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## **AICPA Seminar: Warwick Hotel, Philadelphia, Pa. Saturday, November 13, 1965: Second Session**

American Institute of Certified Public Accountants. Long Range Objectives Committee

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AICPA SEMINAR  
WARWICK HOTEL, PHILADELPHIA, PA.  
SATURDAY, NOVEMBER 13, 1965

SECOND SESSION

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AICPA SEMINAR

WARWICK HOTEL, PHILADELPHIA, PA.

SATURDAY, NOVEMBER 13, 1965

COMMENCING AT 9:00 A.M.

HARRY C. ZUG, Moderator

MORNING SESSION

1  
2 THE MODERATOR: We will start  
3 with the topic of Ethics.

4 VOICE: I don't want to take too  
5 much time, yet I want to take a little bit. I would  
6 like to lay some ground work first and just discuss  
7 a little bit of why a code of ethics, professional  
8 ethics, and it goes something like this; That we  
9 CPAs are licensed by the public to serve the public's  
10 needs. The public demands and I think is increasingly  
11 demanding, high standards of competence and conduct for  
12 those who perform service for them. Therefore, you  
13 need a code of ethics, One, to tell the public you  
14 are recognizing their demands, and here is the code  
15 of ethics, which we have, just to show you we are  
16 concerned about our conduct and our high standards.

17 Secondly, as a guide to the  
18 conduct itself and its members.

19 Now, I think another thing on  
20 why a code of ethics, I believe that maintaining our  
21 high standards is in effect maintaining our bread and  
22 butter. So, we have got to not only maintain an  
23 appearance of performing in accordance with our standards  
24 and ethics, but we also have to perform in accordance

1 with high standards and ethics.

2 I think looking toward the  
3 future we are going to have to have a code of ethics  
4 of some sort.

5 Also as sort of a background,  
6 I think if our code and our professional work in per-  
7 formance is resting on the three items I mentioned  
8 yesterday, of independence, competence and integrity;  
9 in this area of independence, you have two types of in-  
10 dependence, and one is the independence in fact. You  
11 could have independence as far as now performed, but  
12 if you ~~are~~ not operating independently, that is bad.

13 Then you have the independence  
14 in appearance, and this is the area where you can get  
15 into some problems, as far as management services work,  
16 or the tax work, because even though you might be  
17 completely independent in mind and in actions if, as  
18 far as the public is concerned, and particularly I am  
19 thinking of management services, if you give the appear-  
20 ance of operating just like another commercial enter-  
21 prise, then the public is going to feel that you are  
22 following the standards of commercial enterprise.

23 Now, I think Carey sums that  
24 up pretty well in one of the earlier chapters of his

1 book, and I thought I would just read that: It is  
2 essential that the CPAs reputation for personal integ-  
3 rity and independence be maintained without challenge,  
4 while properly helping the client in every possible  
5 way, as in tax work and in management services. The  
6 CPA should avoid actions, words or attitudes which  
7 suggest that he identifies himself primarily with  
8 Management's interests. He must demonstrate equal or  
9 greater concern for the public interest.

10 So that is the first sort of  
11 cornerstone to independence.

12 You now get into this area of  
13 competence, and incidentally, independence is pretty  
14 much article one of our Code. You get into the area  
15 of competence, and there are two phrases which we use  
16 quite frequently. One is the Generally Accepted  
17 Auditing Standards and the other is Generally Accepted  
18 Accounting Principles.

19 This area of competence is  
20 covered by our Article Two. I think we are making and  
21 have made progress in this area of auditing standards as  
22 covered in Bulletin 33, which was certainly a step in  
23 the right direction.

24 I am not at all sure that we have

1 made progress as far as the accounting principles are  
2 concerned, and if the very basis of your independence  
3 and your report to the public is not established, then  
4 what good is it?

5 Also, in thinking of this  
6 area of management services and tax work, I think that  
7 the audit work is our bread and butter, and is also  
8 the feeder for these other operations.

9 Now, Carey in talking about this  
10 one area of accounting principles, makes this state-  
11 ment: That the ethical foundation of the profession's  
12 prestige, will not be secure until generally accepted  
13 accounting principles are defined within reasonable  
14 tolerances.

15 Then the third, and I feel like  
16 being Biblical here, there now remains the three,  
17 independence, competence and integrity, but the greatest  
18 of these is integrity. I think we can achieve inde-  
19 pendence, in appearance, by regulation, like our Article  
20 101, as far as board membership and so on, but when  
21 you get independent in fact, then this has to be  
22 accomplished through integrity. I think if you get  
23 competence without integrity, you have got a really  
24 dangerous situation, and on the other hand, if you have

1 integrity and don't have competence, then that is sort  
2 of weak and useless.

3 I think this ought to sum up,  
4 I think your public is going to assume that we will  
5 maintain the highest standards of independence and  
6 competency and integrity, and if we don't do this  
7 ourselves, then they are going to find other means to  
8 see that their needs are accomplished elsewhere.

9 Now, Carey sums this up pretty  
10 well, too, in his chapter and here are a couple of  
11 brief quotes: Public pressure requires organization and  
12 identifies competence, standards and self-discipline  
13 on the part of those who render services vitally affect-  
14 ing the public welfare.

15 And on another quote: Experience  
16 teaches plainly that in the United States, any field  
17 of economic activities affecting the public's interests  
18 will ultimately be disciplined. Self-discipline, if  
19 effective is acceptable, the alternative is discipline  
20 by law.

21 Now, just with that background,  
22 and looking at the future a bit, I think all of us are  
23 reasonably sure that we will have a profession, and  
24 we will want to maintain the profession; that there



1 will be a CPA, maybe we will have CPA-Management  
2 Services, CPA-Tax Services, that may be an expansion.  
3 But I think we will be serving the public, if we are,  
4 then we will need a Code of Ethics.

5 Looking into the future, I think  
6 that basically, with the extension of your Security  
7 Laws and the extension of public ownership, and so  
8 on, that the attest function of the audit is going to  
9 be the bread and butter for many years, and will be  
10 the feeder of these other activities. So, I think  
11 that we can feel we are going to need the Code in the  
12 future of some type.

13 I see the need to work in the  
14 technical -- in the competence area of the code. I  
15 think we have come far on auditing standards, yet some  
16 of the recent news items and so forth, make us wonder  
17 if we haven't really swung the other way, and maybe  
18 sacrificed some of our technical auditing for -- either  
19 for the other type of work, or maybe just by pure --  
20 Oh, I guess, pure lack of emphasis or organization. I  
21 don't know what you would call it, but anyway, I think  
22 there is a need to evaluate and tighten up in that area  
23 in the future.

24 I think that we have to face up

1 to the fact that performing an audit for a client, say  
2 500 hours that can be performed in 200 if you are aware  
3 of the sophisticated techniques and can use the computer,  
4 et cetera, it is pretty dishonest, you are just bill-  
5 ing the client for your inefficiency. I think there is  
6 going to have to be a lot of work, as far as what can  
7 we do to streamline our auditing, and cutting down on  
8 the hours. Particularly, this is going to come about  
9 because of lack of personnel.

10 I think all of us are concerned  
11 in the accounting principles area. I don't know  
12 whether I would get any disagreement on this, but it  
13 seems to me in six years of the Accounting Principles  
14 Board activity, although their objective was to be  
15 decrease the number of alternatives to accounting  
16 practices, they have actually increased in this area.  
17 So I have some doubts as to how effective this is going  
18 to be, unless there is some change in thinking and atti-  
19 tude and so forth.

20 There was a suggestion made of  
21 an accounting course. That is a possibility. I have  
22 gotten into this in some depth in studying the idea,  
23 and many of things you object to on the surface, aren't  
24 really valid; that is a possibility.

1                   Anyway, I think something is  
2 going to have to be done in this area, and probably  
3 everyone around the table can give illustrations  
4 where in the last five or six months of their exper-  
5 iences, where they wished that they had something  
6 they could turn to.

7                   Looking at the Code itself,  
8 there is a real feeling which has been expressed by  
9 a number of Past Chairmen of the AICPA Code of Ethics,  
10 that we are going too far, as far as the Code is con-  
11 cerned. We are attempting to write opinions and answer  
12 questions on every specific type of item that can possi-  
13 bly occur, so that we are developing a profession that  
14 is asking for a rule, rather than just taking the  
15 position, is this right or is it wrong.

16                   Back in 1944, I think the AICPA  
17 Code was some two pages, now with the opinions, it runs  
18 around some 21 or 22 pages. So, I think we should look  
19 at our code, and see whether it should be reduced. As  
20 one fellow says, all we need is just one sentence, he  
21 says, "Keep your nose clean." Maybe that is not so  
22 silly as it seems.

23                   Another thought for the future,  
24 I think we ought to look into, is, our codes are all

1 written in the area of, "Thou shalt not," rather than  
2 "Thou shall," assuming the negative, rather than the  
3 positive. There seems to be a number of people who  
4 would like to see this Code changed in that respect.

5 Our mechanics of discipline,  
6 any of you who have gone through any Ethics Committee,  
7 realize that something must be done. You have a  
8 situation of a member being investigated on the State  
9 level, and by the time it gets to the Trial Board,  
10 maybe the AICPA Board, there has been three or four  
11 years of his career under the pile. This is just  
12 wrong. We have got to do something to speed that up.  
13 There is a lot of thinking along the lines, shouldn't  
14 the function of State and National be changed, maybe  
15 the AICPA should not have a disciplinary procedure set  
16 up, that they should be in the realm of setting policy  
17 and advising and so on, that the disciplinary procedures  
18 should be left to the State, and automatically the  
19 AICPA action will follow.

20 There is a tremendous amount of  
21 work that needs to be done as far as getting the States  
22 Code all in line and in agreement.

23 I think we should work out some  
24 way to become aware and do something about the substandard

1 practice that never comes to the attention of the  
2 Ethics Committee. You get pretty discouraged in a  
3 way, and wonder whether our committees are really  
4 worthwhile, at least on the disciplinary side, when  
5 the type of cases you get are those of fellows who are  
6 already in jail or in public disgrace, and you know  
7 maybe five or six firms yourself, that are engaged in  
8 substandard practices, and based on your own experience,  
9 you can't do anything about it. I think our Practice  
10 Review Committee should help in that regard.

11 Those are a few ideas for the  
12 future, things that have to be tackled. They are  
13 suggestions, now how about some discussion?

14 VOICE: I will mention one small  
15 point ~~that~~ fact that the discussion of divergent account-  
16 ing principles -- this always occurs in an academic  
17 way to the college professor, I think. It seems to me  
18 that one of the reasons why we have not come to a  
19 greater agreement on accounting principles, among  
20 others, and there are plenty of reasons for it, is that  
21 the public accounting profession has been influenced to  
22 a large extent by provisions of the Internal Revenue  
23 Code. For example, it appears that a large number of  
24 companies went on the declining balance depreciation

1 for their annual reports in 1954, and I doubt very  
2 much they would have done so if there had not been a  
3 change in the tax laws.

4 Now, it has come to the point  
5 where we have many different acceptable procedures  
6 for calculating and reporting depreciation. I have  
7 had a feeling for many years, that while we say,  
8 "Well, look fellows, let's calculate income according  
9 to good accounting principles and ignore the Internal  
10 Revenue Code," that the client, at least, don't want  
11 to in many cases, ignore the Internal Revenue Code  
12 in their internal reporting. The CPAs, because this is  
13 accepted, say, "Well, all right."

14 I don't know whether this ties  
15 in with ethics or not, but it does tie in with general-  
16 ly accepted accounting principles. They are not what  
17 we would like them to be, because there are too many  
18 alternative practices.

19 I would be delighted to have  
20 some of the practitioners' reaction to that statement.

21 VOICE: I would like to comment,  
22 you bring in taxes, you mention that one of the reasons,  
23 one of the underlying areas that lead us in these di-  
24 vergent accounting principles. I don't agree with that

1 comment for this reason, because the determination of  
2 taxable income by the structure of the code, or regu-  
3 lations, et cetera, is a very peculiar animal, and  
4 the adoption of various and sundry accounting princi-  
5 ples for tax purposes, with the possible exception  
6 of Life-10, for example, is in no way influenced by  
7 the accounting principles you adopt for book purposes.  
8 That is to say, you can determine and minimize your  
9 taxable income according to all of the accounting  
10 treatments that are available in the Code, and without  
11 in any way jeopardizing, let's say, the integrity or  
12 the particular accounting principles you select to  
13 report for financial statement purposes. There are  
14 very, very few areas where you need to be bound by  
15 what you do in the determination of taxable income.  
16 Therefore, presumably we can arrive at a set of  
17 accounting principles that might better circumscribe  
18 this area, and not be influenced by taxes. The only  
19 influence of the taxes would be the deferred versus  
20 the current liability, that sort of thing.

21 VOICE: I agree that it doesn't  
22 have to, my observation is that it has.

23 VOICE: On a lower level that is  
24 true.

1                   VOICE: This would be my quarrel  
2 with the public accounting profession, that they have  
3 permitted this, the allowable ways of calculating  
4 the income tax to influence financial reporting. I  
5 can't believe that those companies that started report-  
6 ing depreciation on a declining balance basis in 1954,  
7 did so because they suddenly concluded that straight  
8 line was not as good a method from the point of view  
9 of determination of income. This is easily documented  
10 by the annual reports of many, many U.S. corporations.

11                   VOICE: Another example, which  
12 I think would clearly be indicative, is the case of  
13 the investment credit, particularly in the vending  
14 industry, where all of a sudden when the eight-year  
15 investment credit tax came into being, there was a  
16 complete re-evaluation of the the expected life of  
17 certain vending equipment in the major companies, the  
18 major companies extended the life of their equipment  
19 up to eight years to get the full benefit of it.

20                   I do think that this point you  
21 raised is more followed by the non-public companies.  
22 I think that the income tax laws, in 90 per cent of  
23 the cases, are from the non-public reports, are the  
24 controlling accounting principles. This isn't right.



1 VOICE: It is also followed  
2 by listed companies, too. In fact, if you read the  
3 annual report, you will read statements like this,  
4 the president talking to the stockholders, says,  
5 "Look, fellows, the income isn't so good this year,  
6 because we switched to declining balance depreciation,  
7 but don't look at the income, that is not a good  
8 measure of how we are doing, look at our cash flow,  
9 that is a much better measure." This is in the  
10 public annual report among some of our large U.S.  
11 Corporations, and certified to, I presume, by the  
12 CPA. If I were a CPA, I would have given the same  
13 opinion, too.

14 The fact is, they were using  
15 the declining balance depreciation in the statement  
16 which were certified.

17 VOICE: But they were under no  
18 compulsion to do so because of the tax laws.

19 VOICE: No, that is true, but  
20 my problem is this, why does the public accounting pro-  
21 fession permit this as an alternative, unless it is  
22 convinced that declining balance is the logical method  
23 for allocating costs.

24 VOICE: Well, declining balance

1 existed long before the tax laws came around and said  
2 that is a permissible tax item. In other words, it  
3 existed as an accounting principle and, therefore, was  
4 available to management if they believed it was the  
5 most appropriate methods to depreciate their properties.  
6 That was long before the Internal Revenue said they  
7 could.

8 VOICE: I agree.

9 VOICE: The Code merely gave  
10 them an opportunity if they continued on straight line  
11 to have a deferred liability.

12 VOICE: How do you relate this  
13 to ethics?

14 VOICE: Well, I don't really  
15 necessarily. It was pointed out in the discussion of  
16 competence, that there were two subjects involved,  
17 auditing standards, which he felt the profession has  
18 met very well and narrowing the acceptable accounting  
19 principles, which he felt the profession had not met  
20 so well. So I thought I would bring out one of the  
21 dragons, and lay it open for everybody.

22 VOICE: I think following this  
23 line between competence and ethics and accounting  
24 principles, I think the major step was in this opinion

1 No. 6, going back over the older research bulletins  
2 and commenting to their current appropriateness, I  
3 think there is going to be more of this needed. For  
4 example, an area in which I do have some knowledge,  
5 ~~business~~ combination. I think that until this Opinion  
6 No. 6 came out commenting upon Research Bulletin No.  
7 48, you had an obvious case where firms were certify-  
8 ing statements which were in direct contradiction to  
9 the spirit as well as the letter of Bulletin 48. But  
10 it was still generally accepted and you could have  
11 faced the public and showed them Bulletin 48, and  
12 you could have faced inward to yourself and said this  
13 is obviously not the generally accepted. It made the  
14 two faces the same and said, in effect, "Don't bother  
15 that much with any of the letter of Bulletin 48," and  
16 this has gone a long way.

17 I think there are cases and I  
18 don't want to document them right now. You have situ-  
19 ations where what has been written has been violated,  
20 not all at once, but in small steps.

21 VOICE: I can agree with you  
22 Henry, that I think Opinion No. 6 did a great deal to  
23 narrow the range of differences in accounting practices,  
24 it may have in connection with business combinations.

1 VOICE: I think you can recall  
2 cases where the profession was acting directly contrary  
3 to a particular bulletin, this includes both the public  
4 phase and other phases.

5 Let me say this, I would have  
6 questioned, in fact people did question at least  
7 academic people did when discussing business combina-  
8 tions, they failed to see why the Ethics Committee had  
9 not at some time taken a stand, and questioned the  
10 fact that various firms were in fact in direct --  
11 directly contrary to the spirit.

12 VOICE: I have a coment about  
13 a comment that was made about one of my partners,  
14 regardless of the subject, everything comes out of  
15 accounting principles. This is a very important part  
16 of our code of ethics and our technical standards, and  
17 one of them if that if a member fails to direct the  
18 attention of any material departure from generally  
19 accepted principles or disclose any omission of generally  
20 accepted auditing procedures, and so forth, he is  
21 subject to the discipline. This is Article Two.  
22 And the point that is raised, the lack of discipline  
23 in some cases , when you have the alternatives that  
24 are accepted, and what constitutes acceptance is

1 difficult to determine, then you can't discipline a  
2 member for any practice.

3 VOICE: The need is felt in  
4 Opinion No. 6 specifically.

5 VOICE: Then taking, say,  
6 Opinion No. 6 and opinions of APB, you first have to  
7 have acceptance of the opinions -- APB Five is a good  
8 one on capitalization of leases -- you have to have  
9 not only acceptance of APB 5, in practice this would  
10 create maybe an alternative in accepted principles,  
11 but you would have to have the cessation of all these  
12 violations of this before it would become -- before  
13 the violation of this would become something that you  
14 could take disciplinary action on. The same thing  
15 as far as the disclosures from APB Bulletins, or  
16 disclosures from departures from APB Bulletins, at  
17 this point there is nothing in the Ethics Code provided  
18 for, even though APB, the departure from the Bulletin  
19 becomes -- disclosure becomes generally accepted or  
20 asks some general acceptance in the statement beginning  
21 after December 31, 1965, there is nothing now in the  
22 Code where we have any power to discipline if a member  
23 does not disclose the departures in accordance with  
24 the bulletins. There is a lot of feeling in the

1 profession that there should be no change in the  
2 code.

3 As far as the Internal Revenue  
4 Service, I am inclined to agree on that, and I think  
5 we would have a unanimous vote here if the Internal  
6 Revenue Service came out and said present level de-  
7preciation is a good accounting method, it will be  
8 allowable for tax purposes if everybody reports it  
9 on their books, all of us would say, "Yes, that is  
10 fine accepted accounting principles."

11 VOICE: I think we could go  
12 even further, and suggest that if the Internal Revenue  
13 would have accepted it without requiring it going in  
14 the books, it would still go on the books.

15 VOICE: That is true as a matter  
16 of economics. Why would I want to keep two sets of  
17 books. We have darn few surplus entries, and as long  
18 as it doesn't distort the thing, as long as it is  
19 consistent, as long it is not too far out we keep one  
20 set of books.

21 All this jazz of surplus recon-  
22 ciliation you see in these big companies is a lot of  
23 stuff for the little guys. We don't have enough over-  
24 head to cover all that.

1                   VOICE: Two sets of books is  
2 overrated.

3                   VOICE: I know it. In 1954 we  
4 went on declining balance, not because the client thought  
5 it was good or bad, but because we didn't want to pull  
6 down our salvage value or depreciation schedule, so  
7 we put them all on declining balance. What difference  
8 does it make? It offsets maintenance and all that other  
9 jazz you have for supporting declining balance. I  
10 don't care what the stuff is, at the lower level we are  
11 trying to a job for our clients, we are trying to get  
12 this bookkeeping done at the cheapest cost, and by  
13 keeping two sets of depreciation schedules, and two of  
14 this and two of that, that is expensive, and you don't  
15 have the people to keep the first one right in the  
16 first place, so you don't get into the second place.

17                   VOICE: The question you are  
18 asking really, what are the economics of accounting  
19 principles.

20                   VOICE: That's right, and that  
21 has a big thing to play in the lower levels. Now,  
22 how you guys do it at the upper levels, you have these  
23 computers and all these guys jazzing around, you can do  
24 anything you want. I can do it too, but I am not about

1 to suggest it when it costs dough. I can't see the  
2 benefits to show depreciation on one basis or another  
3 basis from year to year, it isn't going to make a  
4 bit of difference in running this particular company  
5 and keeping it alive and making money. When you get  
6 into the higher levels, that is something else.

7 VOICE: We seem to have two  
8 things going now. This matter of picking on deprecia-  
9 tion but, of course, it applies to so many other areas,  
10 that I wanted to ask in relation to a comment made  
11 about declining balance depreciation versus straight  
12 line, whether you don't have competing companies, one  
13 of which might be using straight line for accounting,  
14 and tax purposes; and another using declining balance  
15 depreciation. You would accept them both as generally  
16 accepted accounting principles and not, I mean you  
17 wouldn't use tax spec accounting for accounting purposes  
18 and declining balance for tax purposes. You would make  
19 no distinction between the two companies in a case like  
20 that, and they would show different net incomes,

21 VOICE: The point I was trying to  
22 make with Dick was, I would have done this before 1954,  
23 before 1939 and maybe before 1913. In other words, it  
24 has nothing to do with the fact that the tax laws permit



1 or do not permit a particular kind of principle. Now,  
2 that is not to say that the tax laws might not come up  
3 with a new principle; that is to say, one that has  
4 not previously been available for financial statement  
5 purposes, and that this might be adopted. This may  
6 or may not take place. But those changes that have  
7 taken place in recent years, with the possible excep-  
8 tion of Life-o, because there the service in effect  
9 made everyone put up. I mean, if you are going to  
10 have Life-o, you got to put it on your books. But  
11 in all these other areas, these tax deferral devices,  
12 if you will, that are being offered, via different  
13 kind of accounting figures, these do not need to be  
14 recorded on the financial statement. That is to say  
15 you can determine in a vacuum if you will what your  
16 accounting principles are for financial statement pur-  
17 poses.

18 VOICE: And in so many cases they  
19 are, and recorded.

20 VOICE: If they existed before  
21 the tax laws came along and made them proper and useful  
22 for financial statements.

23 VOICE: Nobody used them, though.

24 VOICE: Tell me why they would

1 use them for financial statement purposes.. .

2 VOICE: Merely because the tax  
3 laws said they could.

4 VOICE: Why would you switch  
5 from straight line to declining balance for example?

6 VOICE: I suppose because as  
7 has been suggested, it's cheaper to make one set of  
8 computations, rather than two.

9 VOICE: Which is the only reason  
10 that I can think of. A good many people say this  
11 is highly overrated, this problem of maintaining two  
12 sets of records.

13 VOICE: Are you saying the problem  
14 of income determination is highly overrated.

15 VOICE: I am not sure we are  
16 talking about ethics, but I don't want to let this get  
17 by.

18 We blame the Internal Revenue  
19 Service for some of our problems with accounting  
20 principles. I am not so sure that that is so. I guess  
21 I am influenced somewhat by all the controversy we had  
22 over investment credit. I think many of you will recall  
23 how the investment credit discussion first arose. It  
24 was the Congress really, and I think business interests

1 who encouraged this.

2 Now, let's assume that we have  
3 right now well defined and fixed accounting principles.  
4 The American Institute, let's say if they were to get  
5 around to this, I am not so sure that we still would  
6 not have the same kind of a problem that we have with  
7 the investment credit in business. The point I am  
8 making is, as long as you have a political body who  
9 is influenced by any number of interests, whether it  
10 involves votes or other types of power over the Legi-  
11 slature, it seems to me they will be coming up with  
12 ideas over long periods of years that may or may not  
13 conform to what we consider to be accounting principles.

14 I think that in some way we have  
15 to reach the stature where the Congress and maybe a  
16 lot of other bodies in the United States, recognize  
17 that when they decide to get into the tax area or an  
18 area that has an implication in the profession of  
19 accounting or the accounting principles, then they must  
20 consult this professional body.

21 I think that this is probably a  
22 good part of our trouble.

23 VOICE: That to me is not really  
24 the issue. I agree that is the job of Congress to lay

1 and collect taxes, and they are going to do this what-  
2 ever way seems best to them.

3 The job of the certified public  
4 accountant is to see that a statement is prepared in  
5 accordance with generally accepted accounting principles,  
6 he does not have to deny to his client the right to  
7 minimize his income tax, nobody has quarreled with that  
8 at all, the only point I am raising is that the pro-  
9 fession has allowed, and I think if I were in the pro-  
10 fession I would have allowed it -- the profession has  
11 allowed the income tax from time to time apparently to  
12 influence financial reporting, and this is what I think  
13 is wrong.

14 One man says it is right, but  
15 he says it is right for his client because it is too  
16 expensive for them to maintain two sets of books.

17 VOICE: I will go a little further.  
18 We followed the Accounting Principles Board and the  
19 principles laid down, so long as there are alternative  
20 procedures, then we will use them. Now when there aren't  
21 any more alternative procedures, then we will have to  
22 operate a little differently. But as long as we are  
23 operating within that framework, why we are going to  
24 continue to do it.

1                   VOICE: But you are the Account-  
2                   ing Procedures Board, you and all the other CPAs create  
3                   the Accounting Principles Board and the American  
4                   Institute of Certified Public Accountants.

5                   VOICE: We have some alternative  
6                   procedures, and as long as the bug guys do it we are  
7                   going to do it.

8                   VOICE: My point is, you talk  
9                   about narrowing the areas of difference, but I don't  
10                  see this is going to happen.

11                  VOICE: I would like to get  
12                  back on the track a little bit. I think that although  
13                  the generally accepted accounting principles is an  
14                  important issue as far as influencing a code of ethics  
15                  or developing a code of ethics, it is only one of many  
16                  issues. I am a little bit disturbed by an implication  
17                  that has been mentioned a couple of times, yesterday  
18                  and I think this morning again, that is we have recently  
19                  gotten into trouble and have gotten some very bad pub-  
20                  licity because of the fact that perhaps we are diverting  
21                  our efforts away from emphasis on competence and auditing,  
22                  we have gotten into the management services area and,  
23                  indeed, into the tax area along with management services,  
24                  because we have been doing it for a longer time. I



1 this is not to be blamed on the fact that we have gone  
2 beyond auditing per se, because as I said, it is a  
3 different group that has gone beyond auditing, although  
4 it is within the same firm.

5 VOICE: I think I would like to  
6 answer that, and it is difficult to answer without  
7 getting specific. I think any growth in any new area  
8 is going to involve a tremendous amount of effort and  
9 time on the part of the audit partner and the partners  
10 in charge.

11 Just for example, a lot of the  
12 management services growth in many firms has come about  
13 through acquisitions and mergers of fairly large enter-  
14 prises. A lot of this is supposition, I know that this  
15 activity in itself requires the time and effort of those  
16 who would be coordinating, directing and emphasizing  
17 quality control, if you have it, on the part of manage-  
18 ment on the audit side.

19 The second point I think that  
20 is important. I think in most firms, your management  
21 services -- in most large firms anyway -- you have an  
22 engagement partner, and that engagement partner is  
23 responsible to the client and the president of the  
24 company looks straight at that engagement partner for

1 the taxes, the administrative services or management  
2 services, or whether it is audit, if on my job or jobs  
3 on which I am the engagement partners, even though as  
4 far as take home pay and seniority the management ser-  
5 vices partner may be my senior, introduces a salaried  
6 job, the president is calling me and complaining first.  
7 He looks to me as sort of an interpreter of the manage-  
8 ment services and the taxes.

9 So, I think I know from my own  
10 experience the more management services jobs that I  
11 have running from my clients, the more time I am spend-  
12 ing management services activities. This is to an  
13 extent supposition on my part, just based on the fact  
14 I am spread thinner by virtue of the growth of manage-  
15 ment services, that is these areas where we have had  
16 adverse publicity. The principal ones it happens to  
17 concern the firms because as the major number of large  
18 acquisitions of management services activities has gone  
19 to the greatest extent. Now, maybe there is no corre-  
20 lation at all, I like to think there is, there is corre-  
21 lation, because I think that is putting the best answer  
22 on it.

23 The other would be that they  
24 have the time and they have the knowledge, but it just



1 hasn't been exercised. I just think it is being spread  
2 too thin.

3 VOICE: I think this is largely  
4 an organizational problem, perhaps within the profession.  
5 I don't see why we cannot contain the same quality  
6 control over product A, and also at the same time render  
7 additional services. We have done it with taxes.  
8 Indeed, if you have a dozen major tax problems for  
9 your major clients that you handle, you are going to  
10 be "spread thin," at that time. And if you have some  
11 SEC problems or FTC problems you are going to be spread  
12 thinner. Again, it gets back to the question of what  
13 type of service or services should we render and how  
14 much can anyone individual handle. Your philosophy  
15 of practice, I presume, in simpler matters is where  
16 the practice partner handles everything regarding that  
17 client. He is the generalist who calls in all of the  
18 specialists. He has to coordinate, theoretically coord-  
19 inate their activities, and it does mean that your  
20 body of knowledge has to expand at the same time.

21 Nevertheless, I think this can  
22 be handled with the proper organization within any one  
23 office or any one firm. It is not easy, but again,  
24 I think if we deny ourselves the right -- if indeed we

1 call it a right -- with the privilege to go into other  
2 areas, other than just auditing and tax, I think we are  
3 going to become somewhat stultified, and perhaps even  
4 sterile as a profession. over the long run.

5 VOICE: I hope no one comes to  
6 that conclusion from what I have said. My only con-  
7 clusion is you have to maintain your competence in areas  
8 in which you are going, before you go into the others,  
9 and if you are running the risk, then you shouldn't do  
10 it.

11 VOICE: Just to straighten the  
12 record out, because I think this is important. I have  
13 given a lot of thought to the question of what the  
14 smaller practitioner -- when I say smaller, I mean the  
15 individual practitioner too, not only the smaller firm --  
16 should do in this area of management services. I have  
17 been arguing vehemently for the past several years,  
18 that every practitioner should be getting into this  
19 field with both feet. Not necessarily the broad range  
20 of services, but at least in certain of the major areas,  
21 such as cost accounting and budgeting, just to take a  
22 few.

23 The point that is made is an  
24 excellent one. Here is a man who cannot necessarily

1 reorganize himself, can he keep up with this advanced  
2 body of knowledge and still do a topnotch job of au-  
3 diting but, of course, you might point out to us that  
4 the amount of auditing knowledge that he has to apply  
5 to his clients might be somewhat limited anyhow; the  
6 other side of the contrast.

7 VOICE: I think these subjects  
8 overlap a great deal, and I had some notes that I  
9 would mention this later, but to get back to the sub-  
10 ject of specialization. It was mentioned yesterday,  
11 and let's say our license to practice and the basis  
12 for a number of states recognizing the need to license  
13 certified public accountants, stem from the need for  
14 persons skilled in auditing and accounting, and possi-  
15 bly this could be interpreted very broadly to include  
16 financial and economic areas. I have my own opinions  
17 on this, but I am merely throwing this out primarily  
18 as a question now, whether we have expanded beyond our  
19 competence. I am saying this in the relationship of  
20 the basic premise for CPAs getting into or expanding  
21 into management services. Certainly it was related to  
22 our intimate knowledge of the economic accounting  
23 and financial aspects of business. So it was logical  
24 to advise clients in these areas, and I mean this in

1 the very broad sense, and at some point along the way,  
2 it seems to me we had a definition in the ethics re-  
3 lated to management services, and the limitations placed  
4 on management services would be those areas in which  
5 partners were competent to supervise and evaluate.  
6 The question is, have we gone beyond that.

7 Then in terms of specialization,  
8 are we talking about persons who have first qualified in  
9 the basic disciplines of auditing and accounting, going  
10 on and specializing in other areas, or are we talking  
11 about assembling groups of specialists with completely  
12 different backgrounds within the same firms.

13 I just throw these things out  
14 for questions.

15 THE MODERATOR: I think we have  
16 got to draw this discussion to a close fairly soon,  
17 so we will call on one more.

18 VOICE: I just want to make  
19 this point in terms of what has been said, certainly  
20 some of these recent published cases have given the  
21 profession a black eye, but on the other hand, I read  
22 the Yale Express and the salad oil cases in depth, and  
23 I believe that where there is massive, collusive fraud  
24 on the part of management, that our standard audit

1 techniques are not necessarily designed to catch that  
2 sort of thing, and I believe in these circumstances,  
3 instead of the profession being on the defensive, and  
4 each practitioner being happy it didn't happen to him;  
5 that the profession as a whole would stand up on its  
6 feet and make this pointedly clear to the financial  
7 world that we are not prepared to catch this kind of  
8 thing, massive, collusive fraud on the part of manage-  
9 ment. Then I think we are in a better position to face  
10 the world.

11 VOICE: I want to get off that  
12 a little bit and get back to this -- we have got a  
13 Code of Ethics and it is a matter of enforcement. Now  
14 in the first place when you get into principles and  
15 all the rest of it, there is certain classes of CPAs  
16 who know what this is all about, those of you around  
17 the table, but in your own firms you have the guys who  
18 have been driving by the seat of their pants, he is  
19 up in his sixties, he cares less about what is happening,  
20 doesn't have time really, he thinks about hunting or  
21 something else, and you got the little guy that is so  
22 busy working, he doesn't have time to read what he should  
23 read, so he is operating by what he learned back some  
24 time ago.

1                    Now the only way you can  
2                    straighten this thing out is on principles and auditing  
3                    standards and what have you. Of course, the bankers  
4                    have got to cooperate with us too, and give this  
5                    Review Board statements to review. That is going to be  
6                    a bottleneck, because that is a backbreaking deal for  
7                    someone to review these statements and put out reports,  
8                    you have to be a little careful. I hope that works,  
9                    but it is a tremendous undertaking, and I think it is  
10                   going to be the same problems we have with our Ethics  
11                   Committee in pursuing these cases.

12                   Now, I was on that Committee for  
13                   awhile, and I know what it takes for somebody's time,  
14                   and usually some big firm guy is going to take a lot of  
15                   time off and pursue these cases. When you are all done,  
16                   it winds up two or three years later in a little squib  
17                   in the Bulletin which a lot of people read and a lot of  
18                   people don't, and those that do read it on the lower  
19                   levels don't pay any attention.

20                   What I have been trying to do on  
21                   an individual basis, and I have been a little disappoint-  
22                   ed in it, when I send something down to Willard, that a  
23                   guy is advertising wrong, or what have you, I don't  
24                   expect this to be a Federal case, what I expect though

1 is that the Ethics Committee would drop this guy a line  
2 and tell him he is out of line. What that will do is  
3 this, it will call this guy's attention to the fact that  
4 we do have a Code of Ethics and that perhaps it has  
5 changed since the last time he read it, and will get  
6 these guys in line. But if you make a Federal case  
7 out of it, we are not going to get enough coverage.

8           Some years ago we sent out a  
9 calendar at Christmas time, with a little tassel on it,  
10 a little hole in it, so the people could presumably  
11 hang it on the wall. That wasn't the intention at all,  
12 but we sent it to John Carey for about ten years. So  
13 evidently some guycame in John Carey's office and saw  
14 this, so we got a letter from John Carey, saying, "No,  
15 you shouldn't do that, take the hole out and the tassel  
16 off and you are all right."

17           (Laughter.)

18           So we don't send out the calendar  
19 anymore.

20           Some years ago, it wasn't too  
21 long ago, Herr and Herr Company, in Reading, changed  
22 their address. So what they did, they put a card in  
23 the paper. Of course, that was against ethics at that  
24 time for three or four years already, so instead of

1 making a Federal case out of it, the next morning I  
2 called one of these guys and said, "Hey, how long ago  
3 has it been since you read the Code of Ethics, you better  
4 go back and get that out of the paper right now before  
5 comebody gets excited about it."

6 Now, I don't think that ever  
7 came up before anybody's attention, but I am not interest-  
8 ed in making a Federal case out of this, but I am only  
9 trying to get these guys to read and operate within the  
10 Code that we have. You are not going to do it by making  
11 a Federal case out of it, because the time involved is  
12 too much.

13 I have letters in my desk that  
14 have never been answered as far as I know. They get  
15 lost in the shuffle someplace. It seems to me these  
16 fellows who are on the Ethics Committee know more about  
17 this than I do. It doesn't take long to write a letter  
18 and say, "Look, you are out of line on this deal."  
19 I sent them a picture of a guy who had a lousy sign  
20 on the front that looks like a dog catcher's instead  
21 of a CPA's, and all it would take is a letter that  
22 says, "Look, this isn't in keeping with the Code of  
23 Ethics, perhaps you ought to change it," and the guy  
24 will do something.



1 I recall when Coleman moved  
2 out of his offices on Washington Street two years ago,  
3 the sign is still there, getting dusty; it looks a  
4 mess.

5 It seems to me, and I haven't  
6 brought this to Willard's attention, this isn't crit-  
7 icism, but it seems to me this is the only way we are  
8 going to make some progress, because we are talking  
9 about regulatory bills, where we are taking a lot of  
10 dying class PAs, and in order to keep the thing straight,  
11 you take in a lot of these guys that are operating  
12 worse than a lot of our other fellows, straighten them  
13 out on our dying-class bill, why our Ethics Committee  
14 would be so bogged down you wouldn't be able to think  
15 about it. They are bogged down now, I believe.

16 It seems to me we should be  
17 able to get something ready to educate our members, and  
18 force them to read this stuff, and you can force them  
19 to read it if somebody in authority in the Institute,  
20 a higher level than what his local practitioners are,  
21 slaps him on the wrist a little bit, but quick.

22 VOICE: If I can just answer  
23 this, I know the complaint is a legitimate one. A  
24 letter comes in, it is referred to the Committee and

1 the Committee meets three months later, they make the  
2 decision to write a letter to the man, and they write  
3 a letter. He writes back with an explanation, the  
4 explanation has to be investigated. We have some of  
5 these files on these sign kind of things that maybe  
6 involve 25 letters. Two years later we get the sign  
7 taken down. I agree there ought to be a faster way to  
8 do it.

9 Last year the Ethics Committee  
10 handled about 40 complaints or inquiries -- they  
11 weren't all complaints, but they were all matters  
12 that involved some consideration, some investigation,  
13 some correspondence. This is in addition to the major  
14 cases that take real time to investigate and bring to  
15 trial.

16 You will be interested to know  
17 that the next issue of the Spokesman, which will be  
18 out in the middle of next week, will have an article  
19 by Max Neely, last year's Chairman, on these cases,  
20 and I think he is reporting about 15 cases, the nature  
21 of the case and what was done about it. This should  
22 help publicize the kind of things we are talking about.  
23 We are going to continue this periodically in the  
24 Spokesman.

1                   VOICE: Unfortunately, the  
2 little guys don't read that stuff, they don't read  
3 nothing. It is not only these guys, it is some of  
4 the guys operating the big firms, they are just as bad.  
5 Not the fellows on your level, but the fellows that are  
6 a little older and have lost their steam and are just  
7 operating. If he is a little busy, he doesn't have time  
8 to be hunting for his copies and see what he has to do.

9                   Now, I see it in my own firm, it  
10 is no criticism. When I get to be 60, I am going to have  
11 a lot less steam too, but we have got that problem.  
12 You fellows have that problem with your older partners,  
13 I know it. When my older partner is on the phone, I  
14 sit there sometime and wonder what is he going to say  
15 next; that isn't right. He realizes this, but he keeps  
16 on going anyway, thank goodness. He knows that he hasn't  
17 read a book in a long time and he is not about to  
18 start, and he will admit it. When I get to his posi-  
19 tion, I am not going to be reading any books either,  
20 the younger guys are going to be reading the books, I  
21 hope.

22                   VOICE: I just wanted to change  
23 the subject a little bit and make a comment to what I  
24 think has to be worked out where we see a lot of

1 difficulties in the ethical field, and that is with  
2 specialization developing as it is where one client  
3 will have several accounting firms representing him.  
4 Where one accounting firm will try to have a particular  
5 client have two accounting firms represent them, there  
6 does not seem to be any pattern among the firms as to  
7 what happens when -- whether you should be called in,  
8 how you get to be called in; whether the other firm is  
9 to be notified before you talk, before you send the  
10 proposal letter, or just what it is. We have almost  
11 thrown up our hands over this sort of thing, because  
12 we started out being real nice and being sure the  
13 other accounting firm knows that we are going in, and  
14 being sure that we would talk to them before the pro-  
15 posal letter comes out, to perhaps assure them that  
16 we are in no way going to be involved in any other  
17 phase, except this one. But this is not being consist-  
18 ently followed by a long shot. The trend now seems to  
19 be, as we find, that firms are going in, you don't hear  
20 anything, and the next thing you know, one of your  
21 clients is being represented by another accounting firm  
22 in a different area.

23 THE MODERATOR: I think the  
24 comments made, most of us would be interested in some

1 further discussion, so after we resume after the coffee  
2 break, spend a little time on just this one phase of  
3 ethics, then go on to the next topic.

4 (Whereupon, a recess was taken  
5 for ten minutes.)

6 THE MODERATOR: We will resume  
7 now, and carry on with the topic we were discussing  
8 before we took the recess.

9 VOICE: Some of these comments  
10 made in connection with the way the code is written,  
11 Carey touches on this too, by saying, as was said  
12 here, to simply have one sentence to the Code, "Keep  
13 your nose clean." I think the problems are different.  
14 Some of us would most certainly have to look at this  
15 through the eyes of the size of the firm, and while the  
16 bigger firms may not really need a Code of Ethics,  
17 we have so many thousands of smaller firms that aren't  
18 aware what is going on, they don't get the opportunity  
19 to participate in the Institute's meetings and functions  
20 and unless we have a Code with rules, they won't know  
21 where they stand, and this is pointed out very clearly  
22 from the standpoint of smaller sized firms, and it is  
23 even worse with individual practitioners, as to signs  
24 and so on that were mentioned. So where Carey says

1 we should write this -- it might be possible to write  
2 this in positive instead of negative fashion -- I  
3 still think we need these rules in some form as guidance  
4 for the smaller firms that aren't in touch with the  
5 situation as the bigger ones are.

6 In addition to that, from the  
7 practical standpoint, it seems to me that it is  
8 necessary in all of these areas to stay one step ahead  
9 of the SEC, and, in effect, put the rules in before  
10 the SEC does.

11 THE MODERATOR: In the planning  
12 and scheduling, we are running a little over on  
13 Ethics. Where there is great interest we should run  
14 over, and I think I sense an interest in what was  
15 said before the recess. I know I personally have a  
16 deep interest in it, and even though I am the Moderator,  
17 I would like to comment on it during the course of the  
18 discussion.

19 So, let's comment on this before  
20 we leave this topic.

21 VOICE: I think there are two  
22 separate areas as far as the relationship with other  
23 firms, regarding the clients or potential clients.

24 Number One is where the client

1 approaches you for purposes of seeking out your services,  
2 he wants to make a complete change in his professional  
3 accounting, auditing, tax management services, advisory.  
4 That I think should operate under one set of circum-  
5 stances.

6 Then of course there is the  
7 second situation, where the client may come up to you --  
8 a potential client -- for a special service.

9 Now, I don't know how deep we  
10 want to get into this, but I think the ethics as now  
11 written, and as interpreted by my firm, is pretty  
12 clear; that we will go out and talk to a client who  
13 approaches us, but we will not quote fee, we will not  
14 accept or confirm an engagement where he wants us to  
15 do all his accounting and auditing and tax work, until  
16 we have notified the existing CPA, we stick by that rule  
17 very, very closely.

18 VOICE: Bringing it a little bit  
19 to the purpose for which the American Institute author-  
20 ized this seminar, do you feel that we should and do  
21 you feel we can some day get general compliance with  
22 such a policy?

23 VOICE: That is an extremely  
24 difficult question to answer. I guess that is why you

1 asked it.

2 I think that we have to recog-  
3 nize this fact: A profession is indeed a cut above a  
4 pure business. We are not commercial organizations  
5 in the usual sense. It is true we are in business to  
6 make a profit, we are practicing our profession for  
7 the purpose of making a livelihood. There are, of  
8 course, social obligations that we have too. If indeed  
9 we are going to be a profession, we must not abide by  
10 the, if I may say, the cut-throat tactics that are  
11 necessarily used in the business world or the business  
12 community by normal commercial firms. We must have a  
13 certain respect for one another and for one another's  
14 abilities. We must treat one another as professional  
15 men as part of the same brotherhood, so to speak.

16 Therefore, I think as a matter  
17 of common courtesy, we just don't go around attempting  
18 to cut fees and to expand our practices by whatever  
19 means are possible. In fact, this would be detrimental  
20 to the competence to which we practice. We couldn't  
21 possibly do that; that is one reason why I think we do  
22 not have competitive bidding.

23 Ultimately I would think if  
24 we are properly educated, in the long run, all CPAs in



1 this ethics area -- I think this is one area where  
2 there has been very little formal education at all,  
3 whether the five-year program touches on ethics or not,  
4 I don't know, but I think with the proper education,  
5 indoctrination, proper publicity by the professional  
6 societies, we will have a fairly decent amount of  
7 compliance. There will always be some violators of  
8 any ethics we may put into effect. There will be those  
9 who have no regard whatsoever for their fellow prac-  
10 titioners.

11 I suspect this is true in every  
12 other profession, in the legal profession there are  
13 violators and likewise in the medical profession.

14 I would hope that over the long  
15 run we could get substantial compliance with this type  
16 of approach, but the practical problem is how can this  
17 be controlled in any one firm. In a larger firm, how  
18 do you make the rule stick. We have a rule in our firm  
19 that operates informally. We have several partners in  
20 our Philadelphia office who hear about every new, po-  
21 tential engagement, and generally speaking, we are  
22 talking about a client -- a potential client -- who  
23 has an existing CPA firm, and we do not take any action  
24 until this is cleared with one, or two or three partners

1 in our Philadelphia office.

2 This then becomes the means for  
3 forcing every partner into a compliance mold. Now,  
4 whether we are going too far or not, I don't know, but  
5 there has got to some discipline within the firm also,  
6 I believe.

7 VOICE: Just one sentence, we  
8 operate the same way in our office, as he has described  
9 it.

10 VOICE: I think actually this  
11 whole area of management services has some real  
12 dangers in encroachment upon other person's, other firm's  
13 practices. I think there can very well be an assump-  
14 tion that the other firm doesn't have this service  
15 available and isn't competent to offer it, or the  
16 inquiry wouldn't come to you. That may not be neces-  
17 sarily true, because the clients exchange ideas, one  
18 client talks to another one, and they say, "We had an  
19 excellent job done in this specialty by so-and-so,"  
20 and it is natural for the client to think, "Well, let's  
21 get ahold of them and see what they can do for us."

22 This is only a degree different  
23 from the man who is talking to somebody else's tax  
24 accountant, or in talking to another client, he finds

1 out that a particular accountant did an outstanding job  
2 in taxes for him, so he thinks, "I will call that  
3 accountant and see what he can do for me."

4 I don't think in that situation  
5 you would accept the engagement without going to the  
6 other accountant. I think the rule that has been men-  
7 tioned, we certainly should endeavor to have it applied  
8 to management services as it has in all other types of  
9 engagements. I think this is very subject to abuse.

10 VOICE: Do you think it is  
11 currently?

12 VOICE: I don't think it is.

13 VOICE: I think as has been  
14 brought up, there are two phases, when somebody goes  
15 in on a management services job, and when you go in on  
16 a complete audit job. As far as compliance and so  
17 forth, I think the general feeling among smaller firms,  
18 medium size firms, is there is no example set by the  
19 larger firms, and I can say that from experience. For  
20 example, it is not set there, certainly to my surprise  
21 this happens, then you feel, when it is down to the lower  
22 level, certainly it is not going to be enforced. I  
23 think this is the general concept I get.

24 We have referred, and as a general

1 rule get along with all the bigger firms. We have  
2 referred material to them and never had any problem that  
3 way. We have referred business to them and worked  
4 along, but we have had a recent example of a firm going  
5 into one of my partners' clients and starting a manage-  
6 ment service job and then subsequently, a year later,  
7 we being notified by the client, and as far as I know,  
8 we never heard anything in either case from the big firm  
9 concerning the client moving over to this firm who had  
10 put in a particular system.

11 VOICE: I have heard this Upstate  
12 when I was President of the Institute, similar comments.  
13 Why does a person like yourself put all large firms in  
14 the same category?

15 VOICE: No, I don't. I say this  
16 is what happens in certain cases.

17 VOICE: There is one other aspect  
18 of it which has been brought out, control.

19 One partner, one person in  
20 the firm, can upset the apple cart when it is not the  
21 intention of the partnership to.

22 VOICE: The important thing to  
23 know, this is the impression in the Institute, among  
24 the members. I think if you would poll them, half or

1 all of them, they would tell you this is 80 per cent.

2 Fortunately for us, we have only  
3 lost three or four clients as far as I have ever known,  
4 not even that. I don't know of any clients we lost --  
5 maybe we only lost two or three to a big firm, and I  
6 have never ever heard of any big firm -- none of them  
7 were yours -- come to me and say, "Look, we are taking  
8 this over, we are interested."

9 VOICE: I think that is a viola-  
10 tion, and I wonder why you didn't report it? I think  
11 it should have been reported.

12 Isn't that a violation of ethics?

13 VOICE: I don't think it is a  
14 formal violation.

15 VOICE: Well, as I understand  
16 the rule, there is no obligation to contact the present  
17 accountant prior to discussing generally the client  
18 inquiry for service. There is the obligation to contact  
19 the present accountant before you submit a proposal  
20 letter or finalize the engagement; that is my understand-  
21 ing.

22 VOICE: Even for management  
23 services?

24 VOICE: Is that the rule?

1 VOICE: I think there is a  
2 distinction made on management services, at least it  
3 is my understanding that the rule contemplates, in  
4 effect, you are replacing an accountant in something  
5 he is doing, and so in the situation of management  
6 services, this is usually not true.

7 VOICE: I say there is an assumption  
8 that it isn't true, but maybe the client has not asked  
9 his present accountant if he can perform this service.

10 VOICE: I know our practice may  
11 be a little different than some others on the manage-  
12 ment services area. If we are contacted on an audit  
13 there is no proposal, no fees, nothing until he tells  
14 us he has notified his auditors, or permits us to  
15 notify them, and then we go ahead.

16 On management services, we  
17 follow the practice, "Do you have present accountants?"

18 "Yes, we do."

19 "Have you discussed this with  
20 them?"

21 And if they say, "No."

22 "Are you going to? Do you want  
23 to?"

24 And in some cases, their reaction

1 is, "Absolutely not."

2 Then we feel free to go ahead.

3 In some cases we said, "Would you mind our giving them  
4 a telephone call?" "No, we don't want you to do that."

5 Now, what would you do? Would  
6 you tell the client, the prospective client, "We can't  
7 do anything, call in someone else?"

8 What we do, if we receive an  
9 engagement under those circumstances, we notify the  
10 other accountant when we receive the engagement.

11 VOICE: A distinction is made  
12 in Carey's book in this chapter, Management Services.  
13 I certainly can recognize the practical aspects of  
14 this. I come back to my original statement where I  
15 think this is very subject to abuse, because what is  
16 management services? It may be working inventory con-  
17 trol, and this is awfully closely related to the basic  
18 accounting and auditing function. When you get into  
19 some very specialized field that you have a very good  
20 reason to think the accountant wouldn't be equipped  
21 to handle, this might be one thing, but I can only say  
22 that my feeling, or my statement, is based on what I  
23 think has to be the practice if you are going to pre-  
24 serve any semblance of this phase of ethics, other

1 than what the rule might be at the time.

2 VOICE: Just one quick comment,  
3 briefly. I think our attitude is this -- and the members  
4 around the table can think about this -- we have had  
5 occasions where other national firms have gotten  
6 management services engagements without our knowing  
7 anything about it. In those cases, we don't feel that  
8 this has been encroachment, solicitation or anything  
9 else, we feel that we have fallen down in giving our  
10 clients messages of what we are able to do.

11 VOICE: That is the way I feel  
12 about losing a client, any time we lose a client that  
13 is our fault, so I don't blame the other guy for getting  
14 it.

15 The point I am getting at, is  
16 people look, and they hear more and know more about  
17 what all our bigger firms, and let's include our bigger  
18 local firms in this, too, do, and if we don't set the  
19 example, word gets down there very quick.

20 VOICE: I think back to the last  
21 time I heard this on the convention floor was six years  
22 ago, at the San Francisco convention. The matter was  
23 brought up to be presented to the membership. Now, it  
24 seems to me we have double standards again. I am not



1 aware that there is anything in the code that requires  
2 notification of the other accountant. I don't feel  
3 there is, but it has always been a matter of common  
4 courtesy I thought. When I first got into this thing,  
5 I felt it had to be an unwritten code, if not a  
6 written one. But the proposal brought up to the con-  
7 vention in 1959, was that the other accountant should  
8 be notified, even if in cases where a firm is called  
9 in by the client; no solicitation, some company calls  
10 an accounting firm and says, "We would like to talk  
11 to you about the possibility of doing our work." And  
12 this would then have required formal notification of  
13 the other accountant.

14 The proposal was brought up to  
15 the floor, according to the rules of the Institute,  
16 which required passage at the convention floor before  
17 it was submitted to the vote of the membership. It was  
18 a voice vote, and I was amazed at the overwhelming  
19 shout, voting it down.

20 VOICE: Can I read something  
21 you may not have noticed from the current issue of  
22 The Journal of Accountancy?

23 Under Departments, there are  
24 several reasons why a CPA should confer with his

1 client's previous auditors before accepting an engage-  
2 ment, even though such communication is not required  
3 by the AICPA Code of Professional Ethics.

4 Among other things, the Practi-  
5 tioner's Forum points out, "The Act is in keeping with  
6 the continuing professionalization of public account-  
7 ing."

8 I just happened to read this  
9 last night.

10 VOICE: After the convention  
11 that was referred to, I thought that was a very bad  
12 thing, and it might be misinterpreted to mean all these  
13 courtesies were out the window. So I suggested to John  
14 Carey that he write an editorial on this, and he did,  
15 and it appeared in a subsequent issue. Maybe he would  
16 have written it anyway, but I did suggest it.

17 I personally have a deep convic-  
18 tion that if we do management services for somebody else's  
19 client, if too much of this goes on, we will get so far  
20 off the track of common courtesies, that they will all  
21 go out the window eventually.

22 I think we have got to put some  
23 harness on that, the same way as anywhere else, or any  
24 other phase of activity.

1                   Just a word about what we try to  
2 do here, and the reasons I think that the courtesy --  
3 extension of appropriate courtesies has been productive  
4 for us, has been a good business policy, because we are  
5 not going to get any better treatment from the other  
6 firm, than what we give them. If they can see that we  
7 give them good treatment, they are going to go a little  
8 slower, perhaps, in treading on us. So we do much  
9 as what George described, when we get new inquiries --  
10 for instance, if they are management services, special  
11 services, there are two partners that are to know about  
12 that before we do anything.

13                   The reason why we do this is to  
14 control it. You have 20 partners, so we require that,  
15 and if you reduce this thing to the simple courtesy of  
16 informing the other people before you start the work,  
17 you are, in effect, doing nothing, so I think it is  
18 a matter of good business policy to do so in all cases  
19 where you think the other firm will treat you the same  
20 way. Where you think they won't, you have an entirely  
21 different problem to deal with.

22                   I hope that the next 10 or 20  
23 years, we can get a better performance in this area  
24 by the firms, and we ought to be able to, because

1 the accounting business has changed so much, that there  
2 are ten national firms, or whatever, why can't, with  
3 such consolidation, it be better controlled? I think  
4 it can and will be, if the heads of these firms build  
5 a spirit of trying to control it. I think a lot of the  
6 reflection of the leadership within a firm; that is  
7 my comment.

8 VOICE: You think we ought to  
9 recommend for the 20 years ahead that this become a  
10 standard of ethics for the public accounting profession?

11 VOICE: I do.

12 VOICE: It is a stated policy  
13 for certain of the national firms.

14 VOICE: I am talking about the  
15 Code of Ethics now. Should this be incorporated in  
16 the Code of Ethics?

17 VOICE: I think it should be.

18 VOICE: I just have two things.  
19 First, I said I couldn't find it in print, but it is  
20 here on Page 38, "At present the Code provides that a  
21 member called in by another member for a special engage-  
22 ment shall not express or agree to an extension of his  
23 services, without first consulting the referring member."  
24 So I think it is stated.

1                   The other thing I want to state,  
2 was that one thing that we talked about in the profes-  
3 sion, is encouraging referrals, and we are not going  
4 to be able to establish an effective referral system,  
5 unless there is this confidence that is based on ethical  
6 courtesy and compliance with the rules, in spirit as  
7 well as the letter.

8                   VOICE: As I understood that,  
9 is when the second firm is in there, he will not  
10 extend, but I think the problem is, when you go to  
11 the second firm -- the second firm is in, I think that  
12 is pretty clear.

13                   VOICE: That is the bigger prob-  
14 lem, I think, when you get beyond the one.

15                   VOICE: I am inclined to believe  
16 that regardless of the letter of the law, whether or  
17 not it is in the Code of Ethics, it is certainly in the  
18 spirit of high professional standards. It makes me feel  
19 good as a member of my firm, if anybody misses on this  
20 particular point, I would be amazed, because we are very,  
21 very careful. It makes me feel good as a tax partner.  
22 We have small practitioners, local firms that come to us  
23 for tax services, and I am sure they come to us because  
24 they know we are not going to try to shoot them down.

1 This shooting down business has to stop, if we want  
2 to raise the level of our profession.

3 VOICE: But it goes a little  
4 deeper than that. I know of you and I haven't con-  
5 sulted you, but I wouldn't hesitate to, and I know  
6 some other guys in the tax field, though, who I have  
7 consulted, and this is no reflection on you, just that  
8 I happened to call in or saw them some place, and I  
9 didn't see you. But this management services field,  
10 we little fellows that you are looking to to do some  
11 management services for my client, I got to know your  
12 management services fellows the same as I know Ray,  
13 and have some confidence in you that you know what you  
14 are doing in the first place, that you can satisfy  
15 my smaller client, and not get into a big deal, a big  
16 Federal case, when it is just a little piddling thing  
17 that they can only afford to pay so much. So, I don't  
18 know anyone in a bigger firm, on a management service  
19 level, that I have that confidence in.

20 Now, in the tax it is different.  
21 You learn to know of guys like Ray, and that is a field  
22 where you deal with one guy, but management services,  
23 you are not necessarily dealing with one guy. We have  
24 had these fellows speaking and so on, but the message

1 hasn't gotten to me. I don't know of anyone that is  
2 competent in my field that I have confidence in, to  
3 bring him in and expose him to my client to do a good  
4 job for him.

5 I have gone out myself, and I  
6 have a fellow who is a successful management man, runs  
7 his own company, and he does these things for me on the  
8 side, on a very high priced basis, if you want to look  
9 at the ~~time~~ involved, and the dollars received, but  
10 he gets the job done for me, to my satisfaction and  
11 the clients' satisfaction.

12 VOICE: He is not a CPA?

13 VOICE: He is not a CPA. He is  
14 not even in the management consultant business, as such.  
15 This is something that he has a flair for, like maybe  
16 Gene would want to do something on the side to help  
17 some guy; like the Small Business set up where they  
18 have these retired guys. Now, I haven't used them,  
19 because I don't know any of them that have the experience  
20 that would fit into my clients, where they got to know  
21 more than just advertising or purchasing or something  
22 else. These fellows that are retired, come from big  
23 companies, and maybe they are specialized in advertis-  
24 ing or sales or something else.

1 I need a guy on my level who  
2 knows more than that.

3 VOICE: I just have a quick  
4 specific instance, the area that bothers me is the  
5 management services, where the present accountant has  
6 done no management services, is doing no management  
7 services, this is specific, and it involved another  
8 national firm. We were called in by the head of a  
9 department to make a certain study. I discussed it  
10 with him. I said, "Have you talked to your present  
11 accountant, based on what I hear, they are qualified  
12 to do this."

13 "That doesn't bother us at all,  
14 we have our own separate budget, we hire our own con-  
15 sultants in this division; I don't know anyone there;  
16 I have investigated the field, I feel that you can perform  
17 the service for us."

18 I said, "Well, from your own  
19 standpoint, I am wondering if you are getting into a  
20 situation where you might be criticized and where you  
21 can get involved with other departments of the company."

22 "Nope, that's my look out, if  
23 you want the engagement, are you interested in it or  
24 not?"



1                   At this point, would you say,  
2 "Absolutely not, you have to talk to the other firm  
3 first," or, "I have to talk to the other firm first."

4                   VOICE: Isn't that unusual,  
5 though? We have had about three or four situations.  
6 We had one not so long ago involving one of your  
7 clients involving management services.

8                   VOICE: Under the very strict  
9 requirements that our firm has, we insisted in a situa-  
10 tion of this exact nature. We notified the other CPA  
11 who did not render management services. And the client  
12 said, "Why do you have to notify him? I don't want  
13 him to know, because I am calling you in for this  
14 purpose."

15                   So I started telling him about  
16 the Code of Ethics, this is required by our Code of  
17 Ethics, which perhaps it isn't exactly, it is a matter  
18 of common courtesy, I tried to tie it in with the Code  
19 of Professional Ethics, and I had one devil of a time  
20 trying to explain this to the gentleman, he said, "What  
21 kind of a Code of Ethics, do you have? Aren't you  
22 available to render services to anybody who may call  
23 you in? I just don't want my CPA to know about this,  
24 not now, and perhaps not even later on," which would be

1       rather untenable.

2                   The public is not familiar with  
3       our Code of Ethics at all. When I say the public, I  
4       mean our consuming public, the businessman. He sees,  
5       perhaps, in other fields where there is a lot of adver-  
6       tising, the attorneys -- I don't know what their situ-  
7       ation is -- but in the medical field, they don't run  
8       into this problem. Referral patients, the referring  
9       doctor is pretty well protected to begin with. They  
10      have set up the mechanics there, and this is a very  
11      difficult situation. As a result, I don't believe  
12      that this client got the service that he was entitled  
13      to, we refused to do anything in this particular case  
14      without notifying the other CPA.

15                   VOICE: That is the thing that  
16      bothers me.

17                   VOICE: At the same time, we ought  
18      to all operate the same way.

19                   VOICE: That is the point, we  
20      don't.

21                   VOICE: In this situation, did  
22      they go to another management consultant or another CPA,  
23      or did they get anyone.

24                   VOICE: They went back to their

1 own CPA, and I think if anything is being done, it is  
2 being done inadequately. I don't believe they went to  
3 an outside consultant firm. They might have, but if  
4 we stood together as a profession, they could still  
5 go to an outside consultant firm to get the services.

6 VOICE: One of the problems of  
7 putting it in the Code, one of the problems we have in  
8 this competitive bidding, on the Institute Committee,  
9 we spent some time trying to draft an opinion on  
10 competitive bidding, and counsel advised us very  
11 strongly that not to issue an opinion, and he said,  
12 "I would be much happier if there was nothing in the  
13 present Code." He says, "What you are trying to do is  
14 to establish public policy. Now, if you can get this  
15 in your State law, against competitive bidding, then  
16 the State has established public policy. But what you  
17 are trying to do is legislate, I mean, you are trying  
18 to look at it as though you were price fixing," and so  
19 on.

20 What we would be doing as far as  
21 this expanding on the area of notification and so forth,  
22 would be limiting the users of our services, and so  
23 forth. So I doubt in counsel would let us go too much  
24 further in this area.

1 VOICE: We will go to public  
2 relations.

3 VOICE: This topic is called  
4 public relations, I don't know the thinking behind the  
5 topic public interest and social obligation. Actually,  
6 the chapter covers some 40 pages, and I think it is  
7 evident that the subject is public relations. Any  
8 reference to public interest and social obligations is  
9 only two and a half pages and this is something that  
10 is understood and basic to the CPAs and the profession  
11 to begin with.

12 There is no doubt that the status  
13 of the CPA has improved immeasurably over the last 15 to  
14 20 years, and it is improving at the current time, but  
15 I think we have to devote some serious effort to re-  
16 viewing whether or not the present rate of improvement  
17 is such to keep pace with the rapid rate of progress,  
18 which we will probably experience in our services, if  
19 we may assume that the attest function will be broad-  
20 ened to include the measurement and communication of  
21 all financial and economic information.

22 We must admit there is still a  
23 large segment of the general public that has little, if  
24 any, opinion about the CPAs, or I think we can safely

1 say that the accounting profession is held in high re-  
2 gard by the top echelon of management and the large  
3 corporations.

4 In evidence of this, and I  
5 hadn't seen this until last evening, it is Profile of  
6 the Profession in 1975, Public Relations Aspect, which  
7 was put together by the Long Range Objectives Committee  
8 of 1962-63. By the way, it is surprising to see how,  
9 at least with respect to this Chapter 16, it tracks the  
10 information in this booklet. Maybe more recognition  
11 should be given to the Long Range Objectives Committee,  
12 other than to say they collaborated in this lengthy  
13 publication.

14 The Long Range Objectives Com-  
15 mittee, if I may read this, refers to the fact there  
16 were various surveys, one including your survey concern-  
17 ing the attitudes of presidents, vice-presidents and  
18 comptrollers, concerning the 500 companies in Fortune  
19 and the bankers. This is a survey in depth by sophisti-  
20 cated professionals who held extended interviews with  
21 the respondents, and the outstanding general finding of  
22 the survey, was the very high regard in which the  
23 accounting profession is held.

24 However, there were instances

1 of criticism, but these were rare in comparison to  
2 similar surveys done by other professionals in industry.

3 In recent years, much has been  
4 accomplished in improving attitudes and opinions of the  
5 general public, but I think in talking about the general  
6 public, we have got to break it down into segments, so  
7 that we can isolate the areas where there are some  
8 real problems.

9 With respect to bankers and  
10 credit Grantors, progress has been made through our  
11 association with Robert Morris Associates, and also  
12 through our Committees, both on the local and state  
13 level, for cooperation with banks and Credit grantors.

14 The same is also true with  
15 respect to local, state and federal taxing authorities  
16 and SEC, our committees have done a yeoman's job in  
17 increasing the status of the profession and the image of  
18 the profession.

19 Our own association with the  
20 legal profession has produced substantial results, but  
21 we have the other area of the general public, which  
22 includes economists, investors, financial analysts  
23 and labor unions, to indicate a few.

24 I am not too sure just how our

1 image at the present time is with respect to investors  
2 and financial analysts. We have had some problems that  
3 have developed, because of the communication given to  
4 these problems, I am afraid we may have gone back a  
5 couple of steps and lost some of the results of the  
6 hard work that has been done over the last 15 or 20  
7 years.

8 In the areas of deans and faculty  
9 members of the universities and students, probably also  
10 in the area of economists, I am afraid that we are  
11 still looked upon as technicians in the narrow field of  
12 knowledge.

13 With labor unions, I am afraid  
14 it is still held that we associate too close with the  
15 side of management and, therefore, they look upon us  
16 with suspicion.

17 Notwithstanding the foregoing,  
18 actually there are many segments of the public which  
19 hold a high respect for our integrity and high pro-  
20 fessional standards, though there is some evidence of  
21 some confusion about the responsibility that we assume  
22 in our reports to management or in external reporting.

23 We are also confronted in a lot  
24 of cases with the fact that the CPA function is limited

1 to merely auditing and tax work without any followup  
2 of any constructive recommendations and this, of course,  
3 does present the proper image to management of these  
4 companies.

5 I think we have to decide in  
6 cementing this image, how we are going to accomplish  
7 this. We have got to determine how and to what extent  
8 we are going to call in outside professionals to take  
9 on the assignment of educating the public. We have to  
10 keep in mind, of course, that public relations is not  
11 a commodity, it is not something we can buy, so we have  
12 to restrict the amount we allocate to third-party pro-  
13 fessionals, because there is really not that much of  
14 the quantitative value that we can obtain from it.

15 The important thing actually,  
16 then, in building this image I think is to educate our  
17 own members of the fact that the public opinion is far  
18 more directly shaped by the CPAs and how the CPAs  
19 reveal themselves. This is at all levels, at the  
20 individual level, the firm level, our professional  
21 societies.

22 We have seen this subject of  
23 public relations interjected in all our discussions  
24 since we started this conference yesterday morning.



1 It is a subject that can't be divorced from any of the  
2 problems that come up in the profession. When we talk  
3 about what is the practice of accounting, I think the  
4 fact that we cannot agree among ourselves and have a  
5 definitive idea of what the practice of accounting is,  
6 we tend to create confusion in the eyes of the public,  
7 and this does not help our image.

8 We saw in the case of external  
9 reports that there is a question of independence. I  
10 frankly feel that in most cases, there is no question of  
11 independence that in fact we are independent, but to  
12 an outsider, because of lack of communication and  
13 proper education, we do not realize the effect of our  
14 work.

15 When we discussed auditing, and  
16 this was brought up again this morning, the question  
17 was raised that the doubtful nature of the audit in  
18 providing assurance against massive, collusive manager-  
19 ial frauds if this is not attainable in our audits, we  
20 have a substantial job in educating the public why this  
21 is so.

22 In the area of the standard form  
23 of opinion, we can't deny that in many cases, the users  
24 of financial reports have no comprehensions of the vast

1 amount of work that went into the results of the two  
2 short paragraphs. Again with the report, it is stereoc-  
3 typed. We feel it is of necessity, or we have felt of  
4 necessity to this date of being stereotype, the language  
5 of the opinion give the reader no means of judging  
6 the possible variations of competence of the different  
7 auditors in the quality of their work.

8                   When we discuss management  
9 services, we found out that again the question of  
10 independence comes into play, and here again I think  
11 it is a case primarily of educating the public as to  
12 what we do and how we accomplish it. We are in trouble  
13 with the public on management services, because we have  
14 not been able to agree among ourselves what the accept-  
15 able approach is to managment services. This leads to  
16 confusion.

17                   We talked about education and  
18 training. We have not defined where education ends and  
19 training begins; this is bad for the student, there is  
20 misunderstanding and confusion.

21                   We talked on ethics just a while  
22 ago, we have the basic problem in our ethical areas  
23 of educating the public as to what this Code of Ethics  
24 means, how it works, how it is intended to protect

1 their interests.

2           One further remark to close my  
3 comments. I would go to the book, because I think it  
4 is quite pointed. Jack asks the question: How to get  
5 the job done?

6           Quoting on Page 402, he says  
7 that public relations has no limits, public relations  
8 cannot be compartmentalized as a separate activity.  
9 Every word and every action of each individual of each  
10 professional society has some effect on the public  
11 opinion.

12           Now, all is not black. Most of  
13 us sta around last evening and kicked around some  
14 discussions, and one of the points that was raised,  
15 and I am sure we will discuss recent legislation and  
16 pending legislation, but the one area, and not to take  
17 anything from what he is going to say, I can recall  
18 Harry saying, "this is wonderful, this is terrific, it  
19 shows that after working many, many years, the hours  
20 and sweat put in by the members of the committee  
21 gratuitously, it is now paying off." This is the type  
22 of problem we have, it is not something that we can  
23 start today and realize the immediate effects. It is  
24 something we are going to have to work on, and work on

1 constantly. It may be years before we can really  
2 find ourselves in the position where we have the  
3 proper image and respect of the public, but because  
4 of the problems of today with the computer and the  
5 sophistication of businesses, it is something we have  
6 to determine now, and probably speed up to a great  
7 extent what efforts we are going to put into this pro-  
8 gram.

9 THE MODERATOR: Who would like  
10 to comment?

11 VOICE: I will try a brief one.  
12 It goes back to ethics again.

13 What is the general reaction  
14 to institutionalizing, I am thinking now of some --  
15 not the type of magazines that have general distribu-  
16 tion to public, maybe getting into Business Week,  
17 Forbes and school publications, perhaps.

18 VOICE: What would we be adver-  
19 tising?

20 VOICE: The profession, what is a  
21 CPA.

22 VOICE: To whom, the students?

23 VOICE: This, of course, comes  
24 up periodically at Pennsylvania Institute groups and

1 I have heard it discussed many times at meetings with  
2 the American Institute and State societies and execu-  
3 tives, and there seems to be some interest on part of  
4 members, feeling that this is a quick way to bring a  
5 message to the public; let's say persons I would con-  
6 sider more thoughtful persons in the profession feel  
7 that this would not be effective, it is not profession-  
8 al and as such would probably pull it down.

9 Probably it could be summarized  
10 best by this statement which I wrote down, "A bright  
11 young man who tells his boss that he is a bright young  
12 man, succeeds only in creating the impression of a  
13 bright young man telling his boss he is a bright young  
14 man."

15 I think that is what you would  
16 accomplish by institution advertising.

17 VOICE: I have to agree, I think  
18 that is very good. If we do anything, in my mind one  
19 of the best methods we have available to us at the  
20 present time is through trade journals, to get our  
21 professional members, or the members of our profession  
22 to write a story about the profession. They may tie  
23 it in with the subject on taxes, or a subject on  
24 management services, but instead of just writing an

1 article on management services, try to weave in an  
2 article for that industry, something about the profes-  
3 sion, what it means, what it stands for, what its  
4 goals are. I think this is the best source of infor-  
5 mation and the best way to get to most people is the  
6 cases of education, and just to advertise, you are not  
7 going to sell an image on the basis of an advertisement,  
8 notwithstanding the fact we are not allowed to do it. If  
9 we had no ethical code with respect to advertising, we  
10 still wouldn't be able to sell anything.

11 VOICE: It seems to me we touched  
12 on this earlier in our meeting, and some years ago,  
13 thinking of legislation, we tried to encourage our  
14 members to run for political office. And it seems to  
15 me the most effective way is to have CPAs doing civic  
16 service and what have you, in the community, on all  
17 levels, is the way we get our image across.

18 Now, if a guy gets in as a dog  
19 catcher or something else and does a lousy job, of  
20 course, that hurts, but normally a CPA is in a position  
21 to be on college boards, trustee, even to audit at nomi-  
22 nal fees -- I guess there are some colleges around  
23 that aren't even audited. Doing the auditing isn't the  
24 real deal, it is you are participating in the Chamber of

1 Commerce, you participate in the -- I don't know if  
2 we have too many CPAs locally, we are just getting  
3 into the Manufacturers' Association. I don't know as  
4 we have many CPAs participating in the Manufacturers'  
5 Association, for instance.

6 We frown on fund drives, we  
7 think that is a conflict of interest with our clients.  
8 Mr. Beard was approached to head a fund drive for Albright  
9 College. I frown on that, I think it is a conflict  
10 of interest. I can't ask my clients, and that is what  
11 they want you to do, to go out and get Joe to give  
12 money. That is the wrong way to do it, but by partici-  
13 pating in other civic organizations, and you can con-  
14 tribute to all these areas, the people that are on those  
15 boards learn to know you better, and it filters out  
16 through the community pretty fast.

17 I think somehow along the line  
18 we have lost the impetus in trying to get our people  
19 out in the public service. At one time, I remember we  
20 were trying to get them -- John O'Hara was trying  
21 to psh people to do a little more political business  
22 from the legislative angle, but it also ties in with  
23 the public relations.

24 VOICE: We are dealing here with

1 public image, I wonder if we don't really get the  
2 public or the business-oriented public which does  
3 know something about us -- the man on the street is not  
4 business-oriented. Have you ever been to a cocktail  
5 party and some stranger says, "What do you do for a  
6 living?"

7           You tell him you are a CPA and  
8 the subject changes. I wonder if it doesn't go back  
9 to our whole business deals with, I think, one word,  
10 accountability. It has to do with accountability, it  
11 has to do with working with something that has taken  
12 place or is about to take place. Frequently you find  
13 yourself somewhat in the position of a policeman, you  
14 are not only trying to tell them what they can do, but  
15 frequently telling what they can't do. You shouldn't  
16 do this, or you shouldn't do that, and when you deal  
17 with accountability, and I am talking about the guy on  
18 the street now, not the business-oriented, you are going  
19 to educate him to what we are, and if you want him to  
20 like us, it seems to me you have to go all the way back  
21 to the grassroots, you have to deal with children in  
22 grammar school and high school, and somehow explain  
23 this accountability aspect. We are not policemen, and  
24 if we are dealing with accountability, I suggest that



1 you look at our youth today with their long haircuts,  
2 and I wonder how you reach those, they don't want to  
3 be accountable. It is the natural instinct not to be  
4 accountable.

5 VOICE: I just want to make one  
6 observation there, you talk about the guy in the  
7 street, with an extension of ownership of stock in our  
8 public companies by the average man on the street.  
9 We do have a problem to get to him, so there is not  
10 suspicion on his mind, and this, as I indicated earlier,  
11 I agree we have got to break down this general public,  
12 and know what segment of the general public we are  
13 talking about. This area we are concerned with be-  
14 comes broader year by year, and eventually it will take  
15 in a goodly percentage of the total field.

16 VOICE: I think really our  
17 basic problem on the image we project to the public,  
18 is that the unfair treatment that we get through the  
19 mediums of the TV and the movies. For example, the  
20 medical profession has its Ben Casey and Dr. Kildare,  
21 and the legal profession has its hero on TV, but I have  
22 yet to see a movie or a TV show where a CPA is involved  
23 but what he isn't presented as something less than a  
24 likeable chap, so to speak.

1 I think youngsters, for example,  
2 particularly teenagers who watch these things, and they  
3 do, of course, have a terrible problem of trying to  
4 identify themselves with a CPA. In other words, I am  
5 sure a teenager can put himself in Ben Casey's place  
6 and be perfectly happy, or Dr. Kildare's place and be  
7 perfectly happy, or the lawyer, and be perfectly happy.

8 I am sure a teenager can't  
9 put himself in the CPA's place, as far as the TV shows  
10 and the movies is concerned, he doesn't like what he  
11 sees. This projects into his adulthood, this reaction  
12 to the word CPA.

13 VOICE: That is already built  
14 into the older people, you have got to get to them  
15 before they are stockholders and start telling them  
16 about what a CPA is.

17 VOICE: I find no evidence in  
18 this Fortune article which came out in 1960, that the  
19 problem had changed one iota from 1932 until 1960.  
20 This same problem we are discussing, was discussed in  
21 both these Fortune articles, 30 years apart, and the  
22 1960 update, shows no evidence whatsoever that the problem  
23 has ameliorated in any respect.

24 VOICE: I would like to inject

1 one thing, I think what he is talking about is mass  
2 media, TV and Ray says we have two publics, the business  
3 public. Well, we have gotten CPAs as characters and  
4 not unlikeable characters in a number of novels in the  
5 last ten years. Prior to that there was never a novel  
6 not books read by -- not masses, shall we say, but  
7 a different type of public.

8 VOICE: Unquestionably it was  
9 distorted by Cash McCall.

10 THE MODERATOR: I would like  
11 soon to get on to the next topic..

12 VOICE: Just one quick comment.  
13 I think one of our problems is we spend too much time  
14 talking to ourselves. Unfortunately we are all involved,  
15 it is sort of a self interest, and this is at groups  
16 and conventions and everything else. Yet the other  
17 point is, that we cannot be negative in the presenta-  
18 tion , we have to educate the people that we are not  
19 responsible for the massive collusion in a corporation.

20 If you educate them to that, or  
21 try to, then you lose all respect. I mean, do we want  
22 to be defensive or do we want to stay away from this.  
23 If you try to present that to the people, they want to  
24 know what you are for if you are not going to find this.

1 So I think we have to be what they expect us to be.  
2 Like it has been said here, and like I first said a  
3 couple of times to somebody, I am a CPA, somebody at  
4 the bar, or somebody like that, a CPA -- they leave  
5 you. Now, I am a tax specialist with a CPA firm,  
6 then you got something, you have to dress it up.

7 VOICE: I don't know, I look at  
8 all of this very pragmatically. I can't see dramatiz-  
9 ing the CPA on television. I think that people know  
10 what the engineer does, they know what the architect  
11 does, yet in these professions they don't have to have  
12 a television program to dramatize what they are; they  
13 are pretty wellknown for what they do, and they are  
14 pretty well respected.

15 I would also broaden the concept  
16 of accountability. I find a great deal of difficulty  
17 in selling that. As has been said, perhaps we should  
18 try to play up the business doctor approach a little  
19 bit more.

20 I have been jotting down some  
21 notes here, and this is what I have come up with, for  
22 whatever it is worth, and I think that this is a very  
23 long range type of problem, I don't think that a public  
24 relations campaign per se is going to get us too far.

1                    Basically we are a service pro-  
2                    fession. This is what we are really doing. We are in  
3                    many different services areas, whether we feel we should  
4                    restrict ourselves or not, we are in many different  
5                    areas, and when people ask me, what I do as a CPA, in  
6                    general terms, as opposed to my specialty, I generally  
7                    get into the tax field, because everybody knows some-  
8                    thing about that. I analogize on my management services,  
9                    become a management consultant; some people know some-  
10                    thing about it.

11                    But basically I think as a  
12                    service profession, we can profess to have a significant  
13                    impact on our economic system.

14                    Now, to a great extent, this is  
15                    what the legal profession does also. They have a  
16                    significant impact on the legal system, because some  
17                    attorneys get into a very narrow area, commercial law,  
18                    negligence field, labor law field, whatever it may be,  
19                    but each one of these has a very important impact on  
20                    what our economic society accomplishes.

21                    I think we have got to expand  
22                    our concept of service. Our concept of service has been  
23                    largely to clientele. This has not been the case with  
24                    the legal profession, or even the medical profession,

1 they have gone beyond that, and the last couple of pages  
2 of Carey's book here, on Pages 406 and 407, the last  
3 paragraph says that, "The deeds and the words that we  
4 CPAs perform, will really make or break our image.  
5 That we have got to demonstrate a consciousness of the  
6 profession's social obligation. We have to show a  
7 genuine concern for the public interest."

8           Then I try to narrow down my  
9 thinking, and say to myself, "What can we do to fulfill  
10 our social obligations? What is this social obliga-  
11 tions in the public interest that we can direct our  
12 attention to?" And I think that the closest area that  
13 we can identify -- there are two of them that I can  
14 see.

15           Number one is fiscal responsi-  
16 bility in Government, because everybody is concerned  
17 with government.

18           Number two is efficiency in  
19 Governmental operations, and I think that this perhaps  
20 leads me to believe that we have to participate more  
21 in the governmental process, become more active in  
22 government, in politics. As I mentioned yesterday, I  
23 believe we should have many, many CPAs in the various  
24 legislatures, both at the local and the state and the

1 federal levels. Then I think that at least people will  
2 know we have a social conscience, and we do something  
3 in the public interest. This is going beyond our advice  
4 to Ways and Means and Finance Committees, with respect  
5 to the Internal Revenue Code. That is a very, very  
6 narrow area, not too many people know what we are doing  
7 there.

8 Now, why is that we don't partic-  
9 ipate in governmental processes more? For some reason  
10 or other, I don't think we have really developed lead-  
11 ership characteristics, viz a viz the public. We are  
12 in certain areas of community service. It is true  
13 that if we get into any controversial areas, fund  
14 raising, civil rights, we risk the loss of clients,  
15 but nevertheless we will demonstrate our leadership,  
16 and I think we may have to balance these various things.

17 Now, how can we develop this  
18 leadership quality, which will permit us to be in the  
19 thick of the fighting, to be right in the midst of the  
20 controversy?

21 I don't know what the answer to  
22 this is, but I think that perhaps we have to go back  
23 to the college and university level. The law schools  
24 develop that leadership quality; the medical schools

1 develop that leadership quality. Do the accounting  
2 curricula and the business schools develop that  
3 quality for the professional CPA? I think this is  
4 really the key to what we are going to have to work  
5 on here in order to improve our image.

6 THE MODERATOR: I think on that  
7 note, we ought to leave this topic and go on to the  
8 next topic, and see how far we can go with this before  
9 lunch.

10 The next topic is legal liability.

11 VOICE: Well, I think it is  
12 perfectly plain that much of the discussion that has  
13 taken place to date, the legal liability area is an  
14 area of very considerable interest to all of us.  
15 Unfortunately, it is one of the most vexing, painful,  
16 comprehensible and worst of all, expensive areas that  
17 we can become involved in.

18 It goes without saying that all  
19 of us, all firms, all individual practitioners, all of  
20 us in public practice, are susceptible to the problem,  
21 and what is even worse there, there is no such thing as  
22 lasting immunity.

23 Just to refresh your memory,  
24 I have an outline of the chapter that deals with



1 legal liability in John's book, and I am going to go  
2 over some of the matters he mentions so that we can  
3 re-focus on the problem, if you will.

4 John leads off with the thought  
5 that the principal difficulty, of course, is the  
6 absence of limits of the financial claims against the  
7 CPA; that is to say, what governs the amount to which  
8 we might be liable, the amount of the fraud, the  
9 amount of the defalcation, the amount of fees we might  
10 have collected, what are the limits of the claims that  
11 might be made against us? Plus, of course, and even  
12 more of a problem, the vagueness of definition of our  
13 liability.

14 John further breaks down the  
15 liability to the several parties at interest. For  
16 example, liability to clients, contractual liability,  
17 one that arises or stems out of our acceptance of an  
18 engagement to perform in a certain fashion, auditing  
19 financial statements, or whatever.

20 He points out here, quite ob-  
21 viously, that our protection there involves the audit  
22 standards and procedures that we ourselves originate,  
23 to which we all try to adhere, and which we try to  
24 improve as times goes on.

1                   John further makes the point,  
2           that there is an assertion if the CPA knew the report  
3           was for a third party, there is an implied contractual  
4           responsibility, and the possibility that such an asser-  
5           tion might be sustained, of course, cannot be overlooked,  
6           and quite obviously claims resulting from our failure  
7           to detect fraud. Now, in this particular connection  
8           we have talked of massive, collusive fraud, and the  
9           claims which might result from those areas.

10                   There are also, of course, the claims  
11           that result from, let's call them, lesser frauds, frauds  
12           that are not massive, and frauds that don't necessarily  
13           involve a good deal of collusive activity on the part  
14           of our clients' personnel. Obviously we are prone to  
15           claims to the extent that defalcations such as this  
16           sort result.

17                   Of course, as we all know, the  
18           fact that our audit procedures contemplate a testing  
19           and sampling approach versus substantiation of each and  
20           every transaction, not to mention those transactions  
21           which might not be recorded in accounts, all these  
22           areas open the possibility of failure to detect fraud.

23                   Liabilities to third parties  
24           are no liability for mere negligence, but again with

1 the exception that the CPA knew the third party might  
2 be relying on the report.

3 Of course, John Further states  
4 that the courts have held that false representations  
5 of fact obviously creates liability to third parties,  
6 and the CPA is quite obviously liable for any intentional  
7 fraud.

8 It goes without saying, too,  
9 that the Securities Act opened a rather wide area of  
10 liability, legal liability to CPAs, in that any person  
11 acquiring the Securities, of course, may sue the CPA.  
12 Claim may be based on alleged false statements, mis-  
13 leading omissions, et cetera, no need to prove negli-  
14 gence on the part of the CPA.

15 The plaintiff does not have to  
16 prove reliance upon the statements or the losses as  
17 a result of the financial statements that might have  
18 been included in the registration.

19 The CPA must prove he was not  
20 negligent, and he must prove the plaintiff's loss re-  
21 sulted from other than false statements. It seems to  
22 be one of those areas, in effect, where the CPA might  
23 initially be considered guilty, rather than not guilty  
24 from the outset.

1                   Now, the reasons for the present  
2 state of affairs as I think all of us are reasonably  
3 well aware; for example, the very simple fact that the  
4 juries, judges, namely laymen, do not understand the  
5 technical aspects of accounting and auditing. We can  
6 hardly agree on all these areas among ourselves, so  
7 we can't expect laymen to consider all of our technical  
8 difficulties, or be aware of them. Or understand, for  
9 example, when we say the primary purpose of our exam-  
10 ination, when we say it to ourselves in our internal  
11 publications, and perhaps furnish them to our clients,  
12 we say that the primary purpose is not to discover  
13 fraud. Well, this is a wonderful statement of affairs,  
14 but nevertheless the injured parties, for all practical  
15 purposes, pay no attention to this statement on our  
16 part.

17                   Of course, the problem that  
18 there is no clear distinction between let's say gross  
19 negligence, on the part of the certifying accountant,  
20 and fraud. And the further problem that many CPAs  
21 settle out of court, even in those areas where we might  
22 be quite confident of our innocence, in connection with  
23 the particular case at hand, and we do this to avoid  
24 the bad eye, the publicity that inevitably results from

1 this sort of thing. In other words, any public utterance,  
2 any expression of fault on the part of the CPA that  
3 gets in the newspaper, is evidenced by the most recent  
4 cases that are being written up in publications, et  
5 cetera, it hurts all of us. Quite obviously all of us  
6 suffer to some degree, all accountants in public prac-  
7 tice suffer when these issues are brought out, and when  
8 they are brought out in the fashion they are brought  
9 out.

10 So, there are out of court  
11 settlements; there are a very good many out of court  
12 settlements, because of the fear of adverse publicity.  
13 Because, too, of a very practical problem of the time  
14 and expense involved in contesting these claims, because  
15 even a claim which on the surface would appear to have  
16 no substance, from the point of view of the accountant  
17 and the accountant's counsel, et cetera, nevertheless  
18 is going to be very, very time consuming to contest and  
19 take through the courts, if the plaintiff should so  
20 elect.

21 What is worse, the number of  
22 claims seems to be increasing. John suggests some of  
23 the things that can be done to offset all of these  
24 difficulties.

1                   One of the things he suggests is  
2 insurance. There is a very real problem with insurance,  
3 namely, the higher the insurance coverage, the higher  
4 the claim. This is the sort of thing that results when  
5 personal injury difficulties occur, et cetera, to the  
6 extent that the insured carries a very substantial  
7 coverage against these kind of claims, the individual  
8 who is doing the suing, of course, will present a sub-  
9 stantially higher claim, on the grounds, well, it all  
10 comes out of the insurance company pocket, so what's  
11 the difference.

12                   I read this statement in John's  
13 book, I wasn't previously aware of this particular  
14 situation. He recites that some surety companies have  
15 agreed with the Institute not to sue the CPA, unless  
16 an impartial board finds the CPA guilty. I was not  
17 previously aware of that.

18                   John suggests, among other things,  
19 on of another good solutions to the problem, for example,  
20 might be impartial arbitration procedures.

21                   John further suggests the CPAs  
22 should not testify against his colleagues when there is  
23 real doubt, and he didn't emphasize real doubt, but I  
24 presume he means real doubt as to whether he failed to

1 conform with professional standards.

2 He suggests that a rule of  
3 ethics, or if this were constitutional a resolution  
4 might be adopted to cover this situation.

5 He suggests further that per-  
6 haps, what he terms unfair provisions of the Securities  
7 Acts might be changed to limit to some degree, the  
8 rather wide spread liability which was imposed upon  
9 us with the passage of the Securities Act.

10 Then, of course, there is the  
11 suggestion that the public be further educated. Well,  
12 of course this educational process is one we discussed  
13 in respect to all of our other matters under considera-  
14 tion here, The public image, almost any of the problems  
15 we talked about, education of the public, of course,  
16 would be to our advantage to the extent that they could  
17 be made to realize what we are or what we are not doing  
18 and, therefore, whether or not there is or is not a  
19 basis for claim against the CPA.

20 He suggests, and I know this is  
21 something we have all talked about from time to time,  
22 I know we have talked about it in our own firm, and I  
23 expect that a good many other CPAS have talked about  
24 it. When we find ourselves in a situation where we are

1 perfectly convinced that the standards of the work  
2 that was performed, that the sort of job that was  
3 done, et cetera, should under no circumstances lead to  
4 a claim by someone who says that they have been in-  
5 jured in some way, that we should fight this case  
6 through the courts; that we should literally take on  
7 the plaintiff and, of course, incur the considerable  
8 time and expense that is going to be involved in this  
9 sort of thing, and literally fight it out, whether  
10 this will result in presumably considerable publicity,  
11 et cetera. The point here is, that the publicity could  
12 hardly be worse than the kind of publicity about the  
13 way the cases are written up at present. They are  
14 presently written up with only a fairly substantial  
15 lack of real knowledge of what acutally took place  
16 within the particular operation under discussion, and  
17 without any real knowledge of what the accountant's  
18 procedures might have been. Whether or not they were,  
19 in fact, at fault, or whether every one simply inferred  
20 they were at fault by reason of the fraud or the  
21 particular losses having come to light.

22 It doesn't necessarily follow  
23 that because the company has suffered considerable  
24 losses, and because certain other things might have



1 happened, that almost any other CPA or any other CPA  
2 firm , under the same circumstances might not have  
3 performed absolutely identical audit procedures, and  
4 that the standards that were adhered to in connection  
5 with a particular case might not have been the same  
6 standards to which we all adhere. In other words,  
7 had this happened to any single one of us, the results  
8 might have been the same. So the question is, if this  
9 were the case, is it the sort of situation for which  
10 our present standards, procedures, et cetera, do not  
11 contemplate that we are responsible; that is to say,  
12 that there are areas involved i which are beyond the  
13 scope of the procedures we presently practice and,  
14 therefore, from out point of view at least, and I mean  
15 only from our point of view, we are in the clear.

16 It doesn't necessarily follow  
17 from that, that the ,judge, the jury, the plaintiff and  
18 the others who might be making claims against us will  
19 concur in that position. But nevertheless, I think we  
20 need to understand ourselves whether or not this might  
21 be the case.

22 I think that pretty well covers  
23 what John has to say in his account. I think there are  
24 a couple of additional matters that occur to me. That is

1 the effects of this particular problem, for example,  
2 in the next ten years; ten years hence, when we get  
3 into this computerized form of accountability, where  
4 the record keeping, the underlying documents, et  
5 cetera, are going to be considerably less, in hard  
6 copy form at least, than they are today. We already  
7 have a problem today with documentations support, et  
8 cetera. What sort of difficulty are we going to have  
9 in respect to claims ten years hence, when we try to  
10 explain to the judge and jury, "Well, you understand,  
11 this is all these little dots on the tape, I mean that  
12 is what we were auditing, and this is the way we audited  
13 all those little magnetic impressions, et cetera."  
14 They apparently failed to understand our present approach  
15 procedures, et cetera, they will hardly understand our  
16 computerized set or problems.

17 VOICE: I think one of the big  
18 problems in this field is the statement, that we are  
19 all going to face sooner or later, this statement John  
20 Carey made about testifying against somebody and so  
21 forth, and the problem you have here, I think it was  
22 taken a little to task in the Journal this period  
23 here, or this segment, and it was a little more explic-  
24 it in the editorial the other week.

1                   We ran into a situation like  
2 this. We were called in by a bank, and a small account-  
3 ing firm,,an individual as a matter of fact, had pre-  
4 pared certain statements and they had sold the bank,  
5 or the executors,, sold the business to a big corpora-  
6 tion, and the big corporation, eventually their  
7 accountants went in, examined the books and records,  
8 and said, "Look, you sold it to us for \$250,000 more  
9 than it was worth, we want \$250,000 back." They based  
10 the price on the accountant's statement.

11                   The bank went back on the state-  
12 ments and said, "Now, look, you got to reconcile these  
13 two things."

14                   The accountant said, "I don't  
15 have the time or the facilities to go in there and do  
16 this audit."

17                   Then they called me in. They  
18 said, "Now, look, this man can't do it, can you do it?  
19 Can you start on Monday to do this job?"

20                   So I looked at it, I looked at  
21 his financial statement, and the first thing that  
22 occurred to me, possibly there is a great big embezzle-  
23 ment in here, I can see from the statement and conditions  
24 what I heard about the books, there were a lot of

1 problems. Then reading back through the lines, I  
2 could eventaully see that if I took this engagement,  
3 I would start an audit, and see what happened in recon-  
4 ciling it, even though this accountant talked to me, and  
5 he says, "Yes, come on in, and so forth," that we  
6 would possibly come up with embezzlement or negligence.  
7 This accountant, for example, on receivables, he said,  
8 "Well, I got a tape, but I don't have the tape now,"  
9 things like this.

10 So I was a little -- if I would  
11 take that engagement I was pretty sure, looking two  
12 years ahead, when they found out that this \$250,000  
13 had disappeared, the bank is going to look at this  
14 fellow, "Hey, look, we used your statement." This is  
15 what they are doing today.

16 What is my obligation? Fortunately--  
17 ly for me, we didn't get it. The big corporation put  
18 the pressure on the bank, said, "Look, give us the  
19 \$250,00, we are not even going to let your accountant  
20 check it out." It was a very bad situation, but I  
21 want to know what you should do? Suppose I would have  
22 gotten started? I was just forward thinking enough to  
23 see I would eventually wind up -- I didn't want to do  
24 it. Do I have the right as a professional man to refuse

1 this engagement in the beginning? Should I? I don't  
2 think I should. But yet I could see this is where I  
3 would wind up.

4 VOICE: Let me answer that in  
5 part. I don't think, in fact I am certain, that Carey  
6 was not suggesting that -- take a situation where a  
7 major fraud is discovered in a set of accounts now,  
8 audited by a CPA firm. It doesn't follow that another  
9 CPA firm, upon discovery of the fraud in some fashion  
10 or other, another CPA firm should not be engaged, for  
11 example, to determine the extent of this fraud, and  
12 how the accounts might warrant adjustment, et cetera.  
13 I don't think that that necessarily means that the  
14 second CPA firm now is suggesting, forexample, or in  
15 any way making the point that the first CPA firm did  
16 not perform their work in accordance with generally  
17 accepted auditing standards.

18 VOICE: But you get put in that  
19 position, right?

20 VOICE: Maybe. You may. It is  
21 entirely possible.

22 VOICE: His statement here to  
23 urge the profession not to testify at all, when it  
24 would be against another CPA member is to ignore the

1       responsibilities we owe to clients and investors. Then  
2       this letter goes on to recite about the editorial that  
3       was put in there earlier, and this is where you wind  
4       up.

5                       VOICE: I think the real  
6       problem here, we have had some cases like this, three  
7       or four over the last five or six years, in cases where  
8       insurance companies felt they may have had a bad suit  
9       against CPAs. I would like to pass over the question  
10      whether or not you should accept engagements of this  
11      type. I think that a very real problem is when you  
12      are in the engagement, and you are looking it over,  
13      and you are trying to evaluate it and do it objectively,  
14      I think that our people, and I think most of you -- it  
15      is pretty darn difficult to evaluate the procedures,  
16      I think, and these are the kind of engagements that  
17      we are not too happy to have.

18                      VOICE: Yes, this is it. Nobody  
19      welcomes them. What do you do when it is pressed on  
20      you, or you walk in and start the engagement?

21                      VOICE: I think our suggestion,  
22      when these come up again, they might look to another  
23      firm. I am not sure this discharges our responsibility.

24                      VOICE: What do you when the

1 bank asks you? Tell the bank you don't want this?

2 VOICE: Well, I think if they  
3 ever come to us about it, we might refer to some other  
4 experiences we have had in that area.

5 VOICE: Wouldn't you have to tell  
6 the client that unless you have real doubt in their  
7 performance, you don't wish to undertake it, or are  
8 they willing to have you accept it on that basis?

9 VOICE: How about anticipating  
10 something that might not be there? In other words,  
11 it might be all right, there might have been no  
12 problem here, but if I took it, then I am stuck with  
13 it, and the bank puts me on the stand and says, "What  
14 did you find in this examination?"

15 VOICE: I think this next state-  
16 ment ought to be on record as being a statement of a  
17 professor, not of a person whose livelihood depends  
18 on it.

19 I think I would take the position  
20 that if the Institute ever adopted the rule, such as  
21 Carey suggests, either adopts it or implies it, I would  
22 resign immediately. I could not consider myself bound  
23 by such a gauge.

24 VOICE: I personally don't

1        understand, such a rule as what?

2                                VOICE: Well, this statement  
3        in here, perhaps the Institute should consider the  
4        adoption of a rule of ethics prohibiting testimony  
5        against other members of the profession, unless the  
6        witness can justify the belief that they were  
7        affirmatively -- affirmatively -- dishonest of criminal  
8        acts or gross negligence involved in this case.

9                                To me, this is an issue for  
10       the court to decide.

11                               VOICE: Well, this is what John  
12       Carey says he wants in the script, comments, whether  
13       they agree or not.

14                               VOICE: Let's face it, we all  
15       get these deals. We have taken them, and I have taken  
16       them with my eyes open, because I don't like to be  
17       subpoenaed, and once you get into a case like this,  
18       you can be a witness whether you want to or not. You  
19       get called before the Grand Jury, there is a day or  
20       two. Then you get into Court, and they chase you around  
21       there for a week or two, whatever the size of the case  
22       is.

23                               My partner is talking about one  
24       now, and we are going to take it, but we are going to



1 get paid for these contingencies someplace along the  
2 line. Our fees are going to be much higher in these  
3 areas to cover ourselves, because we have taken these  
4 cases in the past with our eyes half closed, and we  
5 wind up on the short end by a long shot.

6 They are nasty cases, again  
7 as serving the public, somebody is going to have to  
8 do it, and you are not -- when you get in there to  
9 testify, you seem to have the attitude here that when  
10 you testify against somebody, that you are trying to  
11 make a case against them. All you would be doing is  
12 testifying. You might be helping the guy.

13 With all this literature we have  
14 gotten in recent years, you sit in your office and  
15 look around the office, all this stuff has been written;  
16 why these lawyers can get in here and get some stuff --  
17 I can see some awful soul-searching questions that  
18 can be asked, "Here is the case, didn't you read this?  
19 Don't you know this?"

20 Of course I don't know this,  
21 that is five years ago, or something else. A lawyer  
22 wants to dig into this stuff, and he can make you look  
23 like a fool on the stand. I think we can do a great  
24 service to the people who are in these situations, where

1 the lawyers are making a mountain out of a molehill,  
2 somebody has got to be in there who has some status,  
3 and be able to keep this thing on the tracks so they  
4 don't sell us down the river, because we can get a  
5 big black eye in court, if we are not properly repre-  
6 sented, and I think we are going to be in court whether  
7 we like to or not if we have made an audit.

8 I have been dragged into things  
9 I wouldn't like to be dragged into, on the other side.

10 VOICE: I think you would  
11 be interested in one thing. I could add to what he  
12 has said, he said if we made an audit. Unfortunately  
13 the lawyers are bringing suits whether you made an  
14 audit or not. Carey's book, Page 411, recites that  
15 if a surety company has paid on the fidelity bond, it  
16 in effect stands in the place of the contractual re-  
17 lationship of the client. In other words, they are  
18 not third party, it is not a third party relationship,  
19 they become a second party relationship.

20 I am on the Institute's Committee  
21 on accountant's liability, a newly formed committee,  
22 and I have heard of a lot of cases of this type.  
23 This particular one, I was asked to study for the  
24 committee, a CPA in a distant state, but a large city,

1 has been sudd by a major insurance company, a large one,  
2 and if that CPA submitted to the Institute all the true  
3 facts of the case, these are the facts:

4 He prepared quarterly statements  
5 without auditing. His letter bound in the report, at  
6 the bottom of the page, said, "We did not verify  
7 the assets and liabilities, nor the income expenses,  
8 and hence give no opinion."

9 Each page of the statement he  
10 said was prepared without audit. In spite of that,  
11 the insurance company, that paid \$25,000 on a fidelity  
12 bond, is suing for \$25,000, and they have to defend it.  
13 So that is the kind of heyday we are in today, and  
14 going back to what was said here today, it is a  
15 lawyer's heyday, they have found that CPAs do not  
16 wish to get their names in the newspaper on this thing,  
17 and I think they are going to find that the CPAs are  
18 going to be willing to get their names in the newspaper,  
19 and we are going to fight it.

20 I think that is the attitude  
21 of the large firms, and I think out of this, in the  
22 next five or ten years, we will have a series of  
23 court cases, wherein, eventaully these suits will be  
24 greatly reduced. The court cases turn on the efforts

1 of the legal profession to establish through the Courts  
2 that we have liability as third parties.

3 So far it has been established  
4 that we have liability for gross negligence to our  
5 client, and under certain conditions to third parties,  
6 where the legal profession -- not the legal profession --  
7 certain people are trying to expand this liability,  
8 and I am sure there will have to be a series of cases  
9 which will eventually make it more clear, wherein,  
10 where we are not liable to suits.

11 I think that is what we have in  
12 the next five to ten years.

13 VOICE: I would like to ask  
14 a question. It is possible, I think we could have  
15 suits that are not directly related to opinion audits,  
16 and I wonder whether our provision of privileged  
17 communications in the Pennsylvania CPA Law, would  
18 have any bearing?

19 VOICE: We would certainly hope  
20 that it would, and would apply in this type of situa-  
21 tion.

22 I think maybe I answered you  
23 incorrectly. You mean that you would not be able to  
24 divulge information in defense of yourself? No, you

1 be. I mean this is understood. In defense of your  
2 own situation, it is perfectly all right. I don't  
3 think there is any problem there.

4 I was thinking of the other way,  
5 that it would be the kind of a civil situation, where  
6 we expect the privilege to apply.

7 VOICE: This case I mentioned  
8 was not one of the 29 insurance companies that signed  
9 this agreement, it was a major insurance company.

10 VOICE: I understand that there  
11 is even a suit against a major CPA firm today, not  
12 because the financial statements are misstated in any  
13 way, but because the accountant failed to disclose,  
14 "Poor judgement and decisions on the part of manage-  
15 ment of which they were aware."

16 VOICE: Further evidence that  
17 it is going to take a series of suits in the next five  
18 or ten years to get them to lay off, when they find  
19 out they cannot sue.

20 We never called on the second  
21 designee.

22 VOICE: I think it was covered  
23 very thoroughly. There are a few things I might  
24 emphasize, but I will do that later.

1                   On this question that was  
2 mentioned, isn't it possible to simply convince the  
3 insurance companies and the attorneys for them in  
4 a case such as you mentioned, that they don't have a  
5 chance of winning a case like that, and that they are  
6 only going to unnecessary expense on their own part?

7                   VOICE: The American Institute  
8 is going to help this CPA defend the case, in fact he  
9 is represented. But I don't know, you certainly would  
10 think so, a reputable insurance company, with reputable  
11 legal counsel , you wouldn't think they would bring  
12 suit if it can be shown that there is no basis for it.

13                   The insurance company in this  
14 case charges in writing, in a copy of the complaint,  
15 "That they made a complete audit --" No, that they  
16 were engaged to make a complete audit, and whether it  
17 was orally engaged or in writing, we do not know, and  
18 will assert that it was both.

19                   VOICE: That brings up a point.  
20 We have certain loan agreements with banks and others,  
21 and in the agreement itself, it will have words to the  
22 effect that someone else other than me would think that  
23 this calls for an opinion audit, an audit by a CPA or  
24 something like that. Now, what is an audit by a CPA?

1 Is that an opinion audit or something less?

2 Now, I render a non-audit  
3 opinion, taking from the books and records without  
4 audit thereof, which when we do that, it is not just  
5 taken from the books and records, there is some  
6 thought given to it, and it is pretty close to what it  
7 would be if you were to give an opinion, I am sure, but  
8 we don't go through all the dotting the I's and crossing  
9 the t's. Now, it is possible that if something would  
10 happen on these statements and they come back to the  
11 loan agreement, of course the banker is accepting these  
12 statements without opinion, even though it is contrary  
13 to what the loan agreement says, and I point that out  
14 to the bankers as we talk to them, and both the banks  
15 are competing so much that they don't insist on opinion  
16 audits. I can see where there could be a problem there.

17 VOICE: I suggest that the lender  
18 would be found guilty of contributory negligence maybe,  
19 if something went wrong on those in the past. But  
20 before you do it again, boy, if it was my firm, I would  
21 certainly get it understood, and I think probably in  
22 writing, what they meant by that language. I don't  
23 think you can afford to leave that door unclosed.

24 VOICE: That is our problems with

1 the attorneys. You know, they write these agreements  
2 or the bankers have the attorneys write the agreements,  
3 and we see them when we come to make the audits the  
4 next year. Then when you ask them what the language  
5 means, nobody knows, of course. As long as the account  
6 is going good, nobody cares.

7 VOICE: Sometimes you just have  
8 to force them to answer for your own protection.

9 VOICE: Two important things  
10 here. One of the biggest things is the taxes. I have  
11 seen and heard of several cases, where small practition-  
12 ers or average practitionrs, they get clipped for  
13 penalties and interest, and in other cases taxes. In  
14 one, a very substantial one, it was in connection with  
15 setting up a trust in connection with a lawyer, and  
16 it was future interest, rather than present interest;  
17 that is the one thing we got to watch.

18 The second thing is, I think  
19 this is possibly the greatest thing, greatest reason  
20 for raising standards all the way down the line, par-  
21 ticularly with these small individual practitioners,  
22 small accounting firms and so forth. We are very, very  
23 conscious of it in our firm, we have never had any  
24 problems, we have seen it and we appreciate it all the



1 time.

2 I think one of the things the  
3 Institute should do, that is the Pennsylvania Insti-  
4 tute, is stress this to the average practitioner, his  
5 greater liability, because he will understand this,  
6 if he hears about it and knows about it, he is going  
7 to improve his standards, he is going to raise his  
8 prices, and this is what everybody needs to do at the  
9 lower level.

10 VOICE: Talk about notifying  
11 the small practitioner, on two occasions in the past  
12 year, when I was supposed to be the discussion leader  
13 for the Professional Development Board on legal  
14 liability, both of them were cancelled.

15 One was Upstate, there were  
16 six that registered, and one was down here, I think  
17 a couple of months ago, and there were seven.

18 So, nobody has any interest  
19 because they don't think it is ever going to happen  
20 to them. I mean it, they don't realize it is going to  
21 happen to them.

22 I took the course several years  
23 ago, and you learn all of it in one hour. After all,  
24 it is a very basic thing, it is nothing but good

1 standards if you recognize the problem.

2 VOICE: The main points have  
3 been brought out, and we are in the same spot, fortun-  
4 ately we have never been faced with this thing, other  
5 than to pay a premium once a year on malpractice  
6 insurance, which is just good business. But I  
7 can see where the bigger firms who are doing a wide range  
8 of service on listed and registered companies, are going  
9 to be faced with suits, whether they are justified or  
10 not, and in almost all cases of course, they are not  
11 justified.

12 The important thing is that,  
13 in spite of this, that firms such as ours, and even  
14 more importantly, the smaller ones, and especially  
15 individual practitioners, are made aware of the prob-  
16 lem so that they can be on guard for it, and this is  
17 what Carey brings out as a matter of education for  
18 membership. Many of these things fall into that cate-  
19 gory, education to our own members who just aren't aware  
20 of the problems and dangers that are involved here.

21 The other thing that I just  
22 wanted to emphasize was, that we sometimes get so en-  
23 grossed with the legal liability and security act in  
24 relations to auditors' certificates, but the process

1 of education should certainly include the very important  
2 fact that legal liability exists in every phase of the  
3 CPAs practice, most certainly in taxes and also the  
4 whole range of management services as they are evolving.

5 VOICE: I think we ought to  
6 adjourn for lunch.

7 (Whereupon, the meeting was  
8 recessed at 12:30 p.m., to reconvene at 1:30 p.m.)

9 ---  
10

11 A F T E R N O O N S E S S I O N

12 THE MODERATOR: I think we might  
13 as well resume.

14 Two people have suggested  
15 separately something I would like, and I think we all  
16 would like; after we finish the next two topics.. In  
17 conclusion, let's go around the room and give everybody  
18 a brief opportunity to speak and endeavor to put in the  
19 record what you think would be of significance to the  
20 Long Range Objectives Committee of the American Insti-  
21 tute; what you think has been significant what had been  
22 brought up here that merits their particular attention.

23 I mention it now so you can think  
24 what you might say and very briefly say it. I would

1 suggest in my role here, you have all been very wonder-  
2 ful in moving on to the next topic when I suggested it  
3 My thought is, if we would spend a half hour on each of  
4 the topics that are ahead of us -- we won't necessarily  
5 stop there if it seems that there is great interest,  
6 and I hope that when I move from one to the next, that  
7 I do it in conformity with the consensus, which has not  
8 been voted upon. That is roughly what I thought we might  
9 do here and get away in the middle of the afternoon.

10 I would think the consensus would  
11 approve.

12 Now we will move on to the next  
13 topic.

14 VOICE: I think in the interest  
15 of keeping it moving, I might try to be guided by your  
16 letter. I have some notes that I made, really just an  
17 outline of things that we might talk about, think about.

18 What I tried to do, I looked at  
19 John Carey's book. I thought a little bit about some  
20 of the problems he expressed in here. I have tried to  
21 take these comments in the book, and some ideas I have  
22 of my own, and try to project them out to 10 or 15  
23 years from now, and then look at what the problems might  
24 be at that time, rather than what they are now.

1 I suppose we will be talking about  
2 them as they are at the present time, but I suppose we  
3 could be thinking about them more in the light of what  
4 their importance might be a number of years from now.

5 The first items, effective changes  
6 in -- what I call here -- economic influences. Actual-  
7 ly what I am thinking about is the extent to which the  
8 business climate in a particular locality would affect  
9 the nature of the practice concept of the firm, if you  
10 will, in a particular locality. I think that this will  
11 vary from city to city, from region to region. I  
12 think certain business climates force firms into a  
13 larger, greater span or scope of practice. Conversely,  
14 I think that, perhaps, in other communities, the  
15 opposite is true.

16 I think we should think of  
17 development of the practice in this context of the  
18 business climate.

19 One we talked a little bit  
20 about last night, the future of the national firms  
21 and the future of the local firms, will we drift away  
22 from one another; will we find grounds of common  
23 interest and practice. Last night, as I recall, someone  
24 dismissed the sole practitioner as someone that we

1 won't find around in the next five or ten years. I  
2 am not so sure that is so, I certainly hope that it  
3 isn't. I think he has a valuable place in the business  
4 community. I would hope that we could talk about that  
5 a little bit.

6 I am sure a lot of you would  
7 be interested in talking about mergers of accounting  
8 firms. I think a number of us have some ideas about  
9 that.

10 Another one that I don't recall  
11 seeing in the book which bothers us a little bit, this  
12 is the change that I think we are going to experience  
13 in what we call the personnel mix. The group audit,  
14 tax, MS, even in local firms or in other firms, where  
15 they are not involved in Management services. I think  
16 there is going to be a trend, or at least a change in  
17 the makeup of audit staff people. For instance, the  
18 impact of computers that we talked about yesterday.  
19 We see this now in our practice where we no longer have  
20 a ratio of two-to-one assistants to seniors.

21 This sophisticated need for  
22 experienced knowledge, I think will result in the  
23 change in the mix of the group.

24 Another point that I don't

1 recall that is covered in the book, and I don't think  
2 we necessarily have to work from the book. Managing  
3 the practice and at the same time maintaining profes-  
4 sional status. I think as the larger firms get larger,  
5 we are faced with having to adopt the principles of  
6 business management. Maybe not too dissimilar from  
7 the General Electric Company or some of the larger  
8 corporations. I think we have to do this. We will  
9 have problems of delegation, administration, profit  
10 improvement, a lot of the same goals that business  
11 managers have.

12 I am not convinced that in this  
13 capacity, our jobs are any different from theirs.  
14 Perhaps you have some sort of conflict, overlap, or  
15 whatever, when you still really want to maintain this  
16 professional status relationship and so forth.

17 The very last point, one that  
18 I will dismiss very quickly, whether sometime in the  
19 future the CPA should be incorporated. The only attrac-  
20 tion that I can see in incorporation, is the advantage  
21 of the stock options. I think it is completely foreign  
22 from our profession, there is no question it is a  
23 personal service. I wouldn't like to see it, maybe some  
24 of you would.

1                   They are the remarks that I have.

2                   VOICE: When you speak of the  
3 different mix in the character of the personnel in the  
4 future, would you elaborate on that a bit. I can  
5 understand the difference in mix of a specialization  
6 and their knowledge. Do you mean a different mix as  
7 to the general abilities, as well, as if you have two  
8 classes of people so to speak?

9                   VOICE: Well, now I certainly  
10 wouldn't think of it in two classes. I don't agree with  
11 some of the comments that you should have two classes  
12 of people. Let's look at it in the light of the change  
13 in the nature of the practices, going back 15 years,  
14 just to get a real good perspective.

15                   Years ago, I think all of us  
16 spend a lot of time in auditing cash and the other  
17 things. With more sophisticated accounting people in  
18 the offices of our clients, computers, other types of  
19 equipment, and a lot of the work is getting around  
20 more on a review basis, than a do-it-kind of thing.  
21 This requires, obviously, a higher level of competence  
22 and knowledge on the part of the staff.

23                   How do you get a man's starting  
24 point? You can pick a period of six months, a year, and



1 develop quickly their capability, to make a sophisticated  
2 review of work that has been done by the client.

3 I think there is a change going  
4 on here, and I think we are right in the middle of  
5 it. It is probably changing more dramatically now,  
6 than in the number of years past.

7 VOICE: I think tied in with that,  
8 too, at least as far as the profession is concerned, is  
9 that these men are more attractive to private industry  
10 earlier, and will be in the future, so we have got to  
11 face that maybe the turnover might be even greater  
12 than it is now.

13 VOICE: I think this is happen-  
14 ing too.

15 VOICE: I don't think this is  
16 a problem peculiar to the larger firms, I think your  
17 junior's experience, there is a change in their ex-  
18 perience.

19 VOICE: Out of 28 people, we  
20 have maybe 15 CPAs, all very capable persons, and we  
21 find less need of the lower staff level. We have been  
22 holding our men. This is important, and we have been  
23 using our men to better advantage that way to develop  
24 better capabilities.

1                   VOICE: Are you possibly re-  
2                   fering to the fact that the special services avail-  
3                   able years go didn't have any tax men and now you have.  
4                   The audit crew, for example, is no longer just the aud-  
5                   itor, he is a tax man and something else; and you get  
6                   a mix of talent?

7                   VOICE: I would assume he means  
8                   you are using, let's say, lower staff members, there  
9                   is not as much detail work all the time.

10                  VOICE: That's right. This is  
11                  the point that I tried to make. Actually, I think the  
12                  point you mentioned becomes more aggravated the more  
13                  you expand the tax and MS side of the practice. There  
14                  is a tendence to departmentalization, and it makes it  
15                  more difficult actually.

16                  VOICE: Perhaps I am not so sure  
17                  that is the only answer. I look at it in the sense of  
18                  developing all services, it is a necessity to give  
19                  full service.

20                  VOICE: I am wondering in the  
21                  future if we upgrade our staffs, like we are talking  
22                  about, having more higher qualified people, maybe the  
23                  training ground might shift from the CPA firms over to  
24                  industry, and we will be taking them out of industry,

1 maybe, rather than vice-versa.

2 VOICE: Hopefully we will have  
3 graduate schools of public accounting.

4 VOICE: I think that is possible.  
5 I don't know where this all stops. I think in manage-  
6 ment services, for instance, I am not so sure that you will  
7 be able to develop these people internally that you need  
8 in these jobs. As was mentioned earlier, you have the  
9 turnover problem. This has become worse, more aggra-  
10 vated. I think for this reason they move up faster,  
11 in a shorter period of time, and it requires greater  
12 experience. This makes them vulnerable to clients'  
13 designs.

14 VOICE: I might ask the question  
15 whether or not you can develop internally the people  
16 to fit into the entire range of management services?  
17 I believe that you cannot. That you cannot take the  
18 kind of people that we are accustomed to hiring now,  
19 as well as higher staff, and make them into tax men,  
20 but I don't believe they can be fitted into the kind  
21 of molds that fit the scope of management services that  
22 are being offered. In other words, the industrial-  
23 engineer type of services. You simply cannot take the  
24 graduate from an accounting school, liberal arts or

1 whatever background he has, who might otherwise be  
2 perfectly well equipped to eventually work in tax  
3 matters, and make him into the kind of man that can  
4 handle all of the management services that are presently  
5 being offered. I don't mean to suggest that management  
6 services are being offered -- that their range is entirely  
7 too wide. I think more of the mundane type of manage-  
8 ment services, those skills cannot be acquired as  
9 adequately, I don't believe, through audit staffs.  
10 If we are to employ specialty skills in a particular  
11 area, such as EDP, or any number of the other areas,  
12 you won't have them with the same degree of sophistica-  
13 tion.

14 I mean, I am speaking from my  
15 own firm's experience. This has been our experience,  
16 and I presume it might be the experience of other  
17 management services firms. Not all the management  
18 services -- the MCS people on Lybrands, I would guess  
19 or AA or any other firm are bought up through the audit  
20 staff by any stretch of the imagination, maybe I am  
21 wrong.

22 VOICE: Getting back to John  
23 Carey's book, I think he refers to a survey of business-  
24 men, in asking them about their CPAs. They think CPAs

1 are fine and all that, but what is wrong with them?  
2 They lack imagination, don't give us ideas, that sort  
3 of thing. I do believe that future public accounting  
4 is not for someone who goes in and examines, but  
5 he has to take a hand in future planning. This falls  
6 into all these areas. In fact, even in MCS there must  
7 be a minimum amount of MCS.

8 VOICE: I think this relates  
9 pretty directly to another comment. I know that our  
10 Management Services Committee, and we are very proud  
11 of our committee in Pennsylvania, they have done more  
12 thoughtful work than most of the states. They are  
13 very much concerned now with the relationship of the  
14 Non-CPA management personnel, in relation to the firm,  
15 in relation to the profession, in relation to the  
16 professional society. How are we going to fit these  
17 persons in? What is there future? Are we looking  
18 towards the day when we will adjust our firms compo-  
19 sition, or even our CPA laws to permit them to become  
20 partners? What are we going to do with this growing  
21 group of professional and technical personnel who are  
22 not CPAs or CPA-oriented?

23 VOICE: They wouldn't go out on  
24 an audit.

1 VOICE: You can't split up the  
2 profession. Do we think we can split the CPA up in  
3 different parts and still be CPAs?

4 VOICE: I don't know, I am really  
5 asking the question.

6 VOICE: I won't build up the  
7 CPA.

8 VOICE: The new CPA exam is  
9 going to have some management services, and a little  
10 less auditing, and a little less something else. The  
11 new CPA in ten, 15 years is going to be a greater  
12 composite than we have today; is that what you are say-  
13 ing?

14 VOICE: I think we are jumping  
15 into the area of specialization. We are now going back  
16 to the subject of education and training.

17 VOICE: Getting back on the firm  
18 idea, I think there are a lot of good thoughts in John  
19 Carey's book. Personally, from my viewpoint, I think  
20 the day of the real, small practitioner is going to  
21 work its way out. Today there are a lot of them with  
22 two, three or four men, they have some real good accounts,  
23 these fellows can make out very well. But, as they lose  
24 those accounts, they are not going to acquire new ones,

1 as they pass out; they are disappearing, you can see  
2 them. But the new client and the large, or medium  
3 sized clients are going to need and want the services of  
4 the firm that can give them all these things.

5 The little fellow needs it more  
6 than the big corporation does, he needs management  
7 services, too. I think there is a need for local  
8 firms, there is going to be a need more than ever,  
9 but the local firm will gear itself, in my mind, to  
10 these particular people's needs. Then instead of  
11 aspiring to become large, they will build for the level  
12 of their own competency. So, this is the trend as I  
13 see it.

14 One of the things that impressed  
15 me out of all the book -- maybe this should be at the  
16 end -- but to solve so many of these problems, the  
17 thought I would have, what we should do is to build up  
18 our Institute. It has been brought out here vividly,  
19 and somewhat to our chagrin perhaps, some people think  
20 that being a CPA in itself is not enough, and possibly  
21 we all recognize that there are a lot of substandard  
22 situations. But, perhaps by making the Institute  
23 and the Pennsylvania Institute themselves, the strong  
24 focal point and create these standards and demand the

1 standards over and above -- I have been an organization  
2 man in a lot of other organizations, and to have this  
3 separate state organization, the separate national  
4 organization, where a fellow can belong to one and  
5 not the other, and reading in the book -- now, every  
6 man in our staff belongs to the American Institute,  
7 he belongs to the Pennsylvania Institute, if they are  
8 eligible, but reading the book here, again to my cha-  
9 grin, I come to find out that perhaps some firms are  
10 putting one man in here and one man in there. I would  
11 think in the long range, if I were trying to build this  
12 organization up and build our profession up, I would  
13 say that everybody should belong, every member eligible  
14 in the firm, should belong to the American Institute  
15 and the Pennsylvania Institute, and pay their dues,  
16 and they should give the Institutes backing, and then  
17 we could hold ourselves out as members of the American  
18 Institute and members of the Pennsylvania Institute  
19 in a manner that would mean something. If the American  
20 Institute would raise its standards and do its part,  
21 I think it has been too wishy washy up to this point.

22 We have never held ourselves  
23 out as members of the American Institute or the  
24 Pennsylvania Institute, because it never made any



1 difference. I thought it was enough to be a certified  
2 public accountant. But if that isn't enough, maybe  
3 we got to do the other thing, not to belong to the  
4 Institutes as individuals, but belong as firms.

5 VOICE: I think far more  
6 important than that, trying to confine the concept of  
7 the firm, this has been an area that has been bothering  
8 me for sometime, and I frankly don't know the answer  
9 to it, but it was indicated, for instance, we cannot  
10 build within our own organizations. Using as an  
11 example, going to the outside and bringing in an  
12 industrial engineer. Where does this lead us to?  
13 What is the concept of accounting? Where is the code  
14 of professional ethics when we ourselves are not  
15 competent in this field? We are going to place these  
16 people and pass on the product of their work. This  
17 goes beyond that, this can go into many diverse fields  
18 where we ourselves have no competence, and we go out  
19 and buy this competence. Who is going to pass on the  
20 reliability of this information?

21 VOICE: I don't want to answer  
22 your questions, but I want to talk on something that  
23 has been said. The comment was made, you think there  
24 is a great future or you think there is a real future

1 for the local firm, and we should get work up to our  
2 competence. I think this is the concept of the compe-  
3 tence of the local firm being different than the con-  
4 cept of any other firm. I think it is a mistake. The  
5 situation exists today, I think it must not be in the  
6 future.

7 VOICE: To judge competence,  
8 if they had it they could start out in California,  
9 Chicago and someplace else, but the other level, with  
10 management services and everything else, I think you  
11 could actually work yourself up to competence.

12 VOICE: But the point is, any  
13 local practitioner, whether he be an individual, or  
14 whether he be a local firm, the competence of that  
15 practicing unit really has to be equal to or better  
16 than the competence of the larger firms, because there  
17 are absolute disadvantages to being smaller.

18 VOICE: This is a real problem  
19 today.

20 VOICE: You have to be better  
21 than in order to compete. The whole question is,  
22 where, in what areas can a local practitioner be better  
23 than a national firm or a larger firm?

24 I think each local practitioner

1 has to figure out how he can be better than somebody  
2 else. Now if he sells better, if he does better or  
3 if he plays golf better, but he has to be better some-  
4 place to get the work.

5 VOICE: I don't think this is  
6 the problem, because he can do it. You can staff  
7 your men better, you can keep them home here, pay them  
8 just as well. We are hiring as good men as any of the  
9 big firms are, not maybe the top, but as good as their  
10 average I bet.

11 VOICE: I think you have to be  
12 better to get it, because I think the national firms  
13 are better now.

14 VOICE: Let's face it, we are  
15 talking about being better. Better for what? Better  
16 for who?

17 For instance, Gene here if he  
18 went in and started talking about the stuff he is  
19 talking about here today -- it is over my head some of  
20 the stuff he is talking about. Well, my clients  
21 wouldn't even understand him. They are not interested  
22 in some of his management concepts, they are not ready  
23 for that, they never will be until they get merged into  
24 Atlantic Refining or somebody else.

1                   We have levels of management  
2 here, and I think we are going to be talking to different  
3 levels of management. I don't think you are ever going  
4 to get all these managements up to the same level as  
5 Atlantic Refining. There is always going to be a place  
6 for me, as dumb as I am, there will always be a place.

7                   VOICE: You take the president  
8 of the company retires, the son comes in. The son  
9 went to business school, and got his degree at Harvard,  
10 the old man, he made all the money, he doesn't know  
11 anything, he doesn't understand a statement, and his  
12 son is going to take over. The son he wants a computer,  
13 he wants all the other things.

14                   VOICE: This is exactly what I  
15 am saying, so you have that advantage, because your  
16 partners are going to know the son. In that area you  
17 are better.

18                   VOICE: I can't quite follow  
19 this business that a small company is every going to  
20 be able to handle the management tools. You fellows  
21 are talking about the Atlantic Refining level, that is,  
22 they just aren't going to have that kind of management.  
23 They are going to be small business, they are going to  
24 be small management, and they won't be big enough to

1 have all these tools in the first place, so they won't  
2 use them, until they merge with somebody else.

3 Now, if what you are telling me,  
4 is that there isn't going to be any small business  
5 anymore, then I can follow your thinking. But other  
6 than that, I can't follow it.

7 VOICE: I have a quick case in  
8 point. This is in a small town where we had some dis-  
9 cussion with the father sometime ago. The father has  
10 retired, the son has called us in and engaged us, for  
11 a relatively small company, for some rather sophisticated  
12 systems work, and thank goodness, in this case, the man  
13 who handles the auditing work, and the day by day  
14 consultation and tax work, was one of the prime factors  
15 in getting us into the picture, and if we do a good job,  
16 he is in that much more solidly. But, this was a case  
17 where the father did not understand, was not interested.  
18 The son who had gone through school further than  
19 father, gotten more convention, studied more, as soon  
20 as Pop was out of the way, in he goes.

21 I think you are going to see this  
22 trend.

23 THE MODERATOR: Does anybody want  
24 to comment on the point relating to the competence of

1 the CPA to pass upon the work of a specialist?

2 VOICE: I don't see where this  
3 is really any different than the partner, manager,  
4 supervisor senior category in the accounting, auditing  
5 and tax areas. We have a number of specialists in  
6 MS who are the equivalent of partners in our firm, who  
7 are not certified and, therefore, they have the title  
8 of Principals. Principals share in the profits exactly  
9 like partners. Principals take responsibility for MS  
10 work, exactly like an audit partner or tax partner.  
11 They do have under them all kinds of specialties. On  
12 the other hand, I think we have enough principals to  
13 cover all these specialties, such as experts on operations  
14 research, industrial engineering, math, PhDs, electronics,  
15 EDP Specialists.

16 As far as I am concerned it  
17 functions identical with the auditors and tax functions.  
18 These staff men in these specialties report to a  
19 superior with greater knowledge than they have, and  
20 greater experience than they have.

21 As a matter of fact, at a  
22 partners meeting in Montreal last week, we had a unique  
23 situation, where we had our very first principal, this  
24 is equivalent to a partner, taking his CPA examination.

1 So we may have the first situation where the principal  
2 transfers from a principal's status to a partner's  
3 status.

4 As a matter of fact, our  
5 experience has been, we hired a number of people, for  
6 example, out of the Graduate School of Industrial Man-  
7 agement of Carnegie Tech. These people had only the  
8 equivalent of five credits in accounting, yet we have  
9 several partners who are graduates of that school. We  
10 even had one chap who was the highest in one of the  
11 CPA examinations, with the equivalent of five credits  
12 in accounting, and only two years of experience.

13 I can't see where this problem  
14 is any different than the audit and tax area, if it  
15 is properly supervised.

16 VOICE: I would like to follow  
17 up on that point. For years the CPA has been involved  
18 in tax practice. Yet, I wonder how often an audit part-  
19 ner, who has responsibilities, primary responsibility  
20 to the client, and let's say, including the management  
21 services function. He also has responsibility for  
22 tax advice that is given to the same client. We never  
23 seem to be concerned about that, I guess, only because  
24 it goes back for somany years. But when our tax people

1       come up with suggestions, opinions, answers, I doubt  
2       if we are really qualified to ask them whether they are  
3       right or wrong or not, but we accept it because they  
4       are competent.

5                       VOICE: I think the words is  
6       passed on in general practice, but I am inclined to  
7       disagree. I would hope that any partners we had in  
8       the future, that everybody in our organization, includ-  
9       ing tax men, MCS men be disciplined in public accounting.  
10      If he isn't disciplined in public accounting, you can  
11      start thinking about things, thinking about liability,  
12      and if somebody is not disciplined, you can find a lot  
13      of trouble with red tape.

14                      THE MODERATOR: I think we can  
15      close on that topic of Concept of the Firm, and go on  
16      to the subject of specialization.

17                      VOICE: Both the nicest part,  
18      and probably the most difficult part of being the last  
19      item on the outline, is that almost everything has  
20      been said and resaid, so I think maybe my outline here  
21      will be applicable, at least it will help summarize  
22      some of the things we talked about.

23                      Certainly from the studies of  
24      the Long Range Objectives Committee, of which this book



1 is a summary of, there is general recognition of the  
2 need to specialization. Everything we have said here in  
3 two days has pointed this way.

4 Just to say the obvious, these  
5 areas of specialization, break down functionally between  
6 audit, tax practice and management services, and while  
7 auditing is well defined, tax practice is fairly well  
8 defined, we are still groping with the problem of defin-  
9 ing scope of management services.

10 As compared with the functional  
11 areas of specialization, there is the industry type  
12 specialization, which we talked a good deal about last  
13 night at our late, late social hour. This doesn't need  
14 any further definition. I think there is recognition  
15 the firms will need to specialize in various industries,  
16 many of them are.

17 A very big question that we  
18 have talked about, and certainly it is covered in  
19 John's book, and that is, should these specialists be  
20 required to demonstrate basic competence as generalists  
21 first? In this sense, would we ultimately try to  
22 follow the path of the medical profession, in which  
23 every one first becomes a doctor, and then through  
24 very well defined procedures for specialization, becomes

1 a pediatrician or a surgeon or a gynecologist, or whatever  
2 specialty he enters.

3           This logically leads to the next  
4 question, is it feasible to establish procedures for  
5 crediting these various specialties? Certainly, even  
6 the CPAs at the present time come from a very wide and  
7 diverse background. This is probably more true of the  
8 practicing CPAs today, than it is of the young men  
9 who are being recruited today. Up until very recently,  
10 the requirements set for the CPA examinations were  
11 not very rigid as to education and experience require-  
12 ments, they were quite different in different states,  
13 so that many persons have come into our profession, and  
14 made real contributions without having a uniform or  
15 similar background.

16           I think this situation is becom-  
17 ing even more complex with the rapid expansion of manage-  
18 ment services, and I don't think -- I think it is maybe  
19 going to be in the future, one of your biggest problems,  
20 because we are talking about a lot of areas of special-  
21 ization, without really having any definite procedures  
22 for accrediting persons in these areas. I think this  
23 is not only our profession, because these same persons  
24 are operating in these so-called specialties or sciences

1 in industry and with management consulting firms, but  
2 there is still no clearly defined basis for accrediting  
3 or licensing them, such as a CPA.

4 In fact a number of years ago,  
5 when the firm of Earl Newsome made the study for  
6 the American Institute, they came up with the conclusion  
7 which I think is easily supported, in the whole field  
8 of business management, the CPA is the only discipline  
9 that could lay any claim to a professional stature in  
10 terms of a procedure, and educational and experience  
11 procedure and an accrediting procedure.

12 The question we touched on this  
13 morning, which ties in very closely with ethics, if we  
14 are going to have specialists, we certainly will have  
15 to recognize with the wide are of present scope in  
16 practice isnot going to be possible, probably even  
17 for the largest firms, to offer competent service in  
18 all of the areas, so this would indicate the need for  
19 an effective referral system.

20 As most of you know, this is  
21 obvious in the more highly developed medical profession,  
22 than in any other field, yet the situation is quite  
23 different, because once a man qualifies as a surgeon,  
24 he know longer offers services that conflict with either

1 the general practitioner or other areas of specialty,  
2 And, of course, this problem comes about because of  
3 our practice more than any of the other professions, is  
4 identified with firm, rather than individual. We talk  
5 about individual professionals, but we are really  
6 thinkg primarily of services of the firm.

7 I certainly am not implying that  
8 firms should restrict themselves to different areas.  
9 It does highlight the problems inherent in the referral  
10 problem.

11 Then John points out the advan-  
12 tages and disadvantages of classifying specialists to  
13 the point of having them listed in directories, so  
14 someone could find a specialist in a particular field.  
15 He mentions in the case of attorneys, the Martindale-  
16 Hubbel Directory of Lawyers does give this kind of  
17 classification as to specialty. It implies no accred-  
18 itation, but it does indicate the areas in which certain  
19 firms or individuals hold themselves to be especially  
20 competent.

21 Certainly running through all of  
22 the discussions here today, or the last two days, were  
23 the effect that this trend toward specialization, the  
24 need for specialization, the effect this will have on

1 the ability of the local firm and individual practi-  
2 tioner to survive in competition with the firms of  
3 specialists.

4 I made a note here that we  
5 might want to discuss, for what benefit it might have on  
6 directing our course for the future, the course that  
7 law and medicine have taken in the areas of special-  
8 ization, and as you know, lawyers have resisted this.  
9 Even though there are lawyers who are specialists in  
10 certain areas, the Bar generall will not recognize  
11 this, and every lawyer is supposed to be equally  
12 competent in every field, and I think for a long time  
13 CPAs have resisted this, and we well have to face the  
14 problem of recognizing that we cannot be everything to  
15 everybody; there just isn't enough time and no one in  
16 a lifetime could qualify in all areas.

17 The last item I have, and this  
18 has been discussed from different angles, ethics and  
19 firm organization and otherwise, and that is the wide-  
20 spread use of technical specialists whose background  
21 is not related to the accounting discipline, and the  
22 effect that this will have on the certified public  
23 accounting as a profession in the future.

24 I don't pretend to know any of

1 the answers to this, but I thought this would probably  
2 set up the questions.

3 VOICE: I would like to comment  
4 just briefly on Willard's last remarks. I really  
5 think your most effect accounting discipline comes  
6 after you get the CPA certificate. By that I mean  
7 that you can have specialists that will come into your  
8 firm, they can operate in a vacuum, off in "Coona  
9 Boody" somewhere, and would not really be part of the  
10 firm and have the discipline; that is bad.

11 At the same time you can have,  
12 and we do have many CPAs who get a CPA's certificate  
13 and are completely undisciplined. So picking up again  
14 the business of specialization, it seems to me that  
15 in the future, we are going to have to maybe look more  
16 to the firm and its control and its responsibilities,  
17 than perhaps to the individual.

18 Sometimes I think of the audit  
19 partner as the generalist, maybe compare him to the  
20 president of a corporation who has the responsibility  
21 for the whole corporation, and yet he cannot possibly  
22 be acquainted in depth with all of the various facets  
23 of the departments and the people over which he has  
24 control, but he does have this; he has to do his utmost

1 to get the checks and balances established. Maybe he  
2 has certain internal controls which he himself may not  
3 be able to exert. For example, in this area of manage-  
4 ment services, we have audits periodically by other  
5 offices of management services engagements. I think we,  
6 the generalists, can to a certain extent audit the  
7 reasonableness of what is proposed, and the result  
8 and so on.

9 On taxes, I just went over a  
10 memo last night. It seems very reasonable to me, yet  
11 I don't think we are qualified to say there might not  
12 have been a better way, a faster way. So, we have to  
13 have these internal checks and balances. But I just  
14 don't think that a man, in effect, can spend the time,  
15 say, to get his PhD in Mathematics and be completely  
16 sophisticated in the area of operations research, say,  
17 and really get a lot of benefit out of the type of  
18 information that he has to learn to pass the CPA exam.

19 Now, I think that this man has  
20 to be disciplined and integrated into the CPA organiz-  
21 ation and understand principles, practices and code of  
22 ethics and so on, but I don't think passing a CPA exam  
23 per se means a lot.

24 I think in the future we are

1 going to have to look more towards the firm and the  
2 heads of the firms, and maybe less concern to these  
3 individuals who are non-CPAs, and hopefully bring them  
4 into our association in some fashion so they can bene-  
5 fit, so the association can benefit.

6 VOICE: This is part of the ques-  
7 tion I mentioned earlier when I said our Committee was  
8 studying this, and they recognize it.

9 VOICE: Well, aren't these  
10 people going to want to become partners of your firms  
11 eventually, or are you going to start trading as a  
12 half CPAs and half other type people in your national  
13 firms?

14 VOICE: Our set up is, our  
15 principals have all the accouterments, except they  
16 don't participate in losses, which is nice. So, as far  
17 as they individually are concerned, the only thing  
18 they can't do is sign an auditor's certificate; we  
19 have the responsibility.

20 VOICE: Are these people happy  
21 with that situation?

22 VOICE: Absolutely. They think  
23 it is the biggest lot of nonsense in the world to think  
24 that they would have to be taken off chargeable,



1 productive, effective time to go back and study  
2 consolidations and bookkeeping. Now, if you change  
3 the type of CPA exam, perhaps they could see some  
4 sense to it, but here they study to pass things which  
5 they have never used, and if they pass, won't use it  
6 in the future.

7 VOICE: Does it always have to be  
8 that way?

9 VOICE: No, I think there is  
10 the alternative of getting a different type of an  
11 exam.

12 VOICE: I think it is more  
13 important to find a way to accredit these people in  
14 their own field. The problem as I see it now, the  
15 public is relying on CPAs, what they understand CPAs  
16 has meant, what his requirements are. Yet, a CPA  
17 firm is not in a very much different position than  
18 public accounting, management consultant firms or  
19 other specialists. They may or may not be very competent  
20 people, and probably the public has more protection in  
21 employing these people who are associated with CPA  
22 firms, because of the discipline and control which you  
23 are exercising over them. If we are going to hold  
24 ourselves out as -- I guess you can use John Carey's

1 term -- integrated service organizations, or whatever  
2 you want to call it, then maybe we need sections to  
3 our examinations. I don't think that is so important  
4 that they all go back and become CPAs just for the  
5 form of the thing, but I think that if it is going  
6 to be a licensed, recognized profession, then we are  
7 going to have to require these persons to qualify in  
8 some fashion.

9 VOICE: I think you gentlemen  
10 have amply demonstrated my point of yesterday, that  
11 Carey's definition of an integrated service is not  
12 what we have today. This is not the profession today,  
13 these things are not integrated.

14 VOICE: All of these other areas  
15 of service have grown too fast to be integrated.

16 VOICE: I think this particular  
17 situation happens to be especially acute in 1965. If  
18 we go back about ten or 15 years, in all of the major  
19 CPA firms, practically all of these services, perhaps  
20 not all of them, but many of them were being performed  
21 at that time by displaced auditors, so to speak.  
22 People who were CPAs then, and might have had some  
23 special training that was a little bit foreign to the  
24 usualy training, so they had a natural bent in some

1 direction. Then what has happened, as soon as it became  
2 reasonably well known that all these services were avail-  
3 able, our practice just ballooned, it ballooned to the  
4 point where there was simply no one around who could  
5 handle all of the available markets. So at that point,  
6 we had to go out and get all of these specialists.

7 This thing has happened almost  
8 overnight.

9 VOICE: I think there is a real  
10 need now to recognize that this all has to be con-  
11 solidated and integrated. It is all right to say your  
12 firm is doing it, but is the whole profession doing it  
13 in the manner that won't cause a general breakdown  
14 in public confidence.

15 VOICE: I think this would be  
16 excellent if we could develop something along the  
17 lines of a Certified Public Operations Research  
18 Specialist.

19 Do we still have a separate  
20 section on Pennsylvania taxes?

21 VOICE: No, we eliminated that.

22 VOICE: That sort of thing  
23 could be a possibility, too. You take a certain  
24 general section of the CPA exam, then you would take

1 a section covering your specialty.

2 VOICE: Well, John Carey's book  
3 mentions that. I don't think he is proposing, it, I  
4 am sure he isn't, but we might be faced with the problem  
5 where we might have certified tax accountants, certi-  
6 fied management accountants and certified auditors,  
7 and certainly this wouldn't be desirable, I don't think,  
8 but at this point we are only certifying one branch  
9 of the profession, and yet the public looks to the  
10 profession on the strength and confidence built up  
11 through 75 years of rigid discipline.

12 THE MODERATOR: Does anybody  
13 want to add anything to specialization before we go  
14 to our roundtable?

15 I think then we might as well  
16 do that and try to make a condensed statement of what  
17 you think needs primary attention of the American  
18 Institute over the next ten to 20 years, with particular  
19 reference to the long range objectives committee  
20 objectives.

21 VOICE: Let me say first of  
22 all, for the record, that I think Mr. Carey did a  
23 perfectly splendid job in reciting all of the possible  
24 problems facing the profession. If there are any other

1 ones he didn't think of, I can't name it.

2 I think, and I thought this  
3 before, not because it happens to follow the discussion  
4 we just had, I think this problem of disparity in the  
5 scope of practice by CPAs is probably our biggest  
6 difficulty. I think given a premise that all of  
7 these services which we discussed, and obviously the  
8 principal extension of service, is management services.  
9 Given the premise that they are the logical extension  
10 of what we should be doing, then the smaller firm just  
11 must become better acquainted and better trained in  
12 all these applications. If they do not, I can't see  
13 any hope for that size of operation but simply disappear-  
14 ance.

15 I think the pace in these  
16 particular areas has been established by the large  
17 firms, and it is completely unrealistic to believe  
18 that that pace is going to be reversed. In other words,  
19 the services that are now being offered are going to  
20 be continued to be offered and, if anything, they are  
21 going to be extended. So, I think, too, in this same  
22 connection, it has been offered in effect as if it  
23 were a cure to the problem. I think that referral on  
24 the part of the smaller firm, now, on the part of the

1 very small firm, referral of certain of these services  
2 is also unrealistic and impractical. I don't think in  
3 the long run that a referral system is the answer, for  
4 the smaller firm.

5 I think, for example, that the  
6 client who might be involved in the referral, once  
7 having been presented with or confronted with the  
8 whole loaf, is bound to want the whole loaf, he is  
9 not going to be satisfied with half a loaf. He is  
10 not going to be satisfied, I don't believe, with having  
11 a portion of his services rendered by one firm, and  
12 another portion rendered by another firm. Particularly  
13 if the second firm is able to offer a much wider  
14 range of service.

15 With that, I close.

16 VOICE: I will go on with just  
17 two quick points that I think require effort and think-  
18 ing, as far as my mind is concerned, and Number One  
19 is in the general administration of the accounting  
20 practice or the practice of the like we are talking  
21 about -- let's call it accounting practice.

22 What kind of an administrator  
23 or instructor should we have to be certain that we do  
24 have a maximum quality control and performance control.

1                   In the last dozen years, I think  
2 the thing that disturbs most of us the greatest, is the  
3 firms expanding, not only in size, in different functions,  
4 in many cases there has been a loss of quality performance  
5 control. This to me is the Number One problem.

6                   Number Two is the question of  
7 whether or not the public accounting market is one  
8 market, or whether it may be two markets. I can't see  
9 the second market, but maybe somehow, some way, there  
10 will be defined a second market, in which the individual  
11 or the local practitioner, with several people will be  
12 able to practice and have his fair share.

13                  VOICE: Well, I think that in  
14 the future, we are going to have to develop a more  
15 acute awareness of our responsibility to all phases  
16 of the public. I think we are going to have to develop  
17 more courage and imagination in attacking our problems  
18 and the solutions, with less regard to, perhaps, our  
19 past precedents and less regard to the pressures.

20                  I think we are going to have to  
21 maybe place greater emphasis on the independence of  
22 attitude and serving only where we are competent; and  
23 I think if we take this approach, then our problems are  
24 going to decrease, and our public image will improve;

1 we will attract more personnel and actually it will be  
2 more profitable in the future.

3 VOICE: I think that 10 or 15  
4 years from now, if we were to gather here again, I  
5 don't think we will have this concern about whether we  
6 should be devoting as much time and energy to manage-  
7 ment services or not. I think by that time it is  
8 going to be an established fact, as it is indeed today  
9 to a certain degree.

10 I see very little difference  
11 between the tremendous amount of work we do in the  
12 tax field, stemming largely from the income tax laws,  
13 back in 1915 and 1916, and I would suggest that if  
14 anybody here today said we are not competent to prac-  
15 tice this, we are practicing law, let's just lop off  
16 that part of our practice, we would all be up in arms.

17 Ten or 15 years from now, I  
18 think we will be saying the same thing about management  
19 services, it will just be more normal and more natural  
20 to us, and it will be a well-accepted part of our  
21 practice. So, I am not concerned about many of these  
22 problems we have discussed here, and by this evolution-  
23 ary process, the way the common law develops in the  
24 State, I think the practice of accounting will become



1 into a sharper focus.

2 What does concern me the most,  
3 is the probelm of recruiting sufficiently qualified  
4 and enough personnel. This, I think, is really the  
5 biggest problem we face, regardless what the scope of  
6 our practice is. It seems to me that this is so closely  
7 inter-related to the image of the profession, that  
8 we really have to attack that more quickly than anything  
9 else.

10 I think everything we have said  
11 about improving the image, whether it be public service  
12 and obligations to the public, or to some other means  
13 of public relations campaign, I don't know; that I  
14 think is really the key to solving many of our other  
15 problems.

16 We will be able to lick the  
17 problems of competence in generally accepted account-  
18 ing principles. We will be able to control the quality  
19 of the work we do. This will all fall in line with  
20 the proper orgaization with the emphasis of spending  
21 money. But the image, and that as it relates to  
22 attracting well-qualified people, who have the interest  
23 of public accounting in mind, this I think is the most  
24 serious problem we have.

1 VOICE: I have three points.

2 From what I have heard and what  
3 I have read, I am not so sure that we really have done  
4 all we should do in this question of adapting to changes,  
5 and that will probably come about as a result of further  
6 automation.

7 I don't really think we are  
8 moving fast enough in trying to look at what will be  
9 with us in five to ten years. I think it is a "now"  
10 problem, something we should be looking at now and  
11 planning for. Obviously the greater impact is going  
12 to come sometime later on, probably too late to do  
13 anything about it, if we don't do something about it  
14 promptly.

15 The second point, I was a little  
16 bit surprised this morning to find that the approach of  
17 some of us on this one point, management services, I  
18 was surprised to find we are not all signing out of  
19 the same book. This disturbs me a little bit. This  
20 probably should be a positive approach to the rewriting  
21 of the rules on ethics, rather than a negative approach.  
22 I think that ethics and independence and things of this  
23 sort, are a state of mind. We can write all sorts of  
24 rules, and unless we think that way, we are not going

1 to make very much progress.

2 Perhaps in addition to rewriting  
3 of the rules, including the approach, maybe the  
4 national firms or the larger firms have to take the  
5 lead in getting the spirit as well as some new words.

6 Now, the third and last point,  
7 something that again has been bothering me before this  
8 meeting. Willard touched on this when he talk~~ed~~  
9 about specialization. Actually, I think we have  
10 touched on it for the last two days. The scope, par-  
11 ticularly as it relates to managements services  
12 activities. I have no personal reservations at this  
13 point about the management services work we are doing  
14 now, I am not really as concerned about it as some of  
15 you are, but it seems to me that maybe what we need  
16 are some guidelines. Perhaps the American Institute  
17 shouldbe thinking about this. Guidelines on what the  
18 outside limits are, and I am thinking now about  
19 wholly owned subsidiaries of firms, whatever the firm  
20 might be, in fields that prior to these changes, were  
21 fields that we had nothing to do with whatsoever.

22 This to me, I can carve out of  
23 the area of specialization, and say that that is a  
24 problem. I am not so sure, as I said, I have a concern

1 for management services work as we are doing it today.

2 VOICE: Well, the major theme  
3 of all of our considerations I think has been the scope  
4 of the work of the profession, and it has been referred  
5 to time and again, as the present breath of the measure-  
6 ments, of communication of financial and economic  
7 data, whether or not this should be unlimited or re-  
8 stricted. I am not concerned about the areas that we  
9 have been trained in. I think that we can adjust  
10 ourselves and educate ourselves in the area of compe-  
11 tence and discipline. I think in the highly specialized  
12 functions, where we go outside of the profession to  
13 seek these experts, where we lack the abilities to  
14 pass on the quality control, where these experts are  
15 not disciplined in the ways of the profession, that we  
16 definitely will require acceptable standards and guide-  
17 lines to how far we can go.

18 I think this should be done  
19 before we find ourselves in the position where we may  
20 have a legal case and be confronted with a serious  
21 problem.

22 At the risk of oversimplifica-  
23 tion, I think the rest of the problems that were dis-  
24 cussed here, are basically problems of education and

1 communication. Education of the members of our own  
2 profession, but more importantly, communicating the  
3 idea of what the profession stands for, what it repre-  
4 sents, and educating the public.

5 VOICE: I must say that I came  
6 away from our partners' meeting in Montreal, and I  
7 will leave this meeting with a feeling that whether  
8 we like to admit it or not, most of us are racing in  
9 the state of obsolescence.

10 Computer has been with us 15  
11 years, and the one profession on which the computer  
12 or automation will have the greatest impact, in my  
13 opinion, is the profession of public accounting. I  
14 think all of us will be willing to admit we have done  
15 very little about it.

16 I think the greatest single contri-  
17 bution that the Long Range Objectives Committee could  
18 make, would be to sit down amongst themselves, with  
19 perhaps a group of educators, and develop a course of  
20 study which they will feel will bring the practicing  
21 CPA, particularly the younger members of today, into  
22 a state of readiness five or ten years hence.

23 I recently read where, in some  
24 particular city, a group of companies within that city

1 arranged with an educational institution -- I don't  
2 remember the name, but I think it was a high-grade  
3 educational institution -- whereby these executives  
4 attended class for X number of hours a week, I believe  
5 it might have been several evenings and Saturdays, and  
6 in a relatively short period of time, something like a  
7 year, came out of that course, not only better trained  
8 individuals, but as a matter of fact with Masters  
9 Degrees.

10 I think that if the Long Range  
11 Objectives Committee would come up with this formal  
12 course of study to point out selves, to avoid what is  
13 absolutely a state of obsolescence, we might be able  
14 to work something out with the Wharton School, and  
15 develop a program whereby we could not only avoid  
16 this problem, but upgrade ourselves in education. We  
17 might be able to get Masters Degrees out of this.

18 Further than that, as a result  
19 of that, we might even develop a further course of  
20 study, whereby many of us might acquire PhD Degrees.  
21 We keep talking about Graduate School of Public Account-  
22 ing, I daresay with as many partners in this room and  
23 in our firms in the State of Pennsylvania acquired  
24 PH D Degrees, we would have right then and there a

1 Graduate School of Public Accounting, so we would  
2 know what the course of study should be. I daresay,  
3 the colleges would be very happy to applaud this.

4 I know the first question is  
5 going to be, "Where in the world are we going to find  
6 time to do all this?"

7 I would say it is not a question  
8 of finding the time, it is a question of putting first  
9 things first.

10 VOICE: That is hard to follow.

11 It is always *easy* to generalize  
12 but out of this whole meeting, I think the most sig-  
13 nificant thing that I think has been highlighted, was  
14 just about where we started, and that was the definition  
15 of the practice of public accounting.

16 I don't think we have it, and  
17 I think it is time that the profession faced the prob-  
18 lem and come up with a realistic definition of what  
19 we think the practice of public accounting should be.  
20 If we come up with that definition, then I think Dick  
21 and Henry will be able to formulate a curriculum to  
22 meet it. I think we will be able to project our image,  
23 and I think we will have better chances of recruiting  
24 people for the profession.

1                   VOICE: As typical accountants,  
2 I think we missed the most important part of the whole  
3 book. In my mind, this is the first part, about the  
4 environment. I don't think accountants recognize this,  
5 the change, as John Carey said here, in the social and  
6 economic atmosphere in the next ten or 15 years is going  
7 to be stupendous, and I think in part we have been  
8 talking about our present problems, but the closest we  
9 have come to it is what has been said about the computer,  
10 but you are facing this, as was pointed out in this  
11 book, the population explosion, the minority problem,  
12 the inflation problem, the education problem. These  
13 are problems we have touched a little bit on, but I  
14 think we are touching on them in the sense of the  
15 way they look to us today.

16                   I have heard it said sometimes,  
17 we don't have enough imagination and vision. That is  
18 the greatest part and the greatest thing in the book,  
19 and that is one of the greatest things about John Carey,  
20 is the vision he and his Committee has, to lead us and  
21 try to develop it.

22                   I think we have gotten a lot out  
23 of this, but I think we have got to really look further,  
24 this is just our present problems for the next few years,



1 and the changes are going to be tremendous and they  
2 are going to be forced on us one way or the other.

3 Now, aside from that, I think  
4 our present problems are the things that we are going  
5 to move into the area in the future, and I am looking  
6 at it a little bit from our level here, raising of all  
7 standards. I think we got to raise them, I think we  
8 got increase them, even with stories that we hear from  
9 the larger firms, that there is a question that our  
10 standards have to be raised, and increasing everybody's  
11 competence.

12 The audit staff, and here again  
13 it is the question of increasing them in statistical  
14 analysis, so here again it is a very important thing.

15 How, the Institute itself is  
16 doing a great deal of work in this field, their pro-  
17 fessional development courses. However, they are  
18 not reaching the people who need it the most. The  
19 people who are taking the courses -- I have taken  
20 many of them -- you see the same people, and these  
21 are the successful people and so forth. But somehow  
22 or other, the profession has to reach down to these  
23 other people, because this is often what is recognized  
24 as the level of the profession.

1                   The problem we all have in the  
2 image is reading about the disasters, whether it is  
3 soy beans or whatever else it might be, and this is  
4 one impression, then the average other type of  
5 accountant. So I think that professional development,  
6 which again is raising these standards is one of the  
7 most important items.

8                   One more short thing, and that  
9 is, we have to find a home for every accountant, we have  
10 to cooperate with them, we cannot sit in a shell here,  
11 and say, "We are CPAs, you other fellows, I don't know  
12 what you are."

13                   We have got to take the lead.  
14 If we don't, then they will do something on their own.  
15 I think we have got to do something in cooperation with  
16 them.

17                   VOICE: I have three comments.

18                   I think the American Institute,  
19 as well as the state societies, should take the lead  
20 in encouraging colleges and universities in developing  
21 innovations in accounting and business curriculum, and  
22 they should make a move to remove the petty restrictions  
23 that some states still have on education, on their  
24 views of what the education of an accountant should be.

1                   As far as the image of the  
2 profession goes, among business men I think the  
3 clearest way to improve it, would be for the public  
4 accounting profession to reach a much higher degree  
5 of agreement on generally accepted accounting principles  
6 than they have at the present time.

7                   Thirdly, In order to improve  
8 the image of the profession among the wider public,  
9 outside of the business men, particularly, perhaps,  
10 students who are trying to make up their minds as to  
11 their professional aims in life, the profession ought  
12 to encourage the many varied role of accountants, and  
13 not simply the role of being a policeman.

14                   VOICE: I think maybe the thing  
15 that has bothered me a little bit is this continuous  
16 reference to large firms versus small firms, with the  
17 thought that the only way that the small firm is going  
18 to survive is to be better than the large firm.

19                   I don't think that is the  
20 problem, I think if the small firms have a problem, it  
21 is in raising their standards and having available the  
22 technical competence in the various fields that are  
23 available when you talk about public accounting. That  
24 in turn, goes back to education and training. I think

1 it is extremely difficult for a small firm to develop  
2 a tax man. You have to have a tax man who knows his  
3 business before you can develop another tax man. The  
4 smallfirm can't do it, and even the large firms for that  
5 matter, so it goes back to education and training.

6 What I said originally, I am  
7 very much in favor of Liberal Arts. I still think  
8 it should be possible that all firms, whether large  
9 or small can draw upon some beginning source. I think  
10 we do need more in our basic education, I am not only  
11 referring to undergraduate schools, maybe we should  
12 have some more of these specialized talent courses,  
13 so that somehow it would be available to the smaller  
14 firms, as well as the larger firms, to train them.

15 In the meantime, I am in complete  
16 agreement with AICPA Professional Development courses,  
17 particularly in taxes. They are wonderful, and any  
18 of these small firms who are having trouble with tax,  
19 I would hope they would put their full weight behind  
20 those programs, because the do offer basic training.

21 VOICE: I appreciate your letting  
22 me me sit with you through this. I can't really speak  
23 from your special interest, how the profession should  
24 field these problems. I hope there is a feeling that

1 we are in a way colleagues, in some sense, in the  
2 problem. But my observations over the last couple  
3 of days I say, are a new appreciation for some of the  
4 problems you face, something that I haven't just had  
5 a full understanding of. The problem of the small  
6 CPAs firms, and the special services, because we lose  
7 sight of this.

8 I gather you spoke last night  
9 about the possibility of going different roads. In  
10 some ways it might be worth thinking about something  
11 along the lines of a new certification, reflecting the  
12 bigger interests, the national concerns, the national  
13 GNP interests, that really is probably the more  
14 immediately relation to the national firm. Maybe a  
15 Federal certification, a certified national public  
16 accountant -- Now, I am not serious about this, I  
17 haven't thought about it -- but the idea the bigger  
18 economic impact really creates a whole new set of  
19 demands, it might be worth recognizing the divergence.

20 I am sorry I didn't hear the  
21 conversation, it might have clarified some of my  
22 thinking in this area.

23 Some of the ethical concerns  
24 you expressed, I must confess, were new to me.

1                   A lot of this was a typical  
2           businessman's feeling, much of what you speak about  
3           as ethics. I was especially sensitive to the inci-  
4           dent that was described where he tried to explain  
5           the ethical concern he had to one of his clients. I  
6           would feel this very readily falls into the area of  
7           limitation of entry into the field that we very readily  
8           attribute to unions. I suggest you be very careful,  
9           not only about the legal implications, but the restraint  
10          of trade. Legal counsel's reluctance to have you go  
11          in this direction, is because of the adverse public  
12          image you create, and you just make it difficult to  
13          have freedom of movement.

14                   The questions of legal liability,  
15          I had not fully appreciated before, and I am not sure  
16          you are doing a service to your members by not giving  
17          it more demonstrability in the communications to members.  
18          The impact it would have on standards could be tremen-  
19          dous. My own lack of awareness of it, I suspect might  
20          be typical.

21                   One other broad area I find  
22          myself out of sympathy with you, is what I think is  
23          maybe three basic areas. Paul Grady touched on it  
24          in the Journal of Accountancy. He is a fabulous guy,

1 he is now retired. If you read this article, he wrote  
2 seven pages of commentary, analysis, critical evalua-  
3 tion, and all in a constructive sense on John Carey's  
4 book. I thought it was humility on his part that led  
5 him to play -- I would hope it would be -- his adverse  
6 reaction to the recent diminution in the importance  
7 of the profession, especially in the AICPA publication.  
8 He seems to be giving to the need to explore further  
9 to do research in the area of internal control. Not  
10 internal control in the broad sense, because I got  
11 confirmation here, that internal control, among my  
12 associates around the table is strongly flavored with  
13 protection, and assurance of the rightness of the  
14 published data.

15 I think if we explore it  
16 further, in depth, we will find it is related to some-  
17 thing bigger, this area of exploration. Bob Anthony  
18 in his book he just published -- his field is  
19 accounting, so he is talking from the same basic  
20 foundation of our group interest, and he is talking  
21 about management is bigger and more important.

22 I would say this was touched  
23 on here, when it was said the big firms, as they  
24 become larger, must borrow the techniques and the

1 tactics and become aware of the processes and the  
2 problems of management of business concerns, and the  
3 more this is recognized, the more you are going to  
4 become confronted with the problems that are troubling  
5 us in business directly. How to relate it to society?  
6 How to reconcile the values you set internally.

7 The second area in which I  
8 find myself at odds with you a little bit, is in the  
9 deeper significance I see in the computer revolution.  
10 Most of us heard it discussed, it seems to me to  
11 relate to impact now, and the problem it might deprive  
12 us of work. I would think it would be a fruitful area  
13 of study. This computer is nothing but a robot, it  
14 doesn't do anything different than you could do before.  
15 What is there about this revolution that has such an  
16 impact? It is not doing anything different than could  
17 have been done before. It might do it faster, and  
18 because it does it faster you think it is taking  
19 work from you.

20 The real impact I would sense,  
21 is that accounting, the way we have developed tradition,  
22 let me use a very crude way to describe it, is 95. to  
23 99 per cent bookkeeping, and only one percent really  
24 thinking, creative and adaptive response to the needs



1 of the business or the situation, and the computer is  
2 forcing us to recognize that now we have got to be  
3 mong the one per cent. I think if we dealth with this  
4 underlying significance of the computer revolution, we  
5 might be less concerned with the short term impact,  
6 and be interested a little more in the long run oppor-  
7 tunities.

8           The third area where I find  
9 myself a little bit out of phase with you, and I  
10 suspect this is more superficial than real, and I  
11 found little voice given here to something I find  
12 awfully important in industry, a sense of complacency  
13 about how people grow and learn. Our staffs and we  
14 ourselves are not concerned with the lelearning process.  
15 I think we have an awfully important responsibility,  
16 and we can't tackle it until we understand it better.  
17 We won't tackle it, we wodn't begin to understand it  
18 until it comes out on the table, more as a manifesta-  
19 tion and recognition of how people involved didn't  
20 seem to come out on this sense. I am deeply concerned  
21 with our lack of competence.

22           Then it seems in general there  
23 are maybe two observations I might make. The pro-  
24 fession as I sense from the book and from our

1 discussions here, is it is a troubled profession. This  
2 is a good sign. Until you can be troubled, you can't  
3 begin to mature. That is a sign of maturity. When  
4 we recognize the potential need for improvement, that  
5 is the sign of maturity. What the AICPA has accomplished  
6 in the past few years, I know from its impact on us  
7 directly. It has been a tremendous bit of progress.  
8 I see a pressure on CPAs, in part, which<sup>is</sup> reflected  
9 in much of our discussion here. It was a very con-  
10 structive and very beneficial thing. I don't feel  
11 bad at all. This is a constructive response.

12 I am a little troubled about  
13 the fact that, as voiced here, the profession seems  
14 to be ruthless. In a way, you haven't faced up to  
15 the question of whether you are going to be partners  
16 with us, management and business -- I will speak for  
17 management in this sense, whether you see your role as  
18 service to management or whether you are the policemen  
19 on management. You don't quite want to be either one.  
20 There seems to be no consensus, apparently. This, I  
21 think, is something that is natural and evitable,  
22 and it will have to be wrestled with. The thing I  
23 am troubled about, there was really little evidence  
24 that you are sympathetic to business. Your sympathy

1 to business in the sense of the small practitioner.  
2 I felt this sense of comradeship, kinship or partner-  
3 ship, but with the larger firms, I sense a little bit  
4 of alienation, maybe a little bit of the general  
5 readiness, even maybe a little more in the academic  
6 world, to kind of say, "Really, you are underneath  
7 this dirty world, your business is probably the right  
8 label for it."

9 This troubles me, because I  
10 have fought pretty well to reconcile myself to my  
11 dirty world. I think it can be reconciled with a  
12 pretty high order of values.

13 On a more immediate plane, I am  
14 a little troubled that as a group, you didn't bring  
15 out on the table another problem that is very narrow in  
16 its impingement on our work today, but would reflect a  
17 concern for the social problems. I am troubled by the  
18 fact that so very few of you have Negroes on your staff.  
19 We haven't faced up to what it means, what the future  
20 should bear on this? We should think about it.

21 I hope this doesn't sound negative,  
22 I don't feel that way. I appreciate the chance to sit  
23 here, and I have come out of it with a new and deeper  
24 respect for profession that in this dialogue, of the

1 past few days I have a new respect and I feel we are  
2 working together.

3 VOICE: It has been stated  
4 in Jack Carey's book that the American Institute is  
5 now many things to many people. He considers this to  
6 be a problem. I consider it a problem mainly because  
7 of the divergent interests and different sizes of the  
8 practicing units that now comprise the American  
9 Institute. I don't agree that the smaller practitioner  
10 is on his way to becoming extinct. I think that in  
11 10, or 15, or 20 years from now, we are still going  
12 to have a very big mix within the membership of the  
13 American Institute of CPAS. It might change a little  
14 bit, but we will still have a very large number of  
15 small firms and a large number of medium sized firms  
16 and so on. So I think the American Institute will  
17 have to continue to be many things to many different  
18 people, and I think they should face up to how this  
19 tremendous task can be accomplished.

20 One of the way certainly seems to  
21 me is to recognize that the American Institute and our  
22 own Pennsylvania Institute has come a very long way  
23 in just the past 10 or 20 years. The growth has been  
24 astounding, the results, I think have been satisfying.

1 The things we seemed to pick apart the past few days,  
2 have been apparently critical in many areas, but I  
3 think this is a good development, it is a sign of a  
4 healthy profession that we recognize some of these  
5 difficulties and we are trying to do something about  
6 it. The best place for this is in our professional  
7 societies, both state and local, and we should do  
8 everything we can to help them face these problems,  
9 and tackle them in the future.

10 One of the best areas we could  
11 do this, it seems to me, is to make a determined  
12 effort to bring into the fold the large number of  
13 CPAs who are presently not members of these professional  
14 societies. When Jack Cary cites that there are 8,000  
15 practicing units represented by one person in the  
16 American Institute, I think this is a sad commentary.  
17 It certainly does not indicate that these are all indi-  
18 vidual practitioners. I think it is much different than  
19 that, there are apparently a number of firms who are  
20 trying to get a free ride on what the Institute is  
21 doing, by making one CPA from their firm as a member  
22 in the Institute. I think this is morally wrong, they  
23 are not supporting the professional society to the  
24 extent they have a responsibility to support them.

1 I think a membership drive is the answer. We must  
2 point out to these people that the Institute is serving  
3 them as individuals, to the extent of every one who is  
4 a CPA in their firm, and as a result, they should be  
5 not only willing, but anxious to join the two Insti-  
6 tutes and do their share of supporting them.

7 I wonder, too, whether the  
8 Institutes might not function more efficiently if  
9 there were a closer association between the state  
10 societies and the American Institute. I know this  
11 question has been examined in some depth by various  
12 committees and many individuals. I personally feel  
13 that if we had this closer association, it would be  
14 much easier to promote some of the programs that are  
15 being conducted by both societies, prevent duplication  
16 and overlapping. I have had close association with  
17 this in the field of public relations the past few  
18 years, where the State societies are in some ways  
19 duplicating on a scale of 50 times what could be done,  
20 perhaps, once, and disseminated among 50 states.

21 Now, I mention public relations  
22 because this is the area where I have been most concerned.  
23 I am sure this follows in many other areas.

24 Perhaps in the foreseeable future, we could

1 have a Pennsylvania Chapter of the American Institute  
2 of CPAs, where we could still conduct our own state  
3 interests, and our own local problems and dispose of  
4 them effectively, and at the same time have a better  
5 basis for conducting the affairs that really have a  
6 nationwide significance, such as publica relations.

7 I think that we have to recognize  
8 that many of these things are problem of education, and  
9 with greater partidpation of members in the Institute,  
10 we will have a bigger budget to work with, and be in  
11 a better position to disseminate this information by  
12 means of educating, literature and training, and keep  
13 everybody abreast of these problems, not the small  
14 percentage that are now taking part at Institute  
15 meetings and activities of the nature of the past two  
16 days.

17 VOICE: It is pretty hard to  
18 follow after all these excellent comments. I would  
19 like to pick up, however, one thought. One of our  
20 speakers started off by saying he was a little  
21 troubled by one or two points, and by the time he  
22 got through, it seems to me he was troubled by quite a  
23 number of points. Added up collectively, it might  
24 seem to be a fairly substantial set of problems.

1                   This takes me back to a position,  
2                   such as the devil's advocate I took yesterday morning.  
3                   There is in this period of transition and an era when  
4                   business is extremely dynamic, there is apparently  
5                   some difficulty in making the transition to  
6                   Mr. Carey's integrated professional accounting service,  
7                   from the older concept of accounting, and primarily the  
8                   exercise of the attest function. I notice that the  
9                   topics that took the greatest amount of time were,  
10                   respectively, implications of automation, management  
11                   services, education and training and ethics. These  
12                   four I think further reflect the same basic problems.  
13                   We have not wrestled with this problem, nor have we  
14                   come to an answer, and there is a wide divergence of  
15                   views, as expressed by the members of this panel. I  
16                   might add that it makes the problem of formal education  
17                   a little more difficult, although theoretically we ought  
18                   to be able to conceive of what is a sound education  
19                   for a prospective person entering accounting, without  
20                   wondering exactly what your problems are. But I  
21                   venture to say, that where we are today is completely  
22                   explainable, where we will be 20 years from now will  
23                   center upon the attention we are able to give to  
24                   research and resources on whether or not public



1 accounting can be and will be an integrated professional  
2 service for management.

3 VOICE: I would hope that in the  
4 future the ethics or the people concerned with ethics  
5 will be able to streamline our procedures, the idea  
6 not so much to making Federal cases out of these  
7 things, but the idea of making it an educational pro-  
8 cess. We have done a lot in this area, as well as  
9 trying to get the standards up, but I would think it  
10 has to be hurried somehow.

11 I would think also, to increase  
12 the acceptance of the CAP image as we would like to  
13 have it, we would have more -- especially the large  
14 firms -- practicing as CPAS wherever possible and  
15 get away from trading as auditors. It seems to me  
16 they have got to do that. If we want to be CPAS, we  
17 have to let them know we are and what we are.

18 It seems to me in the area of  
19 internal control, we always have a small level with  
20 the idea that even though in our letters we say we aren't  
21 responsible for frauds, we are always very careful that  
22 we try to uncover any area that there might be a  
23 possibility, which I know is a lesser responsibility  
24 than what you fellows have, and the level of your

1 auditing, because we don't want these black eyes.  
2 If we audit a bank, and we just have a director's audit  
3 for instance, and we find out that something is going  
4 bad next month, that is not our responsibility, we are  
5 not interested in that sort of thing, we are very  
6 careful that we try to point up all these areas. Now,  
7 we haven't been hurt yet, but I can see some place,  
8 regardless of what we do, we are going to have a problem.  
9 I would hope that these big firms would take a little  
10 more interest in this area, because this is just  
11 adverse publicity, this gives us a black eye.  
12 It gives the bigger firms a bigger black eye than it  
13 gives us. I am also interested that you fellows  
14 aren't concerned about us little guys.

15 I am not really concerned, I  
16 think that our future is in getting our clients to  
17 become sound, economical units. They have got to  
18 grow. I am looking for acquisitions for locations,  
19 what have you, all the time. I have got to grow  
20 faster, and I am not going to grow by enlarging my  
21 staff, I am going to grow by calling on competent  
22 outsiders, and I hope they would be a national firm.  
23 They are in some cases, and we have got to continue  
24 along that line. Of course, if worse comes to worse,

1 I can always crawl in with somebody, but I wouldn't  
2 like that. I think that we will continue. I think  
3 there will always be a place for us as long as we do  
4 the job.

5 THE MODERATOR: I have two  
6 points, not necessarily for the Long Range Objectives  
7 Committee, but they are two I wrote down before we  
8 started around the table, and I think they will be  
9 important over the next five to ten years to the  
10 profession.

11 First, I think that the recent  
12 development in the recent years, with respect to the  
13 generally accepted accounting principles, and particu-  
14 larly the investment credit dilemma, have been some-  
15 what damaging to the profession, and so the profession  
16 having gotten itself in this area, reorganized  
17 procedures and research, and I suggest we must over  
18 the next five to ten years achieve greater accomplish-  
19 ment by the Accounting Principles Board, and that this  
20 will require us to attain concurrent assistance and  
21 acceptance of the Accounting Principles Board by  
22 business.

23 The second point I would like  
24 to comment on, also deals with the next five to ten

1 years, and I relate it to the current legal claims  
2 against CPAs, some of which have attained damaging  
3 publicity in the press. I think we must, during this  
4 period, have adjudication of a sufficient number of  
5 claims to redefine our firm to prior cases, in such  
6 a way that we will remove claims that are irresponsible  
7 and some of which appear to have been mere blackmail  
8 for the obtaining of money. I think that until some  
9 of these are adjudicated, this will go on, and it must  
10 be reduced in the next five to ten years, as to  
11 prevent improper publicity, which may arise from no  
12 legal case whatsoever.

13 Those are the two points I  
14 wanted to mention.

15 Just in conclusion, I would  
16 like to say that we certainly had a wonderful group  
17 here. It may have been luck, I but I don't see how  
18 I could have gotten a better group, and everyone has  
19 participated so fully, and I just suggest to you that  
20 people like John Carey and many others of the profession  
21 have provided a great deal of leadership to looking  
22 ahead, and in getting together in something like this,  
23 we are somewhat introspective in making remarks applied  
24 to ourselves and our own business and you are also

1 looking ahead all the time, within the framework of  
2 looking ahead and doing better. I think when the  
3 profession has such meetins and takes such steps, I  
4 think we can go with optimism, because I think the  
5 danger comes to those who will not look at themselves.  
6 so out of this and other things like this, which are  
7 going on in the profession throughout the country, I  
8 think we ought to view with confidence that progress  
9 will come from it.

10 It is nos 3:35 and it seems  
11 like a reasonable time to adjourn.

12  
13 (Whereupon, the meeting adjourned  
14 at 3:35 p.m)

15  
16 -----  
17 Reported by:  
18 Charles V. Ruane  
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