing to education, then, in accounting, you have to concern yourselves with the fact that once again, education in social sciences is not precise, and with that in mind you cannot isolate accounting. It would be, and I believe it is

stressed in here as well, in Mr. Carey's book, that the person teaching accounting should attempt to integrate the other social sciences and really you cannot teach accounting in an isolated sense and say, "This is accounting, everything else is not accounting."

You have to include economics in there. It is very difficult to not, not to include economics. It is very difficult in this day and age not to include statistics. And in addition to that, not to include mathematics. When you come right down to it, even though the person may not be capable of instilling this in the students, you have to teach a little of psychology because, as you well know, you can come up with the best possible result in an audit but when you discuss this with management of the client, it is something else again.

Then, even as the student is a staff member in an organization, he has to convey his thinking and so often times he may have to bring in these other disciplines and not just accounting alone.

This means, this leads to another point. I think considerable effort should be spent in the direction of the teaching of communication as a total picture; accounting, at the undergraduate level, accounting as one form of communication. Coupled with that would be the English area, written and spoken English, and coupled with that would be the quantitative, mathematics and the statistics.

This has been said by educators. Obviously, it is not original with me. This has been said over the past 10 or so years. There must be thinking in terms of a corps of teachers because it is difficult for any one person to be that proficient in any of these areas.

So to teach a series of courses, integrated in these areas, one in quantitative analysis, which would include accounting and statistics and mathematics; another in the other area of communication, which would be in the written and spoken English; and still another area of communication which would involve the total picture of getting along with one's fellow man, meaning sociology and psychology and anthropology; learning what our ancestors had to say and so on; history, because as we all know, you get the person who is the 4.0 in school and he does not always work out with your firm. He had to know how to communicate and get along with his fellow man and appreciate the other fellows viewpoint.

So I think it would help tremendously, the profession as a whole, to stress business administration and behind that accounting in total and behind that the CPA and then stress the liberalizing of the teaching of accounting at the undergraduate level. Don't stop there. Come up with the stressing of either the fifth year of accounting or the master's degree which would give further emphasis to writing, where the master's degree requires a written paper for conclusion of the work.

I am not in favor of a school of accounting, either at the undergraduate level or at the graduate level. There is one going on -- I believe it is Rutgers -- Von Minden has it, and with all due respect to him, he does a good job, but ---

MODERATOR: This is public accounting only?

PARTICIPANT: This is public accounting only.

MODERATOR: And liberal arts students only?

PARTICIPANT: Liberal arts students only.

PARTICIPANT: Since I am a product of Von Minden's school, I found it to be most effective. I was the first class to graduate under that program where you had to apply for admission -- after having two years of liberal arts you then applied to their business administration school for public accounting and I found it to be a worthwhile program.

PARTICIPANT: Five years or two?

PARTICIPANT: Two and two.

PARTICIPANT: Actually, he does it in a year and one-half.

PARTICIPANT: Maybe it has changed. Mine was a regular four-year B. S. degree.

PARTICIPANT: The one he has is a year and one-half and it is only accounting, day and night and the person has no accounting at all, usually liberal arts. He has to spend a considerable amount of time and it is accredited. He spends a lot of time doing this. In fact, I just read somewhere he was

on the road -- his wife had passed away, so he does a job there.

But what I am saying is that in my opinion I don't think this is the answer. Cades is doing a good job in his right, too, but I don't advocate a crash course of this nature. I don't think this is the answer to the profession.

PARTICIPANT: Tony, the statement has been made, at least the position has been advocated that the accounting profession will never really take its place along with the so-called learned profession unless and until there is a much greater requirement placed on educational background. This, I take it, to mean that you are going to have to put in into the same category, as far as the volume or quantity of background, with the medical and legal professions, requiring a minimum of undergraduate and a graduate degree.

Now, I don't know whether I agree with that or do not agree with that, but do you have any observations on that?

PARTICIPANT: The way the profession is moving, more and more State societies are requiring the college degree and the full four-year program.

PARTICIPANT: You mean state State statutes law?

PARTICIPANT: More and more States are requiring this. However, in terms of training -- and I have not talked on that -- in terms of training in New York, for example, I believe it was Ray Ankers that headed up the committee, advising New

York State society; and he advocated one year experience, for example, or no years of experience.

In terms of getting the degree, in States like Illinois, you need two years experience to get the certificate, but one year of experience to practice. There must be a half dozen or more States in this country who fall in this vein as opposed to the other extreme where you have Ohio, where you need five years. In any event, in New Jersey you need three, New York you need three years for certain parts of the examination.

In those terms, whether or not you wish to compare it with other professions -- in law, you take four years of undergraduate and three years of law school. In medicine, you take four years of undergraduate and two years of medical school and two years of a specialization. To become a dentist, it is four and four; orthodontist, it is another two. So you have 10 years as an orthodontist.

I think the way we are moving, I don't see where we will have much choice. We will have to move into more education and training because we are going to have to meet the challenge of not necessarily being all things to all people, but advising an personal service, management, advisory services and the like. If we indicate that we are proficient in these areas, certainly the groundwork ought to be established.

PARTICIPANT: The new institute presented puts it on this basis: That we are not going to get the quality of

people into the profession unless we do this. So this is another aspect of this. I would like to quote this because I think it is so well written. He says, "The bright young person whom we want in the profession will be attracted by an educational process that encourages intellectual curiosity and which demands personal and professional involvement in the social and economic forces of our society."

This is to say -- he uses the term "instant technician" in here -- which I think may or may not be well advised.

PARTICIPANT: He is not advocating it.

PARTICIPANT: He is saying this is what you can no longer afford to do. It opens. So I think you have the problem of not only the stature of the profession to be concerned with, but coupled with that you are simply not going to get the kind of people in the profession that you want that will automatically raise the stature unless you do this.

MODERATOR: Are you saying you feel if we increase the educational requirements, that this possibly would help attract a higher level of recruit?

PARTICIPANT: I don't think there is any question about it. I cannot imagine increasing the educational requirements quantitatively without the qualitative addition as well. So this automatically draws in the young people who today are no longer challenged by -- I don't want to say pure accounting because this gets me into an argument with Tony -- but let us

say that anybody who studies intermediate accounting a la the text book; that is not enough of a challenge to these young fellows today. They want to know more about the socio-political aspect of our society and they are going to know more about it, and if you do not offer it to them in this profession, they are going to go elsewhere.

PARTICIPANT: This is what I mean by trying to revise the accounting curriculum; do away with spending nine chapters on such an area as consolidated financial statements when the student may not see them for the rest of his life. This has to be done away with. It is too tedious an operation to challenge a student who comes in.

The students are coming into business administration with college board averages that will range in the 600's. To cite a school at Georgetown next year, the requirement will be 8575 in math and verbal, to come into the school of business administration. This is how it has moved in the last few years. At the college at Georgetown, it is 600.

PARTICIPANT: To display a little ignorance here, where is the student going to learn about consolidated financial statements?

PARTICIPANT: He should learn the theory of consolidated statements and this can be done in two chapters, not eight or nine. This can be done in a four-hour presentation.

PARTICIPANT: So, if he gets his education over an

8-year period in the last six months, we can teach him accounting. I am not being totally facetious.

PARTICIPANT: Where does training begin and education end? That is what it says here. So, if I read this text correctly, Carey is pointing in the direction that more and more has to be absorbed by the profession, to take over the training of the individual.

Now, I am sure you all are aware that the large firms have the two, three and four-week training program before the individual really begins his work and then you have the revolving annual one or two-week programs. Some of the smaller firms have this. In fact, some of the larger firms offer this to small firms, if they wish to take advantage.

I don't wish to get into that whole business of large and small. In addition, you have the American Institute programs. They have been reported on by the State societies. Joe Switzky chaired the staff training program that was put on there up in Maryland, and I participated as an instructor in that for two weeks. That was on auditing and every so often, even I think on the professional development end of it you have the two-day programs.

MODERATOR: Charley was about to ask a question.

PARTICIPANT: The first question is, what is your opinion of the contents of the present CPA exam and whether it is overemphsized or how we get around it or what we do about it?

PARTICIPANT: I would like to talk on the overemphasis first. As Mr. Carey points out, he stresses the fact that the CPA examination should, perhaps, be broadened and that if we broaden the CPA examination and make this more challenging we pull up the educational level by the boot straps. I think this is the wrong way to do it.

I think it should be the other way around. That is, you have the education and, as I mentioned, in the liberalized manner, and stop gearing all the accounting courses to the CPA examination. This is nonsense. So many of the schools, even today -- if a subject matter is covered in the CPA examination, they may very well find it in the curriculum next semester.

I do not think the CPA examination is the answer in structuring an accounting curriculum. I think it should be the other way around. There are some states that include -- I think Michigan still does -- economics in CPA examinations.

PARTICIPANT: Maryland does.

PARTICIPANT: Maryland is included in the CPA examination, and this is good. Once again this gets back to the concept of business administration and the knowledge that the CPA of the future -- in fact he has to have it today -- should have and education in the total realm of business. I think there is overemphasis on the CPA examination.

In fact, it is my opinion that CPA problems should not be part of an accounting curriculum. This means training and a

person does not learn CPA problems, as such, with quotes, until he really gets out into the field and has a diverse look at what is going on.

On the content of the examination, I think the content should include more of economics. It should include more of statistics and mathematics. A good question is, where do you fit into the 20 hours that are allotted to the examination. Perhaps the problem area should be de-emphasized. I would recommend that.

The 2-1/2-day sessions on problems are overemphasized. You know the technique that is employed and it may well be employed by Cades and other such courses that are given, or by individuals that prepare for the CPA examination. The American Institute encourages this. They issue past examinations -- 50 cents a copy -- so you may accumulate these, and I have known some individuals that have statistical samples on the incidence of occurrence of individual questions on the examination and then played the old roulette game as to how many of these questions will appear on the examination, and, accordingly, have passed the examination. I have known one or two individuals who boast along this line.

Whether this is good or bad I am not saying in that sense of how he approaches it. What I am saying is that the challenge is not there. It has to be broadened. It should include economics, mathematics; it should include some demonstration that that person has an ability to communicate and also has

a demonstration in there that he has the ability to get along with his fellow professional individuals and his fellow man.

MODERATOR: Let me bring out one thing for any comments anybody would like to make. In some of the discussions it has come up, in connection with the broadening scope of the CPA's, management services, particularly, it has been suggested that perhaps there should be included on the examination more optional questions so that all CPA's are not necessarily contained to knowledge in one given area, but go into this statistical sampling of mathematics or other types of things, operations research. Do not require all to answer this, but give them an opportunity to answer.

In other words, you have to limit the examination somewhere.

PARTICIPANT: You can limit it, but the option should be in categories. In other words, if you have an option in quantitative analysis, I would agree this is so.

MODERATOR: All options in quantitative analysis?

PARTICIPANT: No, structure the examination so it has separate parts, not only auditing and not only problems. One section called quantitative analysis, and in that section you may have CPA problems; you may have mathematics, as such, and you may have statistics. You have a choice of the questions that are offered in statistics, you have a choice, perhaps, in that area, but you still should have a question in the statistics area. More and more everyday you have the problems of statistics

being used in auditing.

PARTICIPANT: Will the state boards permit you to expand the CPA exam? What is the general concept? You are looking to test a man -- whether he is a qualified auditor; is that the reason the examination has been developed? That would be my initial reaction.

Therefore, will they permit you to, will they accept the American Institutes examination that my go over a broad spectrum as opposed to a narrow one?

PARTICIPANT: Now they have all 50 states using the uniform examination. The alterations and modifications are that the American Institute does not pass on the individuals passing. The results are sent back to the state and, therefore, there is a falling down, perhaps. I don't know. The state's rates versus the federal rates. But the state society, the state board decides on who is passing and who is not.

PARTICIPANT: That is right and the state board is the one who has agreed to use the AICP exam.

PARTICIPANT: That is right.

PARTICIPANT: I don't believe you would have any trouble there. Maybe on the first go-round you would have opposition because of the change, but the problems they are having is getting sufficient and ample questions; I don't believe you would run into any problem of elaborating and giving more choice.

PARTICIPANT: There is too much compartmentalization. A half-day you answer questions on theory, and the next half-day you

answer questions on problems. You know as well as anyone else, every problem you are confronted with is not compartmentalized, not part theory, part problem, part auditing. It is part everything, including mathematics, statistics, economics and everything else.

PARTICIPANT: One other question: Do you envision any other educational program, that takes care -- assuming we are able to do this in the period of a few years -- for the younger, middle-aged men who are not in practice?

MODERATOR: Younger, middle-aged?

PARTICIPANT: Do you mean like us, Charley?

PARTICIPANT: As opposed for going for a four year A.B. curriculum.

PARTICIPANT: In what is considered to be continued education?

PARTICIPANT: Yes, sir.

MODERATOR: Sponsored by the universities?

PARTICIPANT: Yes, sir.

PARTICIPANT: Other than the programs currently sponsored?

PARTICIPANT: Yes, sir. Say a man today who has a purely contracting education. Say he is 30 and he wants to get some of this broad background. He has the alternative of going for a full four years and of getting an A.B. degree.

PARTICIPANT: American University has an adult education school?

PARTICIPANT: They do; and most of the state universities have this adult and continued education.

PARTICIPANT: It seems to me that the AICPA has made pronouncements or inquiries as to a CPA institute for those who have been in practice a number of years to go back and get -- there are questions as to whether they had been receiving another degree or whether it was proficiency in something -- I remember reading somewhere about this.

MODERATOR: Some form of higher accreditation?

PARTICIPANT: Right.

MODERATOR: It was not something that the institute beat down?

PARTICIPANT: I don't know how well it would be accepted. It is accepted at some universities. I am in agreement with it. There is no doubt in my mind that a person who is out in the professional world -- has been for either 10 or 20 years -- they are doing a considerable amount of this. He has been continuing his education, reading the literature and participating in seminars. Somewhere along the line he desires to get this. This would meet that catching-up approach we were referring to.

University of Chicago has a program and a few other schools have similar ones, where a person, even though he may not have a degree, an undergraduate degree, or he may have what they consider to be comparable, they will admit that person to their program; and it is a master's degree program. It may take time, rather than a year and one half, it may take two years or slightly longer, but not so long that it will deter that individual from participating. This, I think, should be encouraged, but it is not

moving rapidly.

PARTICIPANT: How about your continuing legal education service at Georgetown University? They have held on very well. Couldn't the same type of approach be had so that the students could enroll with or without credit to take such things as money and banking or the international economics courses or this type of thing? Maybe a course in corporate finance to be brought up to date as to the current techniques of public financing and this kind of thing.

It strikes me that perhaps the universities and only the universities could do this kind of job.

PARTICIPANT: I think the universities should really stay out of that. That is my opinion. I think the universities should try to stress the total picture and they cannot do as good a job even in this adult education as the professional firms in their training.

PARTICIPANT: But if you do it this way, if you try to put it out through the institute, for example, and I have participated to some extent in this professional development program and I think it is good, but I think it lacks something; in that you go somewhere and you sit down for a day and you hear a whole bunch of speakers talking about taxes. Lord, at the end of the day you have had it. It is spilled out of your eyes and running all over.

PARTICIPANT: I am not sure you get much out of it. I don't think you can cram it in that way. I think you have to take

it in bits and pieces over a period of time.

PARTICIPANT: So you have taken these courses on a non-credit basis and you have appreciation of business from time to time. There does not seem to be the motivation for that individual to seek the ends of his -- what he starts -- whereas if he -- and I recognize this -- if he has had this training over a period of years, he is usually more capable than a person who may have completed the masters work but he lacks just that little bit, whatever it is, that gray area of that formalized work.

I think that he would be much better off if he approached it on an accredited basis rather than the adult educational level, where you go in and you take sewing and woodworking. Once again I am not being factitious, but this is what happens. You attend 8 or 10 lectures there too, or 20 lectures.

PARTICIPANT: But you are not trying to jam it all down a man's throat in a two or three-day period, all at once, starting at 9 o'clock on Wednesday morning.

PARTICIPANT: I am sorry, I am suggesting this other approach where you try to do it on a -- take a year or two years to do it.

MODERATOR: I think, perhaps, what Gay was talking about was a professional program over a longer period of time. Not necessarily a year or two years but ---

PARTICIPANT: When I said, "a longer period of time," I had reference again to the distinction between that and the program

that the institute sponsors and has sponsored for the last two years, where a person can choose to attend one or more of these professional development seminars; one on taxes, one on data processing, one on something else. Because I just don't believe you get much out of it. It is like going to New York University to a five-day seminar, you are drained after the fifth day. You might as well give up and go home.

MODERATOR: Does anyone else think the American Institute could sponsor a type of development program which would be longer in duration, not necessarily concentrated, but over a longer period of time with some outside work between sessions?

PARTICIPANT: The problem is location. The difficulty is that the institute's program is good and it was well done and well prepared, but they have difficulty because, to give it on a geographical basis so it will be reasonably convenient, they have to have people running around the country all the time; and being here, if you try to do this every Friday night or every other Tuesday night, you can see the kind of problem it would be.

PARTICIPANT: I wonder if the compromise might not be what the AICPA did several years ago. Ralph Cohen was the instructor and it was given at Georgetown University; a course in report writing. I don't know if any of you attended this; it was maybe once or twice a week for a month and one half or so. They held this course and the whole program was laid out by the AICPA.

MODERATOR: Actually, this type of approach fell through and they concentrated it into a day or two. They tried this and

the attendance dribbled off.

PARTICIPANT: We are located in this metropolitan area where you do have facilities. These fellows are out in small towns and they do not have the ability of getting anywhere.

PARTICIPANT: There is also the problem of travel.

PARTICIPANT: I wondered, in an area such as this, why couldn't a local college or university give a program with graduate credit, perhaps on an off-campus basis, somewhere downtown. This is done by some of the colleges for other professions. American U. does it for the police and they run the school with credit right in the Police Department.

And I think you could not have too many judges or you could not make it too expensive, but I think if you had three things which were of interest, people of the type Charley is describing might go one night a week, feeling that they are getting three hours of graduate credit for this, and in case they are thinking in terms of a graduating degree later on.

PARTICIPANT: I think there are several schools that do that. G. W. does that for a number of agencies.

PARTICIPANT: I am thinking about a graduate school in the accounting profession, either public accounting or out of public accounting, geared just to that.

PARTICIPANT: If they are in public accounting professions, what subjects would they be taking at that level?

PARTICIPANT: Maybe something dealing with economic

aspects or future economic aspects. Some of the things we are talking about here now.

PARTICIPANT: Your higher finance, industrial management.

PARTICIPANT: Do you suppose this could be done on a one night a week basis over a long period of time and this person will get the full benefits of a graduate program? I seriously doubt it.

PARTICIPANT: It would have to be more concentrated.

PARTICIPANT: In the interest of controversy and confusion, I would like to put forth this thought: Tony, I know you are an educator, and I have an education, formal education. I really think that I learned an awful lot more outside of college and particularly in these areas that give us trouble. I question the wisdom of college courses to teach the subjects that bother many of us.

I do not think any university would be competent to do this job; this is merely an opinion. I just raised this question. We are talking about problems on the fringes of the profession.

MODERATOR: Who teaches you to be an accountant and who teaches you accounting?

PARTICIPANT: Is that what you mean by what courses?

PARTICIPANT: I don't know. The high financial management -- sure, you can learn this in school, but really you have to be talking to somebody like Bernard Baruch to get the real hot dope.

PARTICIPANT: I would like to hear your answer to both of these questions. When I said to you before about realism versus idealism -- now, I am concerned with Monday morning when I am going to go into that hell-hole and answer a phone call from a client that is going to need a financial statement as of today, and I am not too concerned, very frankly, speaking economically with the background as such or the versatility of the individual who is going to do that for me. That is my staff man. I am concerned with whether he is available more than anything else, and whether I have somebody that can get that job done.

Now, I would like to hear your comments on how you feel that if this program you have advocated -- let's assume it became a realism in the next 10 years -- exactly how it would bear on our profession? By way of some semi-specific example, if the people who came out of school were more versatile, more broadened, liberal education and perhaps equally strong in technical ability, how would this manifest itself in the accounting practice? Would it increase my fees; would it get me a better class of clients; would it get my work done quicker; would it cause me less aggravation? What would it do that would create an interest on my part in feeling as strongly about it as you do?

PARTICIPANT: You will have to forgive me. You should know me by now. I always get excited.

You learn more outside of college than in; you are not going to get any controversy or opposition from me. I am agreeing

with you. College is not a place where you have an encyclopedic approach to knowledge. College is one where you lay the foundation stone to knowledge. Where you learn where things are available and how to find these things and you learn a little about research and a little about perseverance and a little about people; and you learn a little about the subject matter you are going to deal with for the rest of your life, but you cannot expect any individual, even coming out of any school -- Maryland requires about 44 credits in their examination, is that correct -- to sit for their CPA examination; and even the University of Maryland does not grant that many credits in their undergraduate degree. They have to go for more credits which to me is on the ridiculous side.

So I am saying even a person getting 40 credits in accounting may not be ready to do a specific job, to be called upon to do that work immediately. He would require some additional training. So college is not a place where he learns all things. It is only the beginning.

I listened to a talk at a NAA meeting the other day by a gentleman from Price-Waterhouse firm. He made a presentation on continuing education. His talk was short and in that sense I was disappointed, but he had a real message; that is, it is the obligation of each individual for continuing his education. So college is just only the beginning and you learn a great deal more outside.

However, you must realize that it is difficult to draw a line as to what you really learned before that is beginning to jell now once your outside of college; that you can look at it with a different perspective and perhaps you have the total picture that you did not have before. Some of that that you may feel that you have learned outside of college, you really had the basis back there. Now it is becoming formalized in your mind in a total picture because how many of us, in listening to someone talk -- and a teacher up there in the room is talking and talking and you wish she would be quiet -- at the moment he is talking it may not come across and perhaps a year or so later you come across a situation and you say, "Well, I learned it now," but you had the foundation there.

So I do not have any argument in terms of learning more outside.

In answer to Joe's question, I would refer to the experience of IBM in the depression years. They did not look to the problem of capacity in terms of not having enough capacity to produce. They kept all their employees. So the story goes, they kept their employees on the pay roll and they went out and got their marketing work.

This means that the profession -- the profession should stress more and more the ability to produce a personal service and they should demand remuneration commensurate with their ability

to render this service. I think the profession falls short in this direction. We know the other professions are able to do this.

I think -- and this is right across the board, including large firms -- that the fees that are being asked are not sufficient. I do not think they are sufficient. I don't have any statistics to prove this; it is a feeling. On several occasions on actual experience I have advised several small CPA firms in looking over their fee structures; advised them to increase their fees.

In one instance I advised them to increase their fees one-third and in fact one of their partners left the organization as a result of that change in their fee structure. He had fear they would lose their clients. It turned out that they increased, not simply because of that one-third, but they increased more on their incomes.

So what I am saying is you can get this person coming in at that level, you will be able to offer him a greater challenge as a result of more income into the profession and being able, in turn -- it is a cycle -- that you render greater and greater service to the client.

MODERATOR: I did not want to open up the Pandora's Box on fees.

PARTICIPANT: Could I ask if the short answer to that question is not really, "Yes, sir; given your kind of an educational

program, it would do all of those things that Joe said it would do for him"?

PARTICIPANT: But where do you begin? I think perhaps, like IBM the profession should begin to push up the status of the profession. The prestige of the profession.

PARTICIPANT: Obviously, it is a gradual process.

PARTICIPANT: But how gradual? Perhaps it should move a little faster.

PARTICIPANT: As gradual as it takes to introduce those people into the situation.

PARTICIPANT: Somewhere along the line, do we talk about advertising or something, public relations?

PARTICIPANT: This is what I have been sitting here waiting for.

MODERATOR: Let's leave the education and training for the time being and move onto a few cases and the subject of liability. I don't think we have any of the firms involved in larger more publicly proclaimed suits sitting at the table.

PARTICIPANT: Yes, sir; we do.

MODERATOR: It is not so publicly proclaimed.

PARTICIPANT: Publicly proclaimed in the Wall Street Journal.

PARTICIPANT: I could sit here and listen to Tony for the rest of the day. I am sorry there are not many accounting professors in the schools as well versed in the problems as Tony

is.

Getting into the legal liability, I have to go back to this this morning. I am like Harry, I was afraid we were going to hit it before I got to it because we were on the fringes of it. Every subject we talk about in the accounting function, liability is tied into it. I am not going to take very long, because I think this is very interesting and we can have some discussion on actual cases which I find are very interesting also.

I will tell you quite honestly, I do not know from nothing about legal liability. I have never been involved in it fortunately and I have not given it much consideration. As a matter of fact, until I said to Paul one day -- I said, "Paul, I have not sent you anything about my subject." I said "Pick one and give it to me."

Well, I got the agenda and legal liability was it. I looked at John Carey's book and that is basically what I know about it. But I do feel like just after reviewing that that there is a four-letter word involved here in legal liability and I think that word is "fear." And I would say what to do with fear, but never mind.

I think this is one of the things that stops us from doing some of the things that we would normally do in the profession and I think it probably has built up over the years. We are likely to want to be careful to such an extent that we really

won't go out on a limb. We don't do things that need doing.

One of the things John Carey says is, "The auditor's opinion is sometimes regarded by the public as something designed to protect the writer rather than to inform the reader," and I think he is quite right. I think that a lot of times ~~we~~ we are inclined to think this way.

As a matter of fact, bankers sometimes do not even read this opinion that you give. They just flip right over the first two or three pages. This is not touching too much on the legal liabilities because I am going to leave that up for discussion. But I think we have got to -- we have got to, in some manner, in the future, try to overcome this fear.

Now, Walter mentioned this morning the courts as a remedy. If we are involved in something that we should take to the courts, I feel like we should, to establish the precedent, so that later on, if one of the rest of us have the same problem, there is a precedent in the courts.

Education, as Tony mentioned, maybe we can educate the man well enough that he does not get involved in the gray areas that might involve court litigation. These are basically my comments, Paul.

MODERATOR: I wondered if anybody had any thoughts. I don't know if you have been reading any of the pronouncements of the Institute about legal liability, but there has been thoughts about having a team of legal experts, members of the Institute

who are willing to testify in defense of accountants who are being sued.

There has also been some thoughts about the possibility of the Institute financing some of the suits in order to win some cases and build up a body of decisions which would be beneficial to the profession in the future.

PARTICIPANT: What happens if the accountant is wrong?

PARTICIPANT: We don't take those.

PARTICIPANT: Leave it to the insurance companies.

MODERATOR: We will leave it to the insurance companies.

I think the Institute has had, for a long time, some working relationship with the surety companies. I am not sure it has ever been invoked. On an informal basis, I know it is. But this has not worked too well.

PARTICIPANT: Some of the informal arrangements have been successful from what I heard.

PARTICIPANT: I would like to comment on Hughes concern, that the professional activities may be governed to some extent by fear. I think you have to be realistic about it. We know this; that today, people are ready, willing and able to name an accounting firm in a law suit at the drop of a hat. Why? Because the word is out that these fellows don't want that kind of publicity and therefore they are an easy mark.

Let's not kid ourselves. This is what happens. We are all concerned about it. The cost of the insurance as a result is

going up and the thing tends to snowball, you see, so there is a darn good reason to be gun shy in some of these cases.

You started off your comments by saying you have not been involved. I assure you your mind gets changed a little the first time you get involved. So it is not easy to say, "Let's throw caution to the wind." It gets right expensive.

PARTICIPANT: This is what I was hoping would come out of this discussion, things such as this. Instances where we have reason to feel this way, or feel the way you did. I don't mean throw caution to the wind, I mean do things.

PARTICIPANT: I happen to know of an accountant that got named as a party defendant in a suit and they brought me the complaint. So help me Hanna, there is not one single word in the whole complaint that would even tie the accountant into the picture. Why he got named, I have not the vaguest, but here it is, and if there were to be a newspaper report of this -- and I don't know if there was -- but if there were, the newspaper would have to carry the fact that this accounting firm was named as a party defendant and thereby whittle away a little bit of good will of that firm.

PARTICIPANT: A lawyer will name anybody remotely connected with the thing.

PARTICIPANT: Here's one where there was not one single word in the complaint. The only place the firm's name appeared was in the head note that goes on the complaint.

PARTICIPANT: The theory is, we can't lose anything by naming him, but we better have them.

PARTICIPANT: I am not so sure this firm should not sue them back.

PARTICIPANT: This article in the current issue of "Fortune" does a terrific job on Pete Marwick and if it develops that Pete Marwick has no responsibility here, there will be no retraction that would be sufficient for what they had in this article. It is the Yale-Express case.

PARTICIPANT: It is very severe.

PARTICIPANT: It reads like a fairy tale.

PARTICIPANT: If it is anywhere close to true, they deserve to get it.

PARTICIPANT: Let's be their advocate. Say they have not done anything -- I find it a little hard to believe, but let's take the position they are blameless -- they could never get back what this one magazine article did.

PARTICIPANT: Isn't it true that everytime "Fortune" writes an article it is in a popular vein, like Vance Packard's books? If a person reading it has some modicum of sophistication he should be able to weed through this.

PARTICIPANT: This is a fashionable magazine.

PARTICIPANT: Fortune is not about to lay itself open to any liable suit.

PARTICIPANT: They put the wording like Vance Packard

does -- he is not telling untruths -- but one can infer something is wrong.

PARTICIPANT: I think there is a lot of this -- not "Fortune" magazine -- but there is a lot of this in journalism as a whole. But I still think that this has to be a favored indoor sport.

MODERATOR: What can the profession do, either individually or as a group, to combat this type of thing?

PARTICIPANT: I was going to say that, really does the profession have the right to do anything in a matter of this sort? I am now speaking of this one case.

MODERATOR: I was not speaking of one case.

PARTICIPANT: What can we, as a profession do, if the accounting firm happens to be wrong? It is a mark against the whole profession. That is the point.

MODERATOR: I am going on the assumption that the accounting firm is right. If the accounting firm is wrong, obviously the Institute or its membership, perhaps, should do nothing or perhaps let it be known.

PARTICIPANT: Talking about publicity, Art and I are more aware than everybody else of this accounting firm from New York that was doing work for Head Start on one of the projects in Mississippi, and the New York papers have been covering it pretty big. It is a tragedy.

PARTICIPANT: Isn't this, in an indirect sense, healthy

for the profession in its growth, just as the McKesson-Robbins case was?

PARTICIPANT: Over a long period of time it has to be helpful, but we are getting into things that involve frivolty. All of the profession must be alert of the opportunity to knock down, in a big and flashy way, suits that are frivolous in order that the profession not be victimized simply by the circumstances.

PARTICIPANT: How effective are counter suits?

PARTICIPANT: I don't know that, but if we could win a few of them, it might discourage ---

PARTICIPANT: If you win how do you publicize them, and if you do publicize them, doesn't this become adverse publicity after a time? An equal time thing?

PARTICIPANT: I don't know. Except to answer, when Paul said, what could they do, this is one of the things that is suggested as a means of trying to head off the suits that are frivolous; not just suits, but being named as a co-defendent.

PARTICIPANT: Obviously, John Carey has done a lot of research in writing his book. From what I see one of the main resistants to this thing was resistance. In other words, feed these cases all the way up to the highest courts and because so many claims are settled out of court that you do not hear about which of course are adverse to the CPA -- this is one of the things that he says can be done.

MODERATOR: It is different, I suspect, when you are the

guy who is fighting to resist the temptation not to pay off.

PARTICIPANT: And it would cost every dollar that you have.

MODERATOR: This is the point that you made Gabe, that you win, you lose, no matter what.

PARTICIPANT: Have there been any cases where more than a fee has been considered to be a penalty, so to speak, on the part of the firm? In other words, have they been held negligible and therefore been penalized beyond the return of their fee? I only read a few where basically they were judged that the loss involved was the amount of the fee, nothing more than that.

Perhaps something along this line could be gathered -- will the information from these various firms -- and come up with either a statement or a publication pointing this out; that at no time, or very rarely has a CPA firm been held beyond the extent of their fee.

PARTICIPANT: The Salad Oil scandal did not really involve much in the way of liability.

PARTICIPANT: Has that been concluded? I thought it was still in process.

PARTICIPANT: I am sure it is, but I wondered if that involved such a situation?

PARTICIPANT: It seems to me we are talking about two different problems and have mingled them together. The first one is a sort of joint effort to back up CPA's in trouble. This I

think is definitely the thing to do. I think we ought to do this.

When I had this little law case going for the treasury, which effected CPS's in deduction of expenses, I called New York and said, "Have you got anything like this?" And the answer was, "No." Like, "Go ahead, but , , ." So that is one problem.

The other problem is, we are talking about computer installations and wild situations where a CPA is stepping, maybe, well beyond the bounds of accepted rules. He might be right. He might be completely right in his services that he renders and in his reasonableness and judgment and everything else. But since there are no rules, if anybody sues him, he is more or less defenseless.

Now, maybe in such a situation as this, a group of situations, a group of CPA's backing him up, saying, "Yes, there are no rules, but in our opinion this man did a great job," this could be extremely helpful. But when are they going to do this, when he is operating beyond the accepted rules?

MODERATOR: There has been some discussion of -- I don't know exactly the mechanics that accomplished it -- but I suppose it would be part of our code of ethics of making adverse testimony by another CPA unethical or some such term of that. Is that within the realm of possibility at all?

PARTICIPANT: There is a recent article where one of our prominent accountants has taken the opposite position.

MODERATOR: I think he perhaps would be opposite on most everything else.

PARTICIPANT: Do you mean a court case?

PARTICIPANT: No, the article was in the vein that someone apparently had gotten across to this accountant that an accountant should never blow the whistle on another accountant and he was taking the position that if the accountant is wrong, blow the whistle on him.

PARTICIPANT: John Carey takes that position.

PARTICIPANT: An agreement not to testify would have no standing. If ever you were subpoenaed as a witness how could you refuse to testify?

PARTICIPANT: How about the committee John Carey talks about with the medical profession?

PARTICIPANT: He says adopt a rule of ethics. In other words, some standard. But now we get back to judgment again.

PARTICIPANT: Has he cleared that with his anti-trust counsel?

PARTICIPANT: Would it have any legal standing? How could a group of people get together and say, "We will never testify against each other."

PARTICIPANT: Perhaps a case should be tried before a CPA tribunal before it comes to the court.

PARTICIPANT: This is one of the efforts in here. This is one of the things that they are trying to get surety companies to do, just this thing; agree not to sue until they have gone to

what is called an impartial committee. They have that.

MODERATOR: I don't think it has ever been used formally. I think parts of it have been.

PARTICIPANT: Who agrees not to sue?

MODERATOR: The surety company.

PARTICIPANT: That has occurred?

MODERATOR: This agreement is in being.

PARTICIPANT: The stockholders in a case like this or the owner would be suing?

MODERATOR: We are not putting everything under the same umbrella. There are certain companies where the insurance company will pay off default or some such thing and then go after the accountant or anybody else they can get a hold of for restitution.

PARTICIPANT: So the regional surety would make an agreement with the auditing firm at the time of the audit?

MODERATOR: No, review it first. The surety companies and the AICPA have an agreement in being at this time that prior -- it is not so simply stated -- but prior to the institution of a suit that they will sit down with the AICPA and listen to what the institute feels is the liability and the responsibility in the case.

PARTICIPANT: I have something else to discuss. What you want to say, Hugh, is that on this subject, because I want to change the subject?

PARTICIPANT: As I said before, I did not give much

consideration to this matter until I read this chapter. It is a short chapter and it is extremely interesting and I would suggest if you do not read anything else in this book after you leave this session, read that one. It covers a lot of things we are talking about here.

MODERATOR: We will conclude this with Joe and we will get into ethics with Bob.

PARTICIPANT: I wonder if anybody here has given consideration to whether accountants are exposing themselves to greater risks through utilizing service bureaus for tax returns, and I am not speaking in terms of the revelation through computer centers. Obviously, an accountant is delegating certain responsibilities to the computer center.

Does anybody know if the conventional liability policy still protects him or is there some clause whereby if there is a mistake in the tax return, and the client sues the accountant, the accountant cannot turn to his insurance company for protection?

MODERATOR: I think the accountant is still fundamentally liable.

PARTICIPANT: I am sure the accountant is. This is what concerns me.

PARTICIPANT: He means, does the insurance cover it?

MODERATOR: I would think so, but I do not know.

PARTICIPANT: It is subcontracting the work.

PARTICIPANT: A subcontracting clause is in the policy. I thought somebody was familiar with it.

PARTICIPANT: Is it considered to be negligence, if that occurs?

PARTICIPANT: The policy is not formally limited to the accountant and his staff or the firm per se. It is mistakes which are made by subcontractors of the accountants, too, presumably.

PARTICIPANT: Then, the accountant is liable for any subcontracting work, if he is going to ultimately ---

PARTICIPANT: Does your insurance coverage break off when you send this thing out the door to the service bureau?

PARTICIPANT: That is a good question.

PARTICIPANT: An insurance company will resort to whatever they have to to avoid being held liable. Of course, I don't know what the case is here.

PARTICIPANT: Does the service bureau have liability insurance?

PARTICIPANT: That is very interesting because if you read the contracts with most of the service bureaus, they say they limit their liability to something like \$100 or something like the cost of redoing the return. This does not envision a \$100,000 tax deficiency which was created by an audit that was invited by a mistake on a return; a hundred dollars, some nominal liability.

So you could not turn to the service bureau. You could only turn to your insurance company and they shut the door in your face and feel very sorry then.

MODERATOR: Seek the advice of your friend ---

PARTICIPANT: I don't know if this mistake could occur in a simple computation of the tax that would cost a client money that he would not otherwise have to pay unless it is a failure of a case to make an election or somebody, and I do not think this would be the service bureau's mistake. I think it would be the accountant's.

PARTICIPANT: I think some of the service bureaus highlight whether to file a separate or joint return. Let us assume that something went wrong in the determination whereby the client paid more taxes than he would have under the alternative option. This is a little remote, but I cannot think of a better example.

PARTICIPANT: I can think of one where the tax computation came out to a liability of \$10,000 and it should have come out to, let us say, \$100,000.

The company paid the \$10,000 and three years later the examination determined it should have been \$100,000. By that time, they are out of business and they come after the accountant for miscomputation, because there is no company to get money from.

PARTICIPANT: This question might turn on, also, if

the error definitely occurred as a result of what the accountant put on the input questionnaire which I think would be 999 cases out of a thousand, I would think they would still construe the accountant to have, in effect, prepared the return, because he created the input information that caused the error; if this is what made the error happen.

PARTICIPANT: Strangely, in these typical cases, it is a situation where the accountant would want to be held liable rather than denial of liability because he could not then hold his insurance company.

PARTICIPANT: Only if the policy denied liability.

PARTICIPANT: And I do not know the answer to that.

MODERATOR: Now, we will move on to this and Bob Harris is going to lead us off.

PARTICIPANT: I have the distinction of being the only one from Virginia here. I have one of the longest chapters in the book and, also, one that will not be fully resolved; I am positive.

All of you that have not read this chapter in the last 10 days, kindly stand up. Then, most of you have read it in the last 10 days.

It is Chapter 10 and it is called "Ethics." I have been debating how to go in this preliminary and I will start and give you a few of what I think to be the highlights and then we can discuss it until midnight.

I might suggest that, if in addition to Hughes's chapter on legal liability, that you read the introduction to this book. It gives us something to think about.

The main thing in this whole course, as I see it -- and I had this forcefully brought to mind recently in a visit from a Fairfax highschool county teacher asking what we, as a profession, would like to see presented on a highschool level. I did not get into it when Tony was speaking, but the purpose of this girl's visit was to put across that she was trying to get her pupils to think. That is what we are here for fellows, to think.

So we talk about ethics. We know we are not really going to solve them. But a few quick excerpts: "There are no limits to the possible interpretation of law in Government in regulation of the accounting profession." It goes on to point out that the best thing we can do to prevent legislation to govern what you and I are permitted to do is that we will cover it ourselves.

Whatever method we may come up with, whatever steps we may pursue, if we do the job, we do not have to have outside intervention.

This, to me, is most important. The present machinery of the CPA profession is inadequate, according to Mr. Carey, to keep with the needs of the future; whether next week or next year is the future, we leave to you. But his theory is that we

have to make some progress.

A complete overhauling of investigation and enforcement machinery must take place. We are not doing enough. The standards, the application of ethics -- rules are not strict enough to do the job that he feels needs to be done. Ethical standards in the United States are rising and will continue as it is pointed out here. Ethical standards must do just this and must continue.

At the heart of all great professions is a commitment to the public good as it may be served by each profession. One of the satisfactions of serving society is to help them to whatever extent we can. We do not necessarily have to say it is all for the good of the public, but just as a general procedure. We would like to think what we accomplish is for the overall betterment of our clients.

"Compliance with auditing standards is not yet universal but is believed to be improving steadily. Generally accepted auditing and accounting principles are not yet well defined." Quote, Mr. Carey.

"There is danger in competitive pricing which, of course, comes into ethical accounting practice." He points out here he does not necessarily feel that we should not be able to and should not give any kind of idea or range, should the man ask. The business is going to enlarge for the first time or change for reasons we presume to be other than price.

"Accountants --," so he says, "can you give me some idea of how much it will cost?" How we arrive at it and how we approach it and how we answer it is not, of course, clearly understood. But we would have to admit, I think, that the business needs to have some vague gauge at least of how much he is going to be called on to spend.

The main point, as I interpreted this, is that the approach must be one, not of cold dollars and cents, but one of ethical standards between the various accountants. Mr. Carey points out that when engaging a new accounting firm, any businessman is entitled to a general idea of the probable fee. The intent of the rules is simply to discourage competitive bidding on a price level alone.

He points out he feels that firms should be permitted, to some extent to at least elaborate on what they feel are their outstanding accomplishments, what they specialize in, if you please, what they might have done in a similar situation, be it right or wrong. He does not look upon it as advertising. He merely indicates that it is one of pointing out what you might have been through.

The ethical foundation of the profession's prestige will not be secure until generally accepted accounting principles are defined within reasonable tolerance.

A CPA might actually be as independent as any one could be but would still not be considered independent, if the

circumstances, in the eyes of the public, raise some question of authority. This we will agree to and we have touched on this this morning. In effect, he is saying that you or I may in our own eyes be completely and fully independent, but John Doe, for some reason perhaps unbeknown to us, happens to feel that we would not necessarily put it all down as facts; so we have a problem. All we can do is generally work to improve our stature in the eyes of the public.

The Committee on Ethics reaffirms the position that, "Independence is a state of mind. You decide it. We hope we can get it across to the public." If an independent auditor had a financial interest in a company that he was to audit or if he served on the board of directors, or as an officer, reasonable observers might well think he was not independent.

I personally would like to think and have stated a few occasions that I did not feel that that necessarily would taint our report. I think it is one of degree perhaps, more than anything else. The American Institute says, "A degree of a share of stock in General Motors ..." To me, that is ridiculous; their theory being the public says he is a stockholder so he could not be independent.

The national boys would have to tell us whether any member of their firm owns any share of any of their clients. It is sort of impractical.

MODERATOR: I think it is done.

PARTICIPANT: You could hardly get away from it and particularly, if you own anything on the New York Stock Exchange, or any public stock. There is no reason in my eyes why they should not own it.

PARTICIPANT: Any time you pick up a new national client, there is a circularization of any partner in the firm -- "Do you own it?" And if you do, get rid of it.

PARTICIPANT: You have to sign that you don't.

PARTICIPANT: That is good as far as ---

PARTICIPANT: That is not universally applied, is it?

PARTICIPANT: It has to be.

PARTICIPANT: You are suspended from the SEC, if not.

PARTICIPANT: Even though it is known that the sole owner of that stock is the man, your client, sitting across the table from you, you still circularize and get a statement that if anyone else has an interest, that would preclude you from being independent.

PARTICIPANT: Is this true of retired partners who still have a financial interest?

PARTICIPANT: I would have to say no to that. I don't know for sure.

PARTICIPANT: Is a single share ---

PARTICIPANT: Any share. A fractional share.

PARTICIPANT: Therefore, you must sell those shares.

PARTICIPANT: Get rid of it.

PARTICIPANT: I attended two of the American Institute meetings at which this question was discussed and if any of you were there, it was to me a farce and the results were just as big a farce. But it took place and it happened and if it is being abided by, that is fine.

MODERATOR: It was prior to any ethical standard, as far as the American Institute. I think it is true of the others.

PARTICIPANT: I make this observation, that many of us feel that the standard gets a little ludicrous in given circumstances, but the point is, if you set the standard, you must live with it, even though it is ridiculous in some instances, because in others it may not be.

PARTICIPANT: That is good and this follows here. First, it boils down to simply being honest, fair and objective. Then, it goes on to say, "This is a simple, reasonable standard, that of setting standards which are livable."

"Have people across the board live up to the rules on a fair basis rather than putting the rules or standards so high that they are basically unattainable," makes sense as far as I can see. In fact, in practice a member or associate must observe the same standards of truthfulness and integrity as he would in any other case.

"It has been indicated and even pointed out that should there be any reasonable excuse, contention, question,

that you may take the taxpayer-client's stand as long as you can defend it in any way, shape or form or to any extent." You are going to be fair and square and honest and all like that, but if there is a doubt, you are supposed to, in effect, lean for and to your client. It means simply that the CPA must be honest, fair and objective and free from conflicts of interest.

"Basic, ethical concepts must be applied across the board." This goes on and on, but I think generally we hit the highlights.

As far as I am concerned, it is one of practical application. There is no fast set of rules that I believe can be arrived at that will apply per se. It is one of everyday thinking and application and it will vary depending on the circumstances.

PARTICIPANT: Bob, earlier in your presentation, you hit on the point of policing the profession; that is, that the profession police itself, which I advocate. I would like to raise a question as to how we reach the non-American Institute member.

PARTICIPANT: Directly to your answer, in here they point out, that supposedly -- and apparently the State level and the State board is the place for this ethical policing -- they feel that the American Institute is too far above, primarily number-wise and coverage-wise to attempt. They say they feel it should be on a local level, but to my knowledge, there is

no earthly way on the American Institute level or the State society level that you can do one thing to the guy who is not a member.

MODERATOR: Actually, I think some of the State boards themselves have adopted a code of ethics and in many cases, this code has been the code of the American Institute. So this would put under control, if I might use that word, all CPA's regardless of their membership.

PARTICIPANT: Hasn't the D. C. Board adopted the AICPA code?

MODERATOR: I don't think the D. C. Board has adopted any code.

PARTICIPANT: They made a move in that direction well over a year ago.

PARTICIPANT: That is the C. D. Institute.

PARTICIPANT: I am talking about the D. C. Board of Accountants.

MODERATOR: They did make a move and I am not sure they have the authority under their present legislation to do this. The proposed bill does give them such authority and they do contemplate adopting a code when they have the authority.

PARTICIPANT: The bill gives them the authority to police the rules of the D. C. Board of CPA's. They cannot make their own rules.

PARTICIPANT: The State board is the law.

MODERATOR: The Institute can just cover its members, but the State boards, you are being encouraged to adopt a code of ethics which would go to all CPA's and not just to members of the professional societies.

PARTICIPANT: All public accountants, too.

PARTICIPANT: There was a great deal of thought at one time that the D. C. Board, even under existing law, did have the authority to adopt a code of ethics or a standard by which they would make judgments in given cases and that they would have -- anyone who attempted to contest that -- would have a tough time establishing that the standard which is parallel with that of the American Institute is not a proper standard.

So, presumably, they have done nothing about it.

MODERATOR: I think not.

PARTICIPANT: I would like to ask a question. How does the American Institute go about policing its members?

MODERATOR: Cases are brought to their attention, to my knowledge.

PARTICIPANT: A complaint has to be registered.

PARTICIPANT: This is what was bothering me. When you speak of policing, it strikes me, the basic to policing is the membership policing itself and there is a natural reluctance to blow the whistle on a fellow CPA. I don't think it is done to the extent that it could be done.

PARTICIPANT: That is right.

PARTICIPANT: It is done.

PARTICIPANT: I am sure it is. But I am not saying it is done as often as it ought to be done.

MODERATOR: Actually, there has been some attempt, I believe, on the part of the American Institute to shed this responsibility of policing the codes of ethics to the State societies and this is an attempt to not divest themselves of any responsibility, but to put it where it can be handled best. This is on a local level. They have done this to some extent by these sub-boards which have made it more convenient for members to defend themselves.

PARTICIPANT: The American Institute trial procedure was awkward, apart from the problem of getting knowledge of a given case. The procedure itself was awkward because the board members were scattered all over the country. This meant they had to get together to meet and whoever was up on charges had to get dragged from wherever he was or not turn up and lose by default, and so on. It did not make practical sense.

MODERATOR: This is an attempt to have the State societies, themselves, police the code of ethics.

PARTICIPANT: You think about it and a practitioner runs across somebody who has done something wrong and he says, "Look at all the time and bother I have to go to, if I do something about this," and how many times does it get dropped for this reason?

PARTICIPANT: That is not peculiar to the CPA profession. It happens in all walks of life. The onlooker will not interfere because of that trouble.

PARTICIPANT: I might suggest -- again for your brief reading -- the conclusion of this Chapter 14. The conclusion starts on page 242. You might find it worth reading.

PARTICIPANT: Are there two standards in existence; one where the client is covered by SEC ruling and one where the client is not covered by SEC?

PARTICIPANT: I am afraid to say. I think there probably is.

PARTICIPANT: And, if so, are we once again waiting for the law to state what the profession should be doing?

PARTICIPANT: Heaven help us. I hope not. I think that the American Institute's move in adopting the new rule of independence was a step in the direction of trying to bring the SEC rules and the Institute's own rules closer together. I don't mean to suggest that the Institute ought to necessarily adopt SEC rules just because the SEC has them, but I think to the extent the Institute feels this is not a proper rule, they ought to implore the SEC to change their rules.

PARTICIPANT: I would agree.

PARTICIPANT: I would like to see the two of them parallel so you do not have the dual standard.

PARTICIPANT: Let me close with this: "No amount of

guidance, however, no amount of rules, regulations or interpretation will do the job unless we, as CPA's, are motivated to observe the high standards."

It is a good chapter, worth reading.

PARTICIPANT: Aside from the fact we are all such fine fellows and we would never do anything wrong even within the area of interpretation, do you feel a true 100 per cent independence in a sense of impartiality can ever exist as long as you are paid a fee by the client you work for?

PARTICIPANT: You are asking me if I feel it would be possible to be completely 100 per cent independent?

PARTICIPANT: If I said yes, you are not going to believe it.

MODERATOR: It is like, "Have you stopped beating your wife?"

PARTICIPANT: I have one case where I can say yes and it is true.

PARTICIPANT: I would like to think that we will proceed with that in mind. We have been fortunate enough not to lose too many clients over the years. We have given up one or two because of differences of opinions, where they insisted on doing what I thought was completely out of line and beyond a shadow of a doubt.

Fortunately, we do not have any one client that is a high percentage of our income. I guess we are in a position

to come as close as any of the rest of you in that regard.

PARTICIPANT: I would say this: That the degree of independence or the degree of deviation from independence that is brought about by fees is not necessarily in direct proportion to the amount of fees. I think all of us could think of certain circumstances in which, notwithstanding the size of a fee, we would be more prepared to give up a client in a given set of circumstances than we would another client that involves a lot smaller fee.

PARTICIPANT: I am sure we would all agree with that. My thought in asking the question was prompted by the fact that by divesting one's self of one share of stock in a publicly-held corporation, it is not that the Institute or anybody else feels that the ownership of that one share will influence any decisions in the certification or statements, but it will eliminate the possible accusation by perhaps some prosecuting attorney who says, "Are you a stockholder?"

If you own one share, you have to say, "Yes," creating the impression you are a stockholder, even though it was only one share. By the same token, if the same attorney says, "Were you paid by this corporation for doing this job," is not the interference the same? Was there not some compensation? You are just as badly incriminated as if you owned the one share of stock.

PARTICIPANT: You see, people always use an

example such as that to make comparisons.

PARTICIPANT: That is the first time I have ever heard it.

PARTICIPANT: To me, it is not that one share of stock. Obviously, if you think to do it with any other number of shares of stock, you then get into a hassle of what is a realistic determination of ownership before making a determination and it seems better to say, "Look, you will own no stock in this company for which you are giving an independent opinion on."

I think that is basically the reason for, "You will own not even one share," even though it may be one share of GM and you are doing the GM audit.

Now, you get to the fees. There is no question about it. We have seen it. It happened in our area here where a particular client becomes quite predominate in one individual practice and it is an unfortunate thing but this happens. It is hard to say, "Look some place else or get another firm because I am not really being independent any more. You are too great a percentage of practice."

We do not have an easy answer for that viewpoint and I am sure there could be a distortion in one's opinion, if he knows that this is, let us say, 30 per cent, 50 per cent, 75 per cent of his practice. I don't think there is an answer to that question and I do not think we will ever find the answer to it.

PARTICIPANT: Except for the fact that there may be differences depending on the size of the fee in relation to the firm.

PARTICIPANT: Aside from the fee question which has some merit, the instances arising from stock ownership are different in the fact that you are paid a fee for the work. No one else would do the work without being paid a fair fee. They should not because that, in itself, would be unethical. Whereas, on the other hand, if you had a financial interest in the enterprise, then you might be led to do different things which would impair your independence because of a self-interest thing over here which would be affected up, down or adversely or positively as the case may be.

Again, because of your own action. So it seems to me the two things really are not comparable. I recognize the problem of the guy who has a one-client operation or one-client practice, and he may be a captive auditor and maybe he should consider that as a special problem that has to be dealt with. I don't know.

PARTICIPANT: Merge with a national firm when you are in that spot. What Gabe said here reminded me that the other day we were doing some work on a financial statement on a client who had an interest in some joint ventures. In turn, there is a full-time CPA employed by the venture, one of the several ventures, and when I looked over this finished product, I saw

one of the men in my office had, in effect, relied to an extent on a, let us say, representation, if not a certification, by that non-independent CPA who was employed by the venture, as to the value of this particular venture in incorporating that information into the financial statement for our client.

I said, "Who is the CPA and what does he do?" and all that an it came to light then that this man, within the strict terms of the rules, could have been considered an independent CPA with that venture as his only client.

In effect, it was otherwise; he was employed by them. So, of course, I immediately changed that part of the report that dealt with reliance on that CPA. He was a CPA but not in public practice.

MODERATOR: We have not discussed advertising, but we can. Tony wants to advertise.

PARTICIPANT: I don't think the profession is doing enough in the public relations area. We talked about recruiting people into the profession, attracting young persons at the highschool level to come into -- as I indicated -- into business administration and so on, into public accounting.

The very fact that we cannot advertise does not mean that we cannot stress the public relations end of it. The big problem is how to do it without advertising one's wares. I think a great deal more should be done by not only the AICPA alone, but each of the State societies and right on down the

line. For example, the local associations, the NAA, invites students to their meetings from the local colleges. The FGAA does the same thing. The D. C. Institute is doing it and they have a fine scholarship program.

I wonder if some of this at any time could filter down to the highschool level? I don't know. All I am saying is ---

PARTICIPANT: It is being done in highschool.

PARTICIPANT: There has been a Speaker Bureau set up, also.

MODERATOR: They have career nights and this type of thing.

PARTICIPANT: The American Institute has this year come out with a testing kit program for highschool students that has, within the last two weeks, been distributed to every area highschool and junior highschool. I have not gotten my hands one one of the tests myself but it is a step to supposedly encourage thinking along following accounting education and following the profession.

PARTICIPANT: And aptitude tests.

PARTICIPANT: I might make one comment. Speaking about advertising, a rather interesting thing happened to me just yesterday. I was telling a couple of the fellows about it. I received a copy of a press release that the AICPA had sent to the Washington newspapers concerning my point to the Committee

on Relations with Government Accountants, or something, and I will tell you, if it ever gets in newspapers, I am going to be embarrassed. They went on for paragraphs. They must have a few -- I would be embarrassed to put it in myself -- they went on and on about your background and everything else.

PARTICIPANT: Mine was in the Post this morning and it is about this big. It does not even say who I am with.

PARTICIPANT: I was really quite embarrassed to see this thing.

MODERATOR: Before we close, may I make a couple of announcements? There are one or -- off the record.

(Discussion off the record.)

MODERATOR: We will adjourn now until 9 a.m. tomorrow.

(Whereupon, the conference adjourned until 9 a.m.

Saturday, November 20, 1965.)

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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 SEMINAR ON LONG-RANGE PLANNING :
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The Hunt Room, Kenwood Country Club
 Bethesda, Maryland
 Saturday, November 20, 1965

The Seminar was called to order at 9:00 o'clock a.m. by
 the Moderator, Mr. Paul Lambert.

ATTENDANCE:

(As heretofore noted.)

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THE MODERATOR: Yesterday, we skipped over Chris on his
 CPA Services to Government, which is broader perhaps than the
 title indicates. Chris has promised me he will shorten up what
 he has planned to say in his 30-minute discourse.

MR. MORAN: Yes. This won't make much of an impact, I
 can get through it in about 10 minutes.

I comment on two chapters of the book which were not
 reviewed to any great extent. Chapter 4, also Chapter 8, begin-
 ning on page 156. The subject of relations with the Government is
 of course threaded throughout many of the other chapters.

CPAs have been furnished services to the Government
 and to quasi-Governmental agencies for many years. There is one
 rather recent development I think of importance. In 1961 the
 Council of the American Institute adopted a resolution recognizing

that the CPA profession had a responsibility to the public to assist where appropriate in the strengthening and application of control of Federal funds, somewhat in the same manner as the legal profession advises and assists in the administration of justice and the medical profession cooperates in the administration of public health standards. As a result of this, a senior committee was formed on relations with the Federal Government. That is in existence now. It is staffed by the Washington office of the Institute. I presume all of you here are familiar with the operations of this committee. Many of you have served on the committee. I won't, unless you have any specific questions, go into the operations of the committee.

The CPA services to the Government, and particularly Government-financed organizations, or Government regulated functions have increased tremendously. Tom Flynn, in a speech in May before the financial management round table in Washington, pointed out that in '64 about 40,000 professional engagements were directly traceable to the activities of Federal Government agencies.

John Carey in his book pointed out that 26 Federal agencies were responsible for 38,000 of these engagements. He projects that in 1975 there will probably be about 75,000 such engagements. So I think from both the economic and from the professional standpoint, these engagements will be of some importance to the profession.

Let me review just briefly what some of these are.

The SEC, I know you are familiar with this, familiar with their standards, the Rural Electrification Administration requires audits of borrowers and the type of job they want is not too dissimilar from the regular audit engagement. The Small Business Administration requires independent audits of small business investment companies to which they have granted licenses. They want not only the conventional audit statements, but they have certain questions which they expect the CPAs to answer.

The American Institute also, at the suggestion of the SEC, has gotten together with the Investment Company Institute so CPAs can conduct more audits of these various investment companies in connection with the industry's mutual self-policing functions. Here again, on these audits, these are somewhat in the nature of compliance or management audit, there are certain questions that the CPA is expected to resolve, some of which are outside the scope of our normal professional engagements.

Another area is cost certification where there is a Government grant or loan to some throughway or highway authority. The Government wants to know is the money being spent for the intention as set forth in the grant. Something for the future, Government procurement, there is some thought that if the contractor furnishing information to the Government is audited by a CPA, that the CPA will attest to his cost figures that perhaps the Government should accept this. This is kind of in line with the thinking of what Internal Revenue Service might do in the

future on tax returns certified to by CPAs.

Another area is Government insurance such as FDIC where the Government has insured depositors. The FDIC has encouraged, but has not required, audits of banks by CPAs or independent accountants. But there is some thought that if this bank was so audited, this is future speculation, perhaps the scope of the bank's examination could be cut down since a professional public accountant had been in there already.

There is also a problem in the area of rate regulations. I understand the Federal Power Commission on some occasion has accepted audits by CPAs in the question of the rate financing area in lieu of detailed audits by members of their own staff.

Pension and welfare funds where the Department of Labor has to get a financial statement from a fund, it must be signed by either the manager of the fund or independent accountant. This also raises questions, because this is a compliance examination. One of the purposes of the examination, this type of examination, is to determine whether or not there is any mismanagement or fraud. Certainly an opinion or procedure where you disclaim liability for fraud or the uncovering of fraud, that may not hit the nail on the head as to what they are looking for in these types of examinations.

There are a host of other agencies which also require examinations by CPAs. I think, most people think, that this is a good trend. I point out, however, that it does raise questions. The Federal agency has certain specific matters to be resolved.

It may be in the fraud or misrepresentation area, and these may be things which the CPA normally doesn't look for, or concern himself too much on other engagements. I think they have have to change the scope of their audits to go in and get exactly what the Government agency requires.

Also, with respect to local governments in the various states, I think there has been an increasing tendency for school boards and quasi-Government functions such as throughways, turn-pikes, port authorities and the like, to require examinations of their records by independent public accountants. Of course, this is another good thing. It is good not only in the public interest, but it is also a good thing for the accounting profession.

I would like to spend a minute on the general area of relations with the Federal Government. There are about 2,000 CPAs in the Federal Government, plus I don't know how many other people engaged in various aspects of the accounting function. The American Institute of CPAs, I think, is the one professional society that all CPAs should belong to. It is one profession.

I think this has worked extremely well in some areas. We could show the D. C. area as an example where we have several hundred people, CPAs in Government who are members of the D. C. Institute who participate in Institute affairs and who are made quite welcome in the Institute itself.

This raises another question which the D. C. Institute as an organization has resolved, namely, this is the question of

whether or not certain types of Governmental accounting experience should be recognized as qualifying for the CPA examination. We have a bill before Congress now which has been accepted by the members of the Institute overwhelmingly which would recognize diversified auditing experience in auditing the records of three or more distinct types of commercial business in accordance with generally accepted auditing standards and which also recognizes the type of accounting functions performed by the Securities and Exchange Commission.

What this recognizes, in effect, is certain types of Governmental accounting which is, I think, what we are concerned with, which is the only thing we should be recognizing. But there is professional accounting in the Government which is comparable to the type of work which is being done in practice. That aspect of Governmental accounting, I think, should be recognized and has been recognized by the membership of the D. C. Institute.

There are roughly about 37 states where, either because there are no experience requirements or because they recognize certain types of Government experience, about 37 states where Government accounting of varying types can qualify. I think this is a good trend. Just as I said before, it is one profession. There should be one national institute for the certified public accountants. I think we have before the American Institute whether you are in practice or out of practice. I think there has to be one unified organization.

That's it.

MODERATOR: Fine. Do you have--

PARTICIPANT: Do you know the last year or year and a half the whole approach to auditing banks has changed materially. I wonder if you or anybody in the group here would want to comment on what there might be in the way of future development with respect to opinion type audits of Federal banks and savings and loan associations or savings banks?

It seems to me that this, together with perhaps the insurance company area which gets it a little out of the government, will not really be at this point, you have either Government regulation or Government audit overseeing of both these types of institutions. It strikes me that the profession might well be in a position to supplant Government examination, both from the standpoint of the bank and from the standpoint of the insurance company.

Would anyone care to venture an opinion as to where this is going in the future? Any of you fellows?

MR. MORAN: We, of course, have encouraged the banks. We are not a regulatory agency. We have encouraged banks by putting out pamphlets, thousands of them, by articles, to have regular examinations by independent public accountants. Because we have seen some situations where a tremendous fraud has developed where the bank has had no audit except by its own people.

MODERATOR: By we, you mean the FBI, I guess.

MR. MORAN: Yes. We have seen situations where frauds have developed over a 20-, 25- or 30-year period that we feel had an independent auditor come in, he certainly would have caught the thing.

As I mentioned before, the regulatory agencies have not required such audits. There has been quite a bit of talk about it. I think they would possibly cut down the future scope of bank examinations although I can't speak for the regulatory agencies. It may be that the bank examiner, if he came in, would just check for compliance with the regulations of the regulatory agency rather than check into the assets and deposits, and so forth, of the bank.

MR. KAY: As you know, the members of the New York Stock Exchange are required to supply certain information through their auditors to the Stock Exchange upon examination by the auditors of the brokerage firm, or the member. Does it appear to be insurmountable that compliance information could be furnished by the auditor to the bank board, for example, in lieu of having Federal examiners?

MR. MORAN: No, I don't think it is insurmountable, I think this is what is being done in certain other areas such as the SBA, pension fund, and so forth. Of course, this is not only a matter of policy of regulatory agencies but might be a matter of future legislation to redefine the scope of what their

accountants are supposed to do.

MR. KAY: I wonder if they would get the Federal Government out of the auditing business and get it back into the profession.

MR. MORAN: I think the Government is going to get out of it for one reason, the reason they can't get staff. They can't man all these agencies with a big public accounting staff, if you will. I think we are required to get more expert in the total public accounting picture, we are certainly going to be in a much better position to do the job.

I think the agencies are going to find they just can't bring expert attention to any kind of assignment and really come out with an answer. If you get more control complying, if you will, we are going to get more complying, for instance, copper prices are being controlled at this moment. It is another way in which the Government injects itself.

When the Government observes they are not going to be able to do the work, they are going to have to step in and do it. If the profession wants it, there are some places where the accountant may not want to participate.

MODERATOR: Walter.

MR. CHARLTON: The banks might be an example, the same type of theory in the problem has for some years been under study and resolved by the savings and loan regulatory agencies. They have a definite policy just as Julian said. They coordinate their

audits, or examinations with CPA's audit and rely on CPA's audit to the extent they feel they can. If the audit is a good audit by a good auditor, they do very little. But they do reserve the right to disapprove the auditor, or make an additional examination in the areas that they find deficient.

As a practical matter, what they have done is rely to a large extent on CPAs for the reason Julian said, they don't have the crew to do the job. The bank profession, he said they are a little late getting started, they are particularly three or four years behind the savings and loan, they are just coming to grips with this problem. I don't know what effect of this will be. It will appear to me, from observation, banks are far more self reliant and independent, and disinclined to have any kind of auditors, just by nature, than savings and loans are.

I don't know whether this is just too limited an example or what. That has been my impression. We might have a little bit of problem with banks.

MR. KAY: I don't know whether there is any difference with banks, for that matter, lots of organizations would resist incurring the cost of auditing if they feel they don't need it, you see, keeping in mind that the banks have had a dual public function, namely, their posture vis-a-vis the whole financial and economic structure of the country, plus the fact that many, many of the bank shares are traded either over the counter or on the principal exchanges.

This being so, I can't think of a really good reason why they should be excluded from required examinations any more than any other company that wants to sell its shares of securities to the public. But heretofore, it has been felt that they didn't need to require outside, independent examinations as long as they are being examined by the Federal regulatory bodies or the State regulatory bodies as the case may be.

All I am saying, if you take one way in which to make the Federal Home Loan Bank Board to feel good about what they are doing is to say to them legislatively, you don't have this responsibility any more now, we are going to require Federal examinations, we will let you also produce the standard compliance with the information you want like SBA has done. Do the same with the bank examiners. Do the same with the insurance regulatory bodies at the State level.

I am not suggesting that this can be across the board. I wonder whether, in the long run, it isn't more in keeping with the whole idea of independent examination than the present set-up.

ANOTHER PARTICIPANT: Isn't this in the mill now? I can't think of the chap's name that gave a speech at the Shoreham Hotel about a year ago, a young fellow that is head of the, not the Federal Reserve Board, but one of the banking groups.

I think his challenge to the profession was two-fold, one, before the independent accountant is invited in there is going to have to be some revamping of the bank principles which

they follow. For example, the capitalization of fixed assets is not done in all cases in banks.

Secondly, the challenge to the profession, we will bet ourselves, up to be able to handle a bank audit. He recognizes there are not very many banks that use the services, relatively speaking, use the services of the independent accountant and there is not that much expertise around. He said some areas of the country whether a national firm, local firm, or practitioner, there won't be anyone qualified to examine a bank. I'm not sure he isn't right.

MR. KAY: I realize the steps that are being taken. I am trying to say to the group whether this should be a total function--

ANOTHER PARTICIPANT: Are you saying they should have an accountant in the administrative function but not a staff to go out and do audits for the Government? Are we putting ourselves in a position to be the Government's representative, being prepared to do independent audits?

MODERATOR: A good question. Actually is anybody familiar with the background of this Maryland law recently passed about the examination of State banks, it being required that they be examined, I think, once in each five years by a CPA?

MR. KAY: Yes, I have heard about it, Paul. I don't know the background of it.

ANOTHER PARTICIPANT: I have heard about two laws, that

one, then there is another one that came in as a rider. It is not an investment act,--

MODERATOR: You are talking about the State of Maryland now?

PARTICIPANT: Yes. Any Federal law affects Maryland, too.

MODERATOR: Yes, it very easily could.

MR. KAY: These are all State banks, not just Maryland.

MODERATOR: No, this was a Maryland law passed by the General Assembly, not to do with Federal.

PARTICIPANT: The Federal law that has been passed is to the effect that all banks, I think it is that broad, almost all banks have to have an audit.

MODERATOR: Now we are speaking in another area where they have X number of stockholders or X number of dollars and assets, this type of thing. That wasn't what I was referring to.

PARTICIPANT: That takes care of the Maryland law.

MODERATOR: That wasn't what I was referring to. Maryland passed a law requiring all State banks to have audits by a CPA, I think specifically mentioned once every five years.

MR. KAY: This would be in addition to requirements of the Federal law, because they are a member of FDIC.

MODERATOR: In addition to Federal examinations and regular examinations.

MR. KAY: Yes.

MODERATOR: Yes.

ANOTHER PARTICIPANT: This is once every five years, you say?

MODERATOR: Yes.

ANOTHER PARTICIPANT: Of course, there is a lot of difference what a bank examiners will do and what you and I would do as independent CPAs in a bank audit generally.

MODERATOR: They are looking for a different thing.

ANOTHER PARTICIPANT: Right.

ANOTHER PARTICIPANT: We stand ready to service the Government.

MODERATOR: Can we, maybe is a better question. As you say, the Federal Government cannot build a staff. Can the accounting profession build its staff or can the individual firms build their staffs rapidly enough? This is why the SBA did not go into it. I don't think they could fail to go, would hesitate to go into it if they had their staffs. They had a lot of services right away so they called for the profession to do it.

PARTICIPANT: Is there any way we can replace total audit function of the Federal Government any more than we can replace the total audit of a commercial or industrial side of the picture? Might this not be the question?

MODERATOR: Possibly.

PARTICIPANT: We are not trying to.

MR. KAY: I don't think you are trying to do that.

PARTICIPANT: One is an examining function, the other is a reporting function.

PARTICIPANT: We are talking here about the independent type certified audit which is not a fairly cheap certification thing. It is rather internal.

MR. KAY: I assume that part you are talking about, a banking examination by a bank examiner as being in the nature of an internal audit simply because it is one quasi-Governmental agency that is being examined by one that is strictly a Governmental agency. That is what you have in mind?

PARTICIPANT: The bank examiner type of audit is a dual, as I see it, a compliance type as well as having something to do with a balance sheet audit.

PARTICIPANT: It doesn't qualify as a balance sheet audit.

PARTICIPANT: It has some attributes of it, they are not aware after he made the audit that he comes out with it as a fair representation.

PARTICIPANT: Yes, he just writes it up.

ANOTHER PARTICIPANT: I have heard some say time and time again, these numerous individuals who claim they are independent are as great, if not more so, than the public accounting profession. This I have heard a number of times.

MR. KAY: How can they be independent?

PARTICIPANT: They state they report to the top, directly to Congress.

MR. KAY: It is all the Federal Government when you get down to it.

PARTICIPANT: On this basis, to whom do the CPA profession report? CPA profession reports to management, is that correct? Management has the responsibility of controlling the organization.

PARTICIPANT: You report to the owners.

PARTICIPANT: Who are the owners of corporations these days in terms of absentee ownership? Who owns the corporation?

PARTICIPANT: I think it is oversimplification to say that CPAs report to management, I think this is not completely true. We report to lots of different people, sometimes simultaneously. In the bank area you have copies of your reporting into regulatory agencies.

PARTICIPANT: I am referring to normal type audits.

PARTICIPANT: What is a normal type audit?

PARTICIPANT: Corporations, industry, so on.

PARTICIPANT: Then you have the shareholders to consider.

PARTICIPANT: Shareholders are primarily interested in the shares, how much money they get on the investment. They seldom look at the audit report as a whole.

MR. KAY: But it is your responsibility that counts. I think you all will agree there has been a trend.

Perhaps it is not bad, I am not sure it is good, toward the Federal Government getting out of the auditing business, particularly in the savings and loan, is a good example, I think, and the SBA is another. The Housing and Home Finance Agency is another. They turn over quite a bit of work there. So it is a trend which will probably continue. It is also, I think, true that the Federal Government will have more and more to do with what we are all doing.

PARTICIPANT: One point here. Art mentioned a little earlier he wasn't too sure he agreed that the profession was ready for examining banks and so on. I think as a practical matter when you get right down to it, there are a lot of people in the profession who haven't had either experience or background to fight them to start a bank examination tomorrow. I think that it would be a wrong premise to say that the profession itself isn't able to do that. I think if they aren't, nobody is.

PARTICIPANT: No, I think as a profession we would be very able to apply the expertise necessary in a relatively short time.

ANOTHER PARTICIPANT: This ties into a subject here of cooperation among firms. Certainly the profession as a whole is able and willing to take on greater responsibility, as I see it, in Government audit work, and should be.

MR. MORAN: From my own experience, I think bank accounting and bank records are simpler than some of the other problems here. The problem with banks is the volume of

transactions and the fact that mass in this tremendous volume could be something like a check cutting scheme which is not apparent. It might run up to a million dollars. It may be massed in a volume of a million dollars worth of transactions of varying sizes.

As far as the accounting principles and the records are concerned, I think bank accounting is simpler. It is just a mass of data.

ANOTHER PARTICIPANT: One point on experience, you have asked a question about the experience, certain types of accounting, and recognize Government experience, I would think the de-emphasis on experience that seems to be moving throughout the country, particularly with that statement in New York State as I mentioned earlier, the name was Ray Ankers, and in his addressing the State Board in New York, the de-emphasis there was that perhaps one year is sufficient.

If I interpreted his statement correctly, he would be in favor of no experience at all. This would mean to me that not only Government experience would be accepted, but industrial experience would be accepted as well. If it is from the auditing field. So internal auditing would come into play in that direction.

I would think in terms, as Art had indicated, I would take the parallel that the Government agencies that are involved in audits are, in effect, internal auditing functions. Perhaps what would evolve from the common body of knowledge study, may require additional education along the lines of the attorneys.

This means that in many states, as you know, the attorneys do not have to have the work experience in the field. So that upon conclusion of whatever is required in the common body of knowledge, then the person having that perhaps additional degree, then takes the examination and it would not be necessary, therefore, to have, whether it is Government, industrial, or internal auditing or public accounting experience.

One quick statement on the number of people in the profession that are qualified to do whether bank audits or what have you, I would still adhere to the thinking that there is a problem in marketing in seeking out these fields of endeavor. There is no question in my mind that the CPA profession, probably, in fact, is more qualified to do this type of audit, plus their objective and independence.

With this in mind, getting these types of audits would mean that the total market has been expanded. And this would mean that the capacity would rise to meet the market demand. Once again, this, I would say, was analogous to that example that I made earlier about IBM during depression years. They went out into the market and sought out the customers. And, as a result, the capacity just moved up.

Pre World War II, as you are undoubtedly aware, it was a production concept type economy. But our economy today is not in this direction. It is a marketing concept.

MODERATOR: We are going to move out of the Government

now and get into Chuck's area of the concept of the firm. Chuck, do you want to lead off?

MR. HASS: This is Chapter 18 in the book, what the chapter basically tries to do is trace the development of--history of the development of the firm and what we can look forward to, what the possibilities are ten to twenty years from now.

When the profession first started, most were on a practitioner or sole practitioner basis, that is, the need to accumulate more skills, to accumulate more clients, then as the economies came along, and the tendency in business was toward the bigness, the necessity of the firm being big to cover the big industry, necessitated the regional and national, now international firms.

The chapter covers basically six points of problems, one being the size of the firm. The question of whether firms ought to be accredited, or whether thought ought to be given to some accreditation procedure, the old question of incorporation of CPA corporation, the question we touched on yesterday was whether or not there was not a tendency to put the prestige of the firm ahead of the CPA certain, that you do have some lenders, backers, and so forth, who look more to the firm than the fact that the person is a CPA or the person is of a firm of CPAs. They touch lightly on the attitude of firms, colleges, then finally the future of the small firm.

One thought I had never given thought to, it is

interesting, the CPA is really, as we know it, in the broad spectrum it covers, is a pretty unique animal. You can't find another profession or service that is organized in this fashion where you cover this broad spectrum of local practitioners, regional offices, up to firm who have thousands of staff, hundreds of firms on a national and international basis.

It gets into the area that there are benefits from this trend toward bigness. You have a stronger firm. It has more facilities to conduct research, they can afford, full-time specialists, directors of research, national tax records, and so forth, the profession has benefited greatly because of the large accounting firms, because they have had the resources to give the time and energy, and resources to profess the profession and make a strong contribution here.

It gets into the old saw of local vs. national. I personally feel that I have seen local firms that are as good or better than some of the national firm operations that I have seen. You have a tendency, a local firm is a local firm and it isn't as good as national firms, some people feel. I personally don't. It gets into a question of whether the accounting firm can reach an optimum size. Is there a danger it can get so big that it loses its sense of values that becomes a business rather than a profession. It looks more to profits than to service.

Also, does size affect the professionalism? You get to the point where the managers of the firm are so far out of contact

with the actual practice on a day-to-day basis, they aren't really in touch.

We touched on this a little bit yesterday, the question of accreditation. Tony brought up this thing of the analogy they draw in accreditation set up in a hospital tissue committee where you have a group of qualified medical people that periodically review tissues after operations to see if the doctors are performing unwarranted operations.

Would the profession be willing to set up an accreditation body where you might accredit a firm in a specific area as being specialists in this area, that the firm would submit its work papers for review and evaluation to see if they were doing the kind of job that would warrant their being accredited in this area?

I would think, personally, that this would be a real aid to a good local firm that does an outstanding job in a particular area but suffers from this thing of a bank, from someone saying, "I would like some one that has a big name."

If the profession could sell this idea, it would be a tremendous help. It would be a big help to a strong guy who didn't have a big reputation. In addition there is this that has been talked about, kicked around, while it has a certain attraction because of the tax consequences, that you might tend to lose your identification as a professional for lack of responsibility that goes with being a partner and personally responsible for this possibly, rather than incorporation.

As to incorporation versus CPA certificate, we kicked this around yet on a couple of occasions. A part of this may stem from this thing where we run into the District firms, all of the general partners in our firm are not D. C. CPAs. As far as D. C. is concerned, we are public accountants and auditors, we are not CPAs. This is one reason why we have had the trend of the firm than the CPA. The bank looks more toward the firm rather than who in the firm is a CPA.

On the attitude of the firm toward the colleges, the book pretty much draws the conclusion, I think rightly, so the profession has looked primarily on the colleges as a source of manpower material and not influenced itself too much with the effort to influence the curriculum of the business schools, telling them what they thought their attitude should be in preparing people for the profession.

On the future of the small firm, they go along for several pages here. A lot of it is not related to the future of the small firm, which is the lead-in on it. There isn't any question but what a small firm or local firms have been losing clients to large national or regional firms, through mergers, and so on. It is not necessarily related to competence.

I think here again, when one of these situations arises, the underwriter or banker says go out, get yourself with a name. It doesn't necessarily mean competence. It takes a strong firm to protect the local position, to get in there first before anyone

else gets in there. It is a proven fact, there are more and more firms all the time, one, statistics at the end of World War II about 4,000 firms represented in the membership of the Institute, in 1964 there were 12,500. This increase of 8,500 is not local but national firms. The people have got to be there.

I think that pretty well covers it.

MODERATOR: I think somebody asked about the 14,000 firms, members of the Institute. I noticed in here there are 20 percent of this 14,000, I assume practice as individuals, apparently with no staff, 30 percent practice as individuals aided by professional staff, 50 percent practice as partnerships.

That is not a good breakdown, but it does indicate, certainly, that there are a tremendous number at least of individual practitioners, even a goodly number of those who have no staff at all.

PARTICIPANT: I was wondering, Paul, by way of getting some real meat for discussion here, I think the outline you sent really covers this chapter real well, the six questions that are listed.

Can firms as such qualify as members of the profession?

Does it matter?

Should CPAs continue the effort to be recognized as a learned profession. I think we pretty well covered this one yesterday.

Should they be permitted to incorporate to gain tax

and liability advantage?

Are there basic differences between the practice of large multi-office firms and small local firms or are the differences largely of degree?

Is there a minimum size which a local firm should attain in order to compete effectively?

I think this question really ties in to another a little later down. Should small local firms be encouraged to merge with each other? I think the questions are close together, the answer is probably likewise, to the following:

Is there a possibility that all substantial clients may gravitate eventually to a relatively small number of national, regional, and very large local firms?

Should small local firms be encouraged to merge with each other?

As specialization progresses, can an effective system of referral be designed for the benefit of local firms?

As I say, I think those six questions pretty well cover the waterfront on the subject.

MODERATOR: All you need is answers.

MR. KAY: There is one point I don't know whether this is made in the book, I haven't read that, that is, due to this suggestion that somehow or other the name of the firm is more important to the banks or somebody else than the fact that the members of the firm are CPAs. This bothers me a little bit.

I think it is a wholly different question than the question of whether people will go to large national firms when they want to go public, or someone else. I think it is the wrong inference. I think that they do go to firms because of the reputation of the firm. They go to lawyers. They don't stop to think has everybody in there passed the bar, if so, which law school did they go to. They go to a law firm like Sullivan and Cromwell in New York, Covington and Burling in Washington because of the reputation of those firms, not because, you know, they don't stop to think about the individual qualification of each member of the firm.

I think anyone who knows anything about the accounting profession must realize that the firms have to have their people qualified. They can't be out here operating on nothing. They have got to have qualified people. If they didn't have, how long would their reputation hold up. I think that really doesn't have any place in the chapter. I think there was the wrong inference.

PARTICIPANT: I agree the impression in reading it was the great leveler.

MR. KAY: It is like the practice of law, everyone who is a lawyer is in to practice law, it's ridiculous.

PARTICIPANT: Are you saying investment houses and the like do not try to guide their clients to the well known national firm, because of the name, not their capability, that they tend to but should not?

PARTICIPANT: I think that is a difference between whether they do or do not do this than the present question whether a person may look more to the firm's reputation than they do to the fact that every member of that firm is a CPA.

PARTICIPANT: There is one paragraph in this chapter that pretty well sums it up. There is a strong grass roots feeling that CPA certainly should be more widely publicized as a matter of competence. It perhaps should be. A CPA certainly does not establish, which can vary widely among CPAs, consequently people who want a certain type of service look to a firm that has competence in that field.

MODERATOR: I think Roscoe is trying to make it ridiculous to assume that all CPAs have the same level of competence, or all lawyers.

MR. KAY: I just don't think it is so.

PARTICIPANT: Isn't it possible to look to the experience of the physicians in this direction where they have specialization? I personally would be in favor of this accreditation of individuals and individuals within firms for specialization. This once again may very well require additional examination of that individual. But this is being done and has been done through the years with physicians when they complete their requirement for general practitioner as an M.D., why not the CPA as a general practitioner? Then again, why not the CPA be a qualified CPA specializing in a specific field just as the doctors do?

MR. KAY: . I am not at all sure I would disagree with you, in fact, I think I might agree with you. Let me say this, having some in the family in the medical profession to specialize, I know what they had to go through, the rather extreme conditions they had to meet in order to qualify themselves as American Board members, which is about the top of the various specialist groups.

If those kinds of standards were required, then fine. But I would not want to see it real easy for anybody to become a CPA security specialist, or whatever it might come to. I think as soon as you make it so simple that anybody can start collecting qualifications like this, next thing you know you have watered it all down, you have destroyed the reason for it.

PARTICIPANT: You have to have the same approach whether or not they have that top level of accreditation at the beginning I wonder. I expect, too, they have to grow to that point in their professional stature. So, at the outset, this was not necessarily so.

MR. KAY: I am thinking of the American Board of the American College of Surgeons, for example, those fellows have to meet extremely tough requirements, this takes lots of time. This isn't something you do the day after you are out of school, it takes five to seven years.

PARTICIPANT: I disagree with that. Why should we be restricted any more than an attorney. The attorney is a general

practitioner, he becomes a specialist, he becomes known for his ability, what he has been able to accomplish in the field through writing and knowledge and the representation of clients. It seems to me that the CPA also should try to develop this ability, and be known in the profession for a specialty if he happens to be good and have practiced in it.

MODERATOR: Without a formalization?

PARTICIPANT: This will not meet the requirement of ten years hence, you are talking about in the text. As I see it, it is not a restriction. This does not restrict the general practitioner in medicine. It doesn't restrict the general practitioner in law. Twenty years hence, if not right now, it is practically impossible for an individual practitioner to cover all the field. I know it is impossible for him to keep up with all of the areas in the CPA profession.

Accordingly, he cannot be proficient in all of these areas. This is why we have this constant question of referrals that exists. So my thinking along these lines is that specialization should be available, so that a person can be accredited in this area and spend his career in that.

ANOTHER PARTICIPANT: There is probably a significant difference of distinction between lawyers and doctors on the one hand, and CPAs on the other. I am all in favor of specialization, incidentally, in that you find the service an accountant renders a client is a more permanent, constant, perpetuating service, not an

isolated service, than most lawyers and doctors will render.

Obviously, if somebody is sick and they have back trouble, foot trouble, whatever ills the joke says about the specialist, he can go to that doctor, be treated for that condition, at the end of it he will never see that doctor again until he encounters the same trouble.

With the CPA their relations with each other, the trend appears to be in contact with their client on a steady basis. It is more difficult, if not impossible, to sever one segment of the work and say that this CPA will do that segment of the work. However, the original GP, practitioner, will continue to do everything else.

MODERATOR: Walter.

MR. CHARLTON: I agree with Harry on this point. I think maybe, I don't know whether this is a unique thought or not. Perhaps it isn't. I believe that a dentist, for example, dentists have specialties which is a more clear-cut example than doctors. If the dentist and medical profession are physical scientists professionally they are dealing with things, people's teeth, people's feet that are not something in nature and subjective.

On the other hand, the legal profession, therefore specialization, compartmentalization, and so forth, I think will work fine. The legal profession is different. The lawyers have been violently opposed more or less to specialization, or the formalization of specialization. You have the patent attorneys,

but they are still attorneys. And any attorney can practice patent law if he wants to. I think this is proper, because law is a social science. It deals with society in relations that are equal.

I think our profession is similar to the legal profession in this respect. It deals with people. We perform accounting functions, we are dealing with laws and society. Therefore, we should not formalize this compartmentalization. That is not to say though that specialists are not needed. And everybody, I think, recognizes the need for specialists. But to have qualified specialists in an area, I believe, is mathematically incorrect.

PARTICIPANT: You mean accredited specialists?

PARTICIPANT: Yes, like my brother is a dentist, he is an expert, he is not an expert, he works very well with children but there is a thing called pediadontry which is the formalized expert on children. He is an expert on children, but he can work on children. I think our profession is entirely different from this profession in that respect.

MODERATOR: Julian.

PARTICIPANT: This has really started out in my area, in this accreditation do you think the firm should be accredited or do you think the individual should be accredited?

PARTICIPANT: I think the individual should be accredited, not the firm. I think it should not preclude this, I am in favor of the approach of the pediatrics, or the general

practitioner can administer to the child or can administer to the adults, this doesn't preclude the general practitioner from doing this. What I am saying is, if you desire the professional status that exists in the medical profession today and the legal profession, you are not going to begin to match that status until you get this area of accrediting and specialization.

An orthodontist performs work which the dentist does not perform or does not specialize in that area.

PARTICIPANT: By experience or examination or whatever?

PARTICIPANT: This has to be by formalized work in terms of an additional two years of specialization and a combination of schooling, and inhouse training as exists, for example, in the medical profession as it exists with orthodontists, right down the line, a combination.

This would be accreditation, it would have to be a separate one.

PARTICIPANT: This does not exist in the legal profession, they won't stand for this.

PARTICIPANT: Let me state idealistically what you say is great. I think the day this ever comes into being, you will see the end of the little practitioner, completely out the window.

PARTICIPANT: Just the reverse.

PARTICIPANT: Excuse me, I have given a great deal of thought to this problem. It is not new in thinking. It is rather old in thinking. But this idea of thinking today, and I have

hear it, oh boy, pronounced for many years, this pronouncement thinking that the little practitioner, I'm speaking of smaller than our office, can be a specialist in one field, and you think that that client, the general public is going to come to that particular accounting firm or individual to do a specific job when he can go to the big national firm that has accredited specialists in every one of these fields who can handle the whole job from the financing right on through the auditing and tax work, you are mistaken. I feel that that would be the complete finish of the little practitioner. That is my own thought.

MODERATOR: Mike.

MR. SULLIVAN: Harry, giving it some thought, I came to just the opposite viewpoint. Within our society, our economy, any individual practitioner has disadvantage, there are no two ways about it. I came to the conclusion, if the individual practitioner comes into general practice, has an associate, he has to build some type of firm, if he has to build a firm in the form of a big eight, this is doubtful whether he can do it. He can't do it, he has to build a firm a certain size that he can compete, offer services over a broad range, have some expertise, so forth, all the way down the line.

There are individuals though who, for some reason or another, do not want partnership in some way or another. How is he going to compete in our economy? This is very difficult. The whole movement of our economy has been away from the small units.

It seems to me if he wants to compete, if he can develop a reputation as a specialists, this is the way he can compete. It seems to me if you had procedures for accreditation this would be one way he could do this.

Your point here is well taken, too, that why should a company come to an individual when he can come to a large firm and get the whole range of services. I think that this is something that the profession has to work out within itself. We have to get back, of course, we get back to what you are going to bring up in referrals, and so forth.

I think if an individual really becomes an expert, with a wide reputation, that the other firm, the general firm and profession itself should make themselves available to this person. I think this is the way we have to do.

PARTICIPANT: This will never happen.

MR. KAY: I want to read this. There has been a lot of talk about the lawyers not being willing to specialize, this is true. I will take a minute to read this. This is a member of the bar advocating specialization:

"The time has come to ask ourselves why, despite all our efforts to promote its welfare, this headstrong public willfully insists on continuing to consult non-lawyer specialists about its patent problems, estate-planning matters, pension planners, income-tax questions, and the like. Are we really so sure the average American doesn't know what is good for him?"

Or is the fault more at our own door?

"In my opinion, our primary and basic weakness is our stubborn insistence that all 250,000 practicing lawyers in this country must be held out to the public as equally competent in every field of law. Even the less-informed layment now recognizes the patent absurdity of this position."

He gives credit to the May 1962 ABA Journal:

"'If the monopoly of the bar depends for its existence on the myth that every lawyer is competent to advise any client on any matter and can perform with equal proficiency in a police-court case and in a complicated corporate reorganization, then the monopoly cannot survive.'

"If we vigorously block all proposed systems for letting the public know which lawyer is really competent in a particular area, we should not be too surprised that it seeks out its specialists elsewhere."

In my opinion, this is going to go through some way, and when it does, the accounting profession is going to take a giant step backwards in things like tax practice.

MODERATOR: You mean going to go through with attorneys?

PARTICIPANT: Yes.

PARTICIPANT: Yes, this has already happened, Roscoe, no one will argue any profession should not have specialists, in our building we have specialists in this, we all know this.

PARTICIPANT: We have them in our profession, too.

PARTICIPANT: Who is to decide the question as to whether you are a qualified specialist or not. I think this is wrong.

PARTICIPANT: He speaks of non-lawyer specialists. He means us, doesn't he?

PARTICIPANT: I don't agree with this, that the client won't go to different practitioners, I know many cases where you have a zoning case, you have had the same thing, tax case, you have litigation, you have a contract you want drafted, I know clients that will go to four different lawyers and retain four different lawyers. I don't know why we should think because our practice is constituted as it now is this won't happen.

PARTICIPANT: Why do these people all go to these medical clinics rather than individual doctors?

PARTICIPANT: As someone pointed out earlier, it is a different relationship, ours is a much more continuing relationship. You don't pick up and drop. You are not going there, ours is a continuing financial relationship with a client.

PARTICIPANT: He is getting bills from the same doctor almost every month?

PARTICIPANT: This is because your wife is going to the same specialist all the time.

PARTICIPANT: He isn't a specialist. He is a general practitioner.

ANOTHER PARTICIPANT: I think some supporting evidence,

I don't think anybody has the statistics, don't think anybody here does, I know most attorneys do not derive their income from what we call retainers. It is a constant form of retainer, regular input. I dare say, most accountants do, there is a reason behind this. There is a reason which tends to support this tradition, that is, the client is paying the accountant for what he considers a continuing relationship, not a one-shot drawing a contract, having a bad foot, or whatever it might be.

PARTICIPANT: If you don't think the lawyers are quite dependent on retainers--

PARTICIPANT: I didn't say that.

PARTICIPANT: In addition to this, you have the aspect of all these different specialties which have an interrelationship. If you have a sore toe, that doesn't mean a hit in the head. That doesn't mean some time that these are not separate items, they are interrelated.

PARTICIPANT: You have been referring to what has been going on the last number of years, the internal audit, the importance that has taken on. This is not much different than an annual checkup an individual takes from a physician. You are auditing a body. The physician audits a body. It is not any different than that. You are reporting on the financial health of the organization as well as on the physical health of the individual.

MODERATOR: Julian?

MR. KAY: You are overlooking not realizing today all of us sitting around here certainly think we are rendering total service to a client. A doctor can't call on you at your home and look for business, in effect, whether you are feeling good or bad, accountants, to render the service necessary, we can go into our client's office, see whether they have any problems or whether we can help them at all.

You are following a practice here Joe is talking about, you are continuing to service him throughout the year. However, he is a general practitioner in some ways when you get into specialized areas then you have to go to get a job done.

PARTICIPANT: Do you do this with all clients? Are there not many, many clients that equal or have more capability than CPA firms? They are in their organization to do inhouse work, and so on, advising on systems, and so forth.

PARTICIPANT: They do. But we usually don't like to admit it.

PARTICIPANT: I don't think--I think this is a very serious question. I don't know what Julian's answer to this question will be as a national firm. I tell you, I cannot think of one client we have got that can do practically any aspect of the job as well as a particular specialist in our firm.

This is maybe a bad thing to say about your clients or it is braggadocio on our part. I believe it to be true.

PARTICIPANT: True.

PARTICIPANT: That is not to say we don't make some mistakes.

PARTICIPANT: Can you say this of any of the 500 issued in the July Fortune magazine?

PARTICIPANT: This doesn't prevent you from going and visiting them to see if you could render some service, those 500 companies would have a stable base throughout, as you know.

PARTICIPANT: I don't see why we get so upset about testing for competence. We all submit to a CPA examination, testing, all we are doing is extending the basic requirements of our profession saying we are experts over and above the broad extent of the general practitioner, whatever you call it, I don't see why we are upset in extending this.

PARTICIPANT: I am all in agreement, I was disappointed when the profession was not able to push through this CPA technical deal.

MODERATOR: Section 6?

PARTICIPANT: Section 6.

PARTICIPANT: It is my representation that would be made to the subject, here is an individual that has expertise in this field and only this field. Because that is what you were trying, to relate it to the orthodontist, pedodontist, pediatrician, what have you. Darn it, they practice just that profession, they don't practice general medicine. I don't feel our profession should get to the point where the individual is just practicing that

particular specialty, nothing else.

PARTICIPANT: He can do it if he wants to. A surgeon has got to be an M.D., I don't care how you slice it. If he chooses to qualify himself as a surgeon, then continue the general practice of medicine, nobody is going to stop him, he will have a good practice.

PARTICIPANT: I think we have got to agree, in this definition of an accounting function, Carey, throughout his book, accounting function deals with measurement of economic data, you carry it on externally and internally. If we agree on that, we have got to be prepared to service the broad business spectrum when you get involved in that, we talk about specialization, I might warn you in light of my comments--

MODERATOR: We have gone into it, I think you should go ahead.

PARTICIPANT: We started out with the idea that some other language in the Carey book, in passing a uniform CPA examination, every CPA has been demonstrated basically competent as an auditor. I think that is a narrow viewpoint, I think we have gone far afield from that. You talk about specialization, you have people who devote full time in hotel and club business, we are all familiar with, back up in the general area you get your general auditing specialty where we are talking about banks, insurance companies, and so on.

When you get to moving over into what I might say the

true management service area, you have gotten into such a wide area of activity you start talking about psychologists, I know the national firms have. You talk about job search, work measurement, on you go, to many different areas.

You have got to look at the area of the general practitioner which Harry is referring to. But the general practitioner cannot qualify and satisfy the definition, I think, that we have been talking about since yesterday, that is, we are covering a longer and broader field of endeavor. So you are going to have to have the specialist available to you.

Some organization who may have the whole thing inhouse, others will have a limited portion of it. Some will not have any. Then you have to move over into your referral area as to whether you are willing to accept the referral viewpoint to get the job done. If you don't have the specialty inhouse, do you use referral as a means to proceed.

We have an ethics rule which allows you to participate in this area, it would be an acceptable accreditation, you could go on and on. Another subject on my list is a matter of competition. I have a couple of questions here. I don't have any answer. My notes indicate should there be competition between firms, on what basis should competition take place, the matter of services, fees, personality or any other item you might define.

PARTICIPANT: I get fuming picking up the phone book,

looking at the yellow pages, looking under the national firms specialists in about 32 different categories, look at our firm, see specialists in three categories.

PARTICIPANT: Then you go back to your rule on advertising.

PARTICIPANT: That sounds reasonable to me. If a prospective client wants a particular service, aren't the yellow pages the place to look for it?

PARTICIPANT: You still have a rule in your code of ethics, that you don't advertise--

PARTICIPANT: We do now.

PARTICIPANT: I see no reason why this would have to go out the window just because you have got specialists.

PARTICIPANT: This is not what they are implying.

PARTICIPANT: You have your name, then in brackets--

PARTICIPANT: Paul, you are the most logical person to answer this type of question. He points out, which is so true, you are extremely well respected in the community as a very competent accountant.

MODERATOR: Will you write that down, please.

PARTICIPANT: But for some strange unique reason you prefer to practice on a small basis. How would this affect you as an individual practitioner?

MODERATOR: You use the word preference, this is not necessarily true. However, I have given it a great deal of

thought. I think that I have real problems. If I am going to be around any length of time.

PARTICIPANT: You are planning to, aren't you?

MODERATOR: Pardon?

PARTICIPANT: You are planning to, aren't you?

MODERATOR: Around, but not working.

No, actually I have an idea on this referrals to specialists and specialization. It was brought up in New Mexico the past summer when I was out there. It seems to me if there was some form it could work, it would be a tremendous thing, this was having specialists who sold their services to the profession only and would not service a client directly.

PARTICIPANT: That is interesting.

MODERATOR: He would only work through another CPA, the wholesaler in effect. This is perhaps a little too idealistic, also. Maybe it won't work.

PARTICIPANT: I don't think it is idealistic, there is lots to be said for it. I could cite instances which we have in this town performed specialized services for a client and reported through the client's own CPA firm. We made our report through them, why in case we preferred to not withstanding, we have to have a certain amount of direct contact with the client in that case, but we wanted to continue the relationship with the accounting firm already in the picture who were fully competent except they felt we had some specialized experience to offer in this

particular small, narrow area. We did it and that's that. So far as I know, that has been years ago, so far as I know, everything has just continued the way it was. It worked out very happily for us and for them.

MODERATOR: But most firms are reluctant to go to larger firms for referrals.

PARTICIPANT: Why?

MODERATOR: I think they are afraid they will lose their client. I don't agree with them necessarily.

PARTICIPANT: They won't if it was handled in that fashion.

MODERATOR: If you went to someone who would not service any clients, period, directly, that referral would be gone.

PARTICIPANT: That puts an awful burden on the guy. That restricts him. Take one individual that says, all right, I am going to be a specialist in taxation, this is something I know something about. At that point, he has whittled his potential clientele down to the CPAs in his community or vicinity with whom he has knowledge or contact. And he has excluded from his potential clientele everybody else in the country. That is asking a man to do a great deal, I think.

PARTICIPANT: He can move into this consultant area gradually and not take on any more clients, refuse to service any more.

PARTICIPANT: What are you going to do with the new guy who qualifies anew, the first time?

PARTICIPANT: Somebody who comes into the profession?

PARTICIPANT: Not necessarily the profession, but into the specialized area. He would like to continue both until he becomes a recognized specialist.

PARTICIPANT: It would be fine if he is already practicing on his own.

PARTICIPANT: That is what I mean.

PARTICIPANT: Take a guy already working for a big firm, he says I would like to go out and specialize, I would like to be by myself. There would be many reasons for myself. Then you would go out, hang your shingle, Joe Blow comes in the front door, sorry, I can't do it. You bring your CPA in here, I'll help you.

PARTICIPANT: I would like to comment, we went to Roscoe's firm for a specialist job some years ago, it worked out much the same way Roscoe mentioned. It worked out fine. I think the problem here is maybe a lack of trust, a lack, the reason for not doing it more often, you might as well be perfectly frank about it, I think there is a large lack of trust among individual firms in this profession that maybe the doctors sure do not have, probably most attorneys don't have.

We have it, I don't know exactly why, it may be because of the thing Joe brought up about continuing referrals. It isn't a one-shot proposition. But I think it is a very serious problem,

this lack of trust, introduction of fees, rates, and things. I am inclined to talk about these things rather freely. Then I think maybe I shouldn't have said that.

On the other hand, some of the older members of this profession, they were brought up with the philosophy that you don't tell your competitors anything including naming of your clients, amount of fees charged, or anything else. I think it is a rather silly situation. But when we have this situation, there aren't going to be any referrals.

PARTICIPANT: If there was a formalized referral arrangement whereby one firm could refer work to some other firm that has specialized background to handle the particular phase of it, and the rules of the referral procedure required this indirect contact only, instead of the direct contact, or with some other safeguard built into it, then do you think the firms would feel differently about it?

PARTICIPANT: One firm that has been prominently mentioned here, which is undergoing several suits at the present time, I would not want to have anything at all to do with any of my clients basically because by their history, I am likely to get stabbed in the back in the process.

On the other hand, I know this is not true of your firm, which is the reason we came to your firm. So I don't think you can make rules to take care of unprofessional type conduct without very strong policing which we are not equipped

to have either. I don't know the answer.

PARTICIPANT: I will say we have, in the past three years, I am satisfied Julian's firm, the other big firms, have had exactly the same experience, more and more people are asking us to consult with them on matters on which not only they lack knowledge but they lack the machinery for it because of their size differences.

So far as I know, in every instance, this has worked out satisfactorily for both of the firms. I am satisfied the profession is moving into it anyway.

PARTICIPANT: Is there any prohibition of the national firms referring work to each other?

PARTICIPANT: Not a bit--

PARTICIPANT: What you are really doing is suggesting the small practitioner refer work to the national firm?

PARTICIPANT: On the contrary.

PARTICIPANT: In the case of international operations, when you go back and forth is for the reason you don't have a source in that particular area.

PARTICIPANT: No, you said would a national firm refer work to another.

PARTICIPANT: Yes.

PARTICIPANT: There is no question about it, we cooperate on many, many ventures because of history, prior connection because of location, any number of things. Would

referrals ever come about from the large firm to the small firm? The answer to that clearly is yes. We continue to work with accounting firms of all sizes all over the country, literally all over the world, simply because they are there and we are not. After all, the whole thing gets whittled down to the economics of the thing eventually.

PARTICIPANT: I am speaking of the case where you are perhaps short of personnel, either in their city or geographically, therefore, you seek out somebody who is readily available at that location at that time. I am speaking of referrals due to a lack of talent in a particular area, not the other kind where you are seeking someone else who had that talent.

PARTICIPANT: I don't know of any circumstances like that. If we felt that lack, we would try very hard to provide it for ourselves.

PARTICIPANT: You would get more referrals from the national to the local, it is not the type of thing we can handle on a day-to-day basis. I am doing this all the time.

PARTICIPANT: Speaking subjectively, I would have no reluctance to refer a specialized job of one of my existing regular clients to a national firm. As a matter of fact, I would be more reluctant to refer that client for that same work to another local practitioner.

PARTICIPANT: That is a fact. I have heard this.

PARTICIPANT: They must be cut-throat.

PARTICIPANT: I am not afraid of the big eight. I am not competing with them. I might say the nature of work, all the work put together, they couldn't compete with me, all eight of them. They couldn't get it if they wanted to.

We came here to speak in rather vague generalities rather than specifics. Maybe that is the atmosphere of the meeting when we are talking about something ten or twenty years from now. Maybe we have to be rather general.

It occurs to me, we will say something, for example, about unless the small practitioner forms a firm, or merges, that he is going to be wiped out, we suggest and imply that will be a disastrous situation and ten or twenty years from now there will be a big 20, and nobody else. I don't envision this ever coming about, at least not in my lifetime. That is a long enough period of time to worry about. But I think in the area of accounting where we talk about how broad the scope of the work is, how it is expanding, there is certainly enough work for the small practitioner, and the medium sized practitioner, and a large local firm and the national firm.

Earlier we spoke about Government accounting, audits of banks, again being very subjective, I couldn't care less about that. If I had the opportunity to go out and hire a staff so I could cope with a bank audit, which I couldn't do now for lack of capacity on one hand, lack of talent on the other, I probably won't go to that trouble to hire the staff and build an

organization to be able to handle a large audit for a bank, or Government agency, or whatever it might be. I am having all the trouble I can just doing the work that I want to do right now and that I can do without extending myself into an area which other existing firms, specifically the national firms, are certainly more capable and better equipped to handle right now than I am.

So I don't really cotton to this idea that the small practitioner is going to get wiped out. I say small, I mean five people, seven, something like that. I am turning down work today that I can't handle. It just doesn't seem to reconcile in my mind when I am turning down work that I should worry about losing work. On the other hand, and about not getting some other work in which I am not particularly interested.

(There was a short recess.)

MODERATOR: Julian wanted to bring up one more point in his subject.

MR. KAY: This is a point that makes us all aware if you check the consulting services being rendered in the City of Washington, there are a number of them involved in it, are not CPAs. I don't want to scare you, but if you don't want to have something worked out, you have to pick up where you specialize to service business from stem to stern.

Otherwise, we are not only going to lose management service work, but lose our own business, something will be

turned around, your industrial engineer will come in there, somebody will come up with special techniques when you move from the specialized test function, it will be the computer we talked about so much, it will be conceivable that an industrial engineer group could qualify themselves, compute your group or something. We have to face up to this total picture.

MODERATOR: Do you think there is any way accountants could, or perhaps even should, try to bring in some of this peripheral work other than the attest function, if I can use that nasty phrase, in that, their exclusive domain?

PARTICIPANT: Yes, I think so because right now we move into the area, take the Government, this is going to be, I think, if you read Frank, his article you read in one newspaper, it is going to be from Government down into business. All this has to be prepared.

As a matter of cost effectiveness, a program you are going to have to evaluate, what are you getting at when a system is in place? We have, as individuals have, to render a service. We do have an independent attitude service around us today, I think we should continue to maintain it. We go into systems of evaluating, sometimes it might be, we say in our domain, and getting involved.

PARTICIPANT: I want to make a point on specialization. It seems to me we kicked back and forth whether we should be called specialists or shouldn't be. I feel we are already

specialists. I think it comes to the type of client we have built up, more so than necessarily education or anything else. I think all of us are specialists to a degree. I think the problem we have got to solve in the future is not so much whether we should or shouldn't be specialists but how we sell the public on the fact we are specialists and bringing in what Julian has said, so, for example, you don't have the efficiency experts come in to some of your clients before you even realize that they are there doing the job for that client that you are 100 percent more competent to do.

This happens. I'm sure each of you probably has run into this at the tail end when a client is so disturbed that this so-called efficiency expert is out there doing accounting work, not really helping management. We get back to what we were talking about yesterday, management audit. This is specialization. Let's face it. Why not. Let's have it.

MODERATOR: Walter.

MR. CHARLTON: I couldn't agree with what Julian said more. You asked the question of, o.k. how do we get into it? You, I think, have gotten a start on the answer to the question. I feel rather strongly our profession has been extremely backward, this is a radical thing to say, we have been extremely backward about advertising, about advertising the qualifications and so forth in all of these specialty areas of the profession. We had a discussion last night in the bar--

PARTICIPANT: Excuse me, the lounge.

PARTICIPANT: The lounge. You said something about a \$350,000 contract, you were in a room, there was one CPA firm there, how many other consultants?

PARTICIPANT: Twenty.

PARTICIPANT: Twenty consultants. This is a frightening situation. Why were those other consultants even there? As far as I am concerned--

PARTICIPANT: Watching Julian?

(Laughter)

PARTICIPANT: As far as I am concerned, this is a very large contract situation probably certainly many of the national firms are far more qualified to do than some consultant. I don't even know who was there. The whole idea is appalling. Yet the Government doesn't know that we as a profession are more qualified than these consultants. The public doesn't know it.

We have had clients that didn't even know we were equipped to do this kind of work. Recently, they went out and hired a consultant. The consultant they hired was a guy that just, I knew him personally, just by reputation, he is not only incompetent, but dishonest.

(Laughter)

PARTICIPANT: I mean exactly that. This man bounced checks. A client of ours went out and hired him.

PARTICIPANT: Couldn't we stem that quite a bit by

being progressive enough we can tell the client what his needs are before he even goes out and hires somebody else.

PARTICIPANT: I think this is a beginning. It is difficult to work into a client and saying I am great because I'm a CPA. It is far better, I think, in this area the profession could do a great educational job on the public that has not been done.

PARTICIPANT: I am thinking of specific clients though. I agree the first time you get a new client, you go in and tell him your bookkeeping system is terrible, he would probably resent it to start with, but I think it should be pointed out to him.

ANOTHER PARTICIPANT: Isn't it possible the CPA in many instances can be no more than, like you say, should be a diagnostician in the sense that he will diagnose what is wrong with the client? This does not mean, however, that he will not have the competence as an industrial engineer to come in and perform a time and motion study.

I fail to recognize that because a person is a CPA that this means he is proficient in all areas of business operations. I don't think each CPA is that proficient in all his operations. However, he has the quality of diagnosing the problems, of being able to see that there is difficulty in an area. This is readily recognized and the difficulty is in systems design, of the probability that every CPA is able to

sit down and design a system for a client, is not so clear in my mind. I don't think every CPA is qualified to do this. He can, to a degree, then when you get involved with electronic data processing, there come limitations to the amount of time each person has.

Here is where the specialization has him, the 20 consultants you are referring to can easily become 20 fellow CPAs because of the very fact they have specialized in these areas. The difficulty there is, what I am trying to think of is, saying if you are 50 miles away from home you become an expert in a particular area of endeavor, someone has said this. These people do not have qualifications, that the CPA has one step ahead of those many consultants that you refer to.

What I am saying is why not then meet the challenge, as Julian indicated, that we should be meeting today actually, and not 20 years from now, and recognize the specializations in these areas, so that when calling in 15 or 20 people, for the vast part these will be CPAs?

Whether or not the CPAs that will be proficient in personnel administration and in work measurement that was referred to, and seek local services that are referred to, there is a great big question in my mind about that. Psychology is a vast unknown today, even to psychologists, not alone CPAs.

PARTICIPANT: I would say we practice it.

PARTICIPANT: Yes, we practice getting along with people, I would say.

PARTICIPANT: Boy, I tell you. I would like to support what Walter said, I think sometimes, too, we hold ourselves in bound, we compare ourselves with the legal profession, medical profession, but they have effectively policed out a certain area as people who shouldn't be in those areas. We haven't been able to do this. Then we get a bill like the recent bill to keep banks out of the accounting service. All these people are going into these areas, they are aggressively going after it. I think our profession, if we can qualify ourselves, would be more educating the public as to what we can do.

PARTICIPANT: We come back to yesterday, what we said, if we continue to upgrade the standards for entry into the profession, we tend to upgrade the profession, itself. To some extent we get into a tight wad. We haven't been able to assure ourselves a hundred percent that everybody who gets into the profession is necessarily the greatest. We would like to do that on closer to a hundred percent basis. We would like to make it more of a saturation than it is now. The answer to that is preparation, education, and training.

MODERATOR: Walter.

MR. CHARLTON: I think this, as a profession, I think education, training, and all of this is fine, to upgrade the

profession. What I think we have overlooked is, it takes more than competence to accomplish a job. It takes getting that job. It takes having the opportunity to show your competence. When you come up against a bunch of these consultants who have no scruples, who are allowed to advertise, who are allowed to misstate facts as to their competence, we go in under a terrific disadvantage in terms of being able to sell or present our services.

Just because we are competent, or ten times as competent, ten years from now as we are today, does not necessarily mean we will have any work at all to do.

ANOTHER PARTICIPANT: I think, I wonder whether it wouldn't be possible for the profession ultimately to be done what has been done in the case of other professions including medicine and law, namely, to build a fence around the profession and permit no one to infringe except after having established that he is competent to do so?

I think when that happens, it will also circumscribe the activities of the profession. I am not sure the profession is willing to be circumscribed. I think they are not willing to be circumscribed and take their chances of competing continually.

PARTICIPANT: I think you are right.

PARTICIPANT: I think if you want to branch off into that profession, if you want to do that, you can't be continually

adding those kinds of merely extraneous services saying, o.k. here's another field, we are going to pre-empt and nobody else can come into this. As soon as you do that, you cannot say this is the practice of accounting, no one may come up, engage in it, unless they have first qualified themselves, at that point you are not willing to have the practice of--hold on a minute-- this is the problem. I don't have a particular opinion now, I hadn't thought about it that much.

ANOTHER PARTICIPANT: You have to leave it open, your clients are going to be looking for you to service them more and more until we get it. You know how often your client wants you to fill that job for him.

PARTICIPANT: What I am saying is you can't do that. You can't have an open-end operation like this and, at the same time, say we want to keep non-certified accounting people out of banking business, want to keep lawyers out of the accounting business, let's don't have any dentists involved in it.

PARTICIPANT: You have just got to be a big boy, stand up and operate.

MODERATOR: As he said, up to open heart surgery. We are training in that.

MR. MORAN: Could part of the problem be resolved by having a brochure similar to that, management service of CPA, a little more extensive, covering other things, prepared by the Institute with the understanding you could give this to

existing clients just so the client would know the type of services generally that CPAs are able to perform?

MODERATOR: Actually the MS committee of the Institute, I think I read the fifth draft if I am not mistaken, of their first two in a series, they were trying to define the accounting function and mass function within the accounting function. It is my understanding now both have been withdrawn.

They are going to scrap them and start from scratch. It is a very difficult job, Chris, one which is real easy to say but apparently extremely difficult to pin down.

PARTICIPANT: I think this can at least be spelled out in general terms. I think this is the problem Walter was talking about so you could have some vehicle to acquaint the client in those general areas of the CPA.

MODERATOR: The Planning Committee, we felt our first job was to determine what the accounting function actually was or what the professional practice of accounting is before we could try to plan for what it might be at some date in the future. So we have now, I think I called it a tentative temporary final proposal of a definition, but we are going to-- what we decided is to keep the definition brief and the explanation of the definition description, excuse me, not definition, we are calling it a description for precisely the reasons you mentioned, Roscoe, we are not interested, we think, in building fences. We are interested in leaving it open on

both ends. By the same token, then leaving it open, you cannot take a chunk off here, there, and everywhere.

We think perhaps the attest function is the only chunk that you can keep in your exclusive domain. If you will be interested, I will read the description that is this temporary, tentative, final proposed definition. I do not have all the other things, we are going to put in here. Actually, this is an extension of Herman Bevus' definition: "The professional practice of accounting is the analysis, interpretation, and communication of financial and related data in the management of business, government, and non-profit organizations, both for internal planning, control, and decision making, for external reports to stockholders, government agencies, and others concerned."

As I say, what we hope to do is go beyond that, give examples of areas where the professional practice of accounting lies, and in addition to even get into some depth about perhaps the philosophy. These are all, we put these on the record. It is in the copy I proposed now.

PARTICIPANT: I would like to take a minute to get this in the record. What we need is an advertising booklet prepared by somebody else, the American Institute, that we can hand to a client of ours which will briefly describe the various services available in a normal well-rounded firm.

MODERATOR: We have such a thing now. Perhaps you

are talking about updating it.

PARTICIPANT: I have never seen it.

MODERATOR: Forty questions and answers.

MR. LINOWES: A mighty interesting thing happened a couple of years ago, Riggs National Bank sent out with their monthly bank statement a little pamphlet showing the importance of having a CPA. Did they ever get criticized? I spoke with the President of the bank, he said they lost one of his big accounts, because it was a public accountant, not a CPA, things of this sort.

Banks have a tendency to promote CPA, but it is our responsibility to promote ourselves really. There is literature available, it goes back to the idea of getting out, being heard publicly, civically, politically, we have got to be doing more than this and be recognized as a profession.

ANOTHER PARTICIPANT: I say one thing, we beat this around yesterday, I won't take but a minute, the normal public when you classify medical attorneys and CPAs, immediately when they think of the medical profession, and the attorneys, they think of schooling. They think of hard schooling. When they think of the CPA, they think of one thing, well he passed a real tough exam. They limit it to that.

I feel like in upgrading our profession we have got to get to the point where the general public things that the CPA has had as much schooling and is competent based on that

schooling, they feel that is true because of attorneys and the medical profession. They feel they have had the education to qualify them to be competent, I don't think they feel the same way about CPAs. They only think of him as a man who has passed a real tough exam.

ANOTHER PARTICIPANT: You could take that point a little differently. If you tell a person you are a CPA, if you talk about you prepare tax returns. Those who make a lot of noise about tax return preparation between January and April, whatever the case may be, might be well advised to tone down and talk about the total service, not just this narrow thing which is really not our profession as such.

MR. LINOWES: That is really an important point. For years, you know, this is the way we have been practicing. He says, well you are coming to your busiest season. We say what busy season, it is an imaginative thing in the public mind, it is that you can't talk to a CPA between January 1 and April 15, he is so inundated by tax returns he can't think about another thing. This is ridiculous. It is getting to the point in our office where it is almost a slower time of the year. They are doing tax during the tax volume period, I think it is essential that we change the whole image in the public's mind.

PARTICIPANT: What could you do to send your tax clients to us?

ANOTHER PARTICIPANT: It is before the blast in February, March, and April, it is after the year-end return, so frankly, it is one of the easier times of the year.

MODERATOR: I could say, Harry, while you still have the floor, I could read on to your subject. Actually we are going to skip publications and research for the time being. I think we are perhaps going to run out of time on this subject. So you might be relieved.

PARTICIPANT: Could I leave?

MODERATOR: No, you stay.

MR. LINOWES: I feel I have had the floor since yesterday morning, not that I have said so much. This area I am going to cover really associates with everything that has been said during the past day and a half.

Specifically, the relationship of the professional societies and what they should be doing, what have you, is covered in Chapter 23 of the book. But I found that the chapter spent most of its effort in just reviewing the organizational structure of the AICPA, which is probably healthy. I would imagine there is a great number of members that do not really know how it operates.

Then, it went on to have an interesting discussion about the pros and cons of the political aspects of an organization the size of AICPA. I think that this may have been used as a sounding board to knock out some adverse criticism that we

hear from day to day about the AICPA, how it favors certain facts within the profession. But I think that really the most important aspect of the chapter is that it raises some basic questions, and that is if what we have discussed in this past day and a half concerning the goals of the profession, ten, twenty years from now are to become a reality, even in some small degree, we must then think about the organizational structure of our profession. This seems to be the key to it all.

Then my feeling is that what we should be doing is raising some basic questions in relation to the organizational structure. These questions should go along the lines of what and how should our professional society be dealing with the educational standard for the CPA and standards of practice, not only in auditing as we are very much now concerned with it, also in taxes, which, just as you know recently, as the tax committee started submitting pronouncements to the general membership as to what they feel your responsibility is in tax practice, but finally, and we hit on this, also, the management services aspect of our profession. Should we have standards composed by the profession for this just as we do for auditing standards?

Going on from the standards, how much should the professional organization be involved in legislation, in lobbying for legislation, not only as it directly affects the

accounting, themselves, but the fringes, such as expenditure of funds? Should we really, as a body, try to get involved politically and make statements as far as the economic conditions of our country? This is my own wonder, should we not be concerned and try to do some lobbying if we feel the political party in power is off base or should be encouraged to go a certain way? This affects our economy, then affects our clients that we are servicing, and shouldn't we think about that?

Then there is the public relations aspect. Should the professional organizations be doing more. This was just raised a moment ago concerning public relations and promotion of the profession. Here we skipped over two other areas, that is research work, whether it be in practice management. We have some excellent publications and research, which we may still cover, if this subject is finalized quickly, but all of this has to do with how much and to what degree should our professional organization be involved with the practicing CPA. I say the practicing CPA.

This, too, is a distortion. What should the organization be doing for the practicing CPA, but for the accounting profession entirely, that is, your Government accountant, your internal accountant. It seems your organization should be trying to do something for all of them, not just the public accountant.

Finally, I have had some difficulties in resolving my own mind where the local society or State society should tie in with the national society. It is my own belief that there should be stronger and more emphatic bonds between the AICPA and your state societies. In fact, I would like to see one day you couldn't be a member of AICPA without being a member of the State society and conversely.

This, then, the State society is becoming truly a representative body of the AICPA, and having a voice, maybe even a greater voice as a body in where the overall profession is going. We can go on indefinitely. I think I would like to just stop at this point and see if we can kick some of these thoughts around.

MODERATOR: Any comments?

PARTICIPANT: You talked about lobbying. You indicated that we should go up on the Hill and make a point because it may affect our clients. Would we be advocates of our client at this point or advocating something for the profession, itself?

MR. LINOWES: I am thinking of the profession, in two ways. Right now we are lobbying. Don't kid ourselves. The office here of the AICPA is a lobbying group though we may not like to represent ourselves that way, Brian is doing a wonderful job trying to get legislation important to the CPA, rather than keeping legislation out unfavorable to the CPA.

We have not as a profession stood up and been counted. When it comes to basic issues, of where our country is going, where our economy is going, I think the CPA, though we have had the image to the public as being a little wishy-washy guy sitting with a green shade not really expressing himself, having anything controversial to say. Damn it, I think we have come of age where we ought to stand up, take points and take a standard.

That is when we will start being really respected as a profession, I feel. Unless that day comes, I think we are still going to be a wishy-washy profession.

MODERATOR: I think this was in part Roscoe's remarks yesterday, the tax structure as opposed to our being heard just on technical points, perhaps we ought to be heard on it--

PARTICIPANT: You were saying, Julian, should we be drawing a distinction, get on in matters in the profession rather than individual practitioners lobbying on a piece of legislation for a client.

PARTICIPANT: No, I would say no to it.

PARTICIPANT: If we work as a profession, could we get a Johnson concensus that we should go up on the Hill--

PARTICIPANT: It has got to be by committee. You couldn't possibly get in on a vote. You know the tax committee of the Institute works this way, that the committee

speaks for the profession, period. The general chairman and the subcommittee chairman acting as the executive group of the tax committee have the authority to take the stand and represent themselves as speaking for the profession.

Now you may not like it. But it is the only workable thing. Because if you try to operate the way the American Bar Association does, and the tax section comes up with some position, before they can say this is the ABA position, they have got to go back to the House of Delegates, take a vote. That may not be until next year.

PARTICIPANT: Is there any chance of a clique getting control, somebody sitting out in the hinterland, let them run away with them?

PARTICIPANT: I don't know what the answer to that is. It hasn't happened in the tax committee.

PARTICIPANT: You have to take a look at the American Medical Association, the resentment they have created in the public by their stand.

PARTICIPANT: You are getting awful close to home.

MR. LINOWES: If you read this paragraph covering how the AICPA operates at this time, I think there are sufficient safeguards there, you can't really stop them from doing something. Once it happened you can certainly get back at them very quickly.

I am thinking of the profession. The composition

of our council is such that it is a good representative body, certainly pronouncements could come out that have not been properly approved, not really the concensus of the general membership. I think it could be corrected very quickly. I don't see they could ever go way out in left field without being stopped.

MODERATOR: I think the council itself does act as a negative body rather than a positive body, it is perhaps too large a monster to create.

PARTICIPANT: We have locally a group that is fragmenting the CPA profession by organizing practicing accountants or whatever you call them, if we have that, should you suggest that a fragmentation of the profession should take place.

MODERATOR: You mean by formalizing different organizations?

PARTICIPANT: Yes.

MODERATOR: If you are asking me, the answer is no.

PARTICIPANT: I am just throwing it out here.

MR. LINOWES: I think it is probably one of the first probable things that could happen to our profession is my reaction. This new organization is really an unfortunate occurrence. I trust one of the things we should be striving for in the very near future is somehow getting them all back in the fold, of cutting out this nonsense of having two

organizations in the District of Columbia. I am a great believer in trying to do it somehow.

PARTICIPANT: We can ignore them.

MR. LINOWES: Ignore them is one way. I am afraid there is a lot of distortion already in the minds of many local D. C. tax people. They are confused. They are now calling them when there is some information, because the particular individual has made a real point of notifying them that he wants to be notified if there is any special problem coming up concerning D. C. taxes.

PARTICIPANT: I know the District Director's office is pretty upset--that is not the term, they are not upset, they made a point of asking some of us around town what in the heck this thing is all about. In fact, the Commissioner asked me about it.

Irving Major, the District Director was invited to come over and meet with them as he was the D. C. Institute. He said, "I don't know as I can turn it down. There is no way I can decline to come." He raised the question with the Commissioner, the Commissioner asked me about it. I tried to explain to him what the group was, how it was composed, how it got started, and so on, without doing any violence to any of them, my feeling is that this is something that simply raises the question again of the function of the state societies, and the American Institute, and the whole

problem of the code of ethics and all the rest of it.

If, for example, the District of Columbia Board adopted the code of ethics of the American Institute, then these fellows declined to follow it and started their own organization, on account of it they would have to quit calling themselves CPA or else the Board would take a hand in it. That is a long way off.

ANOTHER PARTICIPANT: I have a little different view on this. I think it is obvious and self-evident that we wouldn't be here probably if every member of this group did not disagree with the formation of that group. On the other hand, there is a certain healthy something, it is a healthy situation when people are allowed to disagree. And if we ever get to the point of yes, this is the way it is, fellows, anybody that disagrees is out, this organization, the American Institute of Accountants, is a sick organization.

PARTICIPANT: You have got the cart before the horse.

ANOTHER PARTICIPANT: Maybe not. The point is these fellows are either right or wrong. If they are wrong, we don't have any problem. If they are right, we have got a lot bigger problem than this gives.

MODERATOR: This is like the Protestant ignoring fish on Friday, because he is afraid the Catholics might be right, is that what you are saying?

PARTICIPANT: Right. That is very well put.

MR. LINOWES: It seems to me, certainly, that is why we are living in the United States, you are permitted to disagree with one another, it doesn't mean if you are living in the United States, you go out and form a new Government, form a new country within the United States. That is, in effect, what they are doing here.

It is my feeling that the organization was really founded on very poor reason. It has now changed the whole philosophy. If you speak to anyone who belongs, they say, oh, no, it was never intended, we formed this organization because we didn't agree with the announcements and ethics of the profession. We are doing it as an interchange of the information, because the D. C. Institute is more oriented toward the general account rather than just for the public accountant.

This is so far from true it is ridiculous. But to the lay or naive practicing accountant, he doesn't know any better who has not been too close to the D. C. Institute.

My feeling is any time you fragment an organization you have to be doing an injustice to the overall profession or overall organization. The sooner we can get them back in our fold, I don't agree we can completely ignore this organization because if you ignore anything, it is like a cancer. If you ignore the cancer, it is going to grow, it is not going to dissolve unless you are lucky. You have got

to cut it out, get rid of it, or do something. It is my feeling the logical approach to it is intelligently sitting down with these people, reason with them, try to say let's cut this nonsense of double effort out and try to bring them back into the fold. I don't know that it is possible. At least I am a believer in talking.

PARTICIPANT: What I said wasn't inconsistent with what you said, Harry, to the extent that if you can ignore the organization as an organization you don't ignore the individuals because they are CPAs and people of the profession. You don't ignore them as far as I am concerned. I am not about to give a lot of house room to the organization. I just think to do so tends to give it more stature than I care to do.

MODERATOR: Do you think, you know a couple of years ago they had the proposition submitted to the members, the sections in the Institute, do you think this would be a fragmentation?

PARTICIPANT: Could you give a little more background of that?

MODERATOR: A couple of years ago, it was proposed that the Institute have sections within the entire body. These sections would deal with accountants who are interested in taxes, accountants who are interested in MAS, accountants interested in SEC matters, instead of having one general

annual meeting you would have a section of this section or that section.

PARTICIPANT: Like the American Bar Association.

MODERATOR: Yes, I think that is why it was defeated.

PARTICIPANT: That is specialization.

MODERATOR: Yes, I think that is why it was defeated.

PARTICIPANT: It grew out of specialization. Jack Saidman's committee took this thing on, this is what they came up with, this was their recommendation.

MODERATOR: Actually there is nothing to preclude you from belonging to one, two, three, or all sections that may be formed and attending all the meetings. There was supposed to be no criteria for belonging to a given one, no special competence.

PARTICIPANT: No more than there is in the Bar Association, the one on taxation.

PARTICIPANT: You are talking of the relationship of the state society to the American Institute of CPAs, I would make this comment, perhaps it would enhance the growth of the American Institute of CPAs and also be to the advantage of the profession as a whole if, for example, something like this could occur.

That is, the individual CPA is first a member of

the state society. And that the membership fee that he pays, the annual membership amount would be paid to the state society, only. Then the state society would take a percentage of this fee, of this annual membership amount and pay this over to the American Institute.

Thus, the American Institute is in fact servicing the profession as a whole, and in fact servicing the individual state societies, the state societies which are empowered in the State Board to cohere the ethics that are being promulgated in the profession as a whole.

I think something like this could enhance the growth of the total body of the American Institute, first through the states societies, have it as a one membership fee, then the state society passing on a percentage of that for the services being rendered by the American Institute by way of publications, research, and everything else in it.

MODERATOR: This, likewise, was proposed a year or two ago on a state by state voluntary basis.

PARTICIPANT: Would you say we really have a problem of national versus the state society? Or do we have more important problems than this?

MODERATOR: I think perhaps we have more important problems than this, Julian, I think one of the problems is, or has been expressed as a problem, that there is an awful lot of wasted motion because you have committees on taxation

in state organizations and a committee on taxation in national organizations. Quite often the state organization committee will deal in the area of Federal taxation and also local taxes or state taxes. There is some wasted motion involved here.

I think the ethics commission is one example of what is considered to be wasted motion. They have attempted to think about it. They have done nothing about it formally, but to have the local or the state societies enforce the rules of professional conduct and to hold the hearings and to pronounce the sentence, if that is the proper phrase.

PARTICIPANT: I think there is a tremendous amount that can be done in the way of increasing efficiency and effectiveness of the committee work within the profession by more closely aligning the state society efforts and the Federal efforts. Take the committee on taxation, I can visualize rather easily the formation of state society committees, then having one or more, or several delegates from each of the state societies which would represent and make up the committee on Federal taxation of the American Institute.

This has got to be done carefully because you would have in mind these are the fellows that are going to be speaking for the whole profession. But right now, we know that the state society committees go off on their own.

They each turn up things, the American committee has its own program. Informally they never meet. They just don't work together despite the rather continuing request of the American Institute committees with the state societies to participate in this program. It falls dead, it just doesn't happen.

I'm sure this happens in lots of other committee areas. The ethics committee and the enforcement or policing of the rules, I'm satisfied could be done much more effectively at the local level.

MODERATOR: Do I gather from what I hear here there is relatively, if we don't say approval, at least satisfaction with what the professional societies, both state and national, are doing or trying to do?

PARTICIPANT: That is a pretty loaded question.

PARTICIPANT: Are we satisfied?

MODERATOR: Satisfied, yes.

ANOTHER PARTICIPANT: You mean are they efficient?

MODERATOR: Yes, you mean are they doing sufficient?
It is pretty immense.

PARTICIPANT: On the lobbying question, I feel strongly we should lobby. Roscoe's remarks, I took them, we should do a lot more, quantitatively, than we have done up to now. That is what I think. Harry said the whole thing.

PARTICIPANT: There is a question just about how you are going to do this, Walter, I don't want my comments

with respect to our position as a profession in matters of taxation to be confused with whether or not the AICPA staff, for example, should be doing more than they are doing now. There is a serious question about this.

PARTICIPANT: I feel very strongly we, as a profession, have been extremely backward in terms of lobbying. We are afraid we might step on somebody's toes or something, and that we should do much, much more than we have done. I don't say what we have done is wrong. I don't think we have done enough in almost all of these areas, lobbying is one of them.

PARTICIPANT: I might suggest, in my opinion, this is a reflection of the typical character of the CPA, if there is such a typical character.

PARTICIPANT: I'm sure this is true.

PARTICIPANT: We are a conservative group, we do, by and large, admire the status quo rather than change. Perhaps what has been done and what likely will be done is a true reflection on what our individuals' more collective attitudes are as individuals.

PARTICIPANT: I'm sure this is true, Joe. I have heard in connection with D. C., I have heard a number of CPAs say, oh lobbying, lobbying is bad. We shouldn't do that. This is ridiculous. This whole attitude is ridiculous. The way I see it, lobbying is not bad. Lobbying is good. We

ought to do more of it. There are different views on it, I realize that.

PARTICIPANT: I think there is a tendency probably, I would look to the day-to-day work that we do as support. There is a tendency to not take a stand or position until we are absolutely forced to take a position.

I know, in talking to many accountants, they will generally recommend, and recommend to the client, a certain course of action, then leave the final decision and, of course, the responsibility that may stem from that decision to the client. Well, the accountant possibly going beyond the point of recommendation, and say this is what you must do. Many times you will find an accountant to advise the client here are your alternatives, you make a selection, rather than as you find lawyers and other professions, saying this is the right thing to do. The professional assumes the responsibility for the success or failure of that decision.

PARTICIPANT: Then you say, Walter, we ought to do more lobbying. Lobbying is good and these things. I wonder, too, whether it is even clear whether I agree with you, to make sure what you are saying is the profession should be a little more willing, more disposed to take a stand with respect to issues of public interest, whether that be in the legislative area or otherwise, not that we

are just going to decide we are going to do more lobbying in and by itself, because you don't know what you are going to lobby for yet.

PARTICIPANT: Obviously that is what I mean.

PARTICIPANT: I was worrying a bit when you didn't qualify it.

PARTICIPANT: No, I used lobbying in the extent that there are registered lobbyists that try to accomplish what policies have been decided upon.

PARTICIPANT: You mean simply a mechanic through which we make our position known to those who need to know it. I won't say I am going to lobby until we know what the position is, who we make it known to.

PARTICIPANT: I would say that was one aspect of it, the other aspect is up to this time we haven't even known what our position is as a profession. We have taken the position that Joe pointed out. We don't decide things. We don't even know what we want, up to this time.

What I am saying, we should decide what we want as a profession, what is good selfishly for our interest, what is good for the economy, decide one way or the other. We assume what is good for us is good for the economy, like General Motors, then we go ahead and do it.

That is all. I am not saying it has to be. I'm sure the planning committee and the various committees of

the American Institute will make wise decisions.

MODERATOR: I am going to close it on that, if I can. That sounds like a good stop. Excuse me, he had his hand up before.

PARTICIPANT: May I mention to you fellows for information, the Virginia state society as a society has taken the stand we want no more closer binds with the American Institute.

PARTICIPANT: You don't want them.

PARTICIPANT: We do not, we don't want to be like that. We prefer to stay independent and separate as, if, and when any points or questions we wish to, we don't wish to, be governed by the American Institute.

MODERATOR: State's rights.

FROM THE FLOOR: God bless Virginia. Give a rebel yell there.

PARTICIPANT: She won't know how to take that down.

MODERATOR: I would like to make a couple of points having nothing to do with the content we have had. I hope all of us feel this has been a useful exercise. I am going to ask you, I will do it now, but I will also write you a letter, if you can, to give me some notion as to whether I think it has been a useful exercise, and whether you think that perhaps something like this occasionally, with similar groups of people, not just in connection with the current

planning program, be held occasionally, just as overall informational--

MR. LINOWES: Actually under the auspices of the local society.

MODERATOR: That is right. Would this be good?

I would like you to think, if you don't have any opinions prior to the meeting, perhaps whether you have some opinions now as to what are the more serious or more pressing problems that might face us as a profession and what priority they should be given?

Not necessarily in the solutions, but how we should approach them, excuse me, that is a solution, what are they? What are the most pressing problems you are facing in the profession? That is not on the agenda, if that is what you are looking for.

PARTICIPANT: I wonder how you phrased the areas here, it struck me as one of the things we may either have given little attention to or perhaps should be a subject for meetings, is not this a question of the professional societies and their interrelationship, and whether the Institute should do more for its members, that kind of thing, but just what should be the position?

What should be the function of the Institute? I am speaking now of the American Institute, with respect to the profession. We get, sometimes, a little mixed up

as to just who is the authority and who is the profession. I think that there is some confusion arising from time to time as to how these pronouncements came out. We are moving in the direction of having the APB make pronouncements, the APB is a body constituted and peopled by members of the profession, that is one thing. But the question of just in what context the Institute should speak for the profession?

Maybe all these lines ought to be a little more sharply drawn. This is just to tell what I think the question is, not necessarily what I think.

MODERATOR: The meeting is adjourned.

(Whereupon, at 12:00 noon, the seminar in the above-titled matter was adjourned.)