

University of Mississippi

eGrove

Guides, Handbooks and Manuals

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1967

Ethical Problems of CPA Computer Users

Wallace E. Olson

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_guides



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Olson, Wallace E., "Ethical Problems of CPA Computer Users" (1967). *Guides, Handbooks and Manuals*. 862.

https://egrove.olemiss.edu/aicpa_guides/862

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Guides, Handbooks and Manuals by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

ETHICAL PROBLEMS OF CPA COMPUTER USERS

BY

Wallace E. Olson

Presented at

American Institute of Certified Public Accountants
National Conference of CPA Computer Users

May 15-16, 1967
New York, New York

FOREWARD

The talk by Wallace E. Olson was presented at a National Conference of CPA computer users, held May 15-16, 1967, to consider the specialized needs of the more than 300 CPA firms offering computer data processing services.

The two major questions to which the conference was directed were: (1) the desirability of CPA firms which offer computer services organizing in order to exchange information etc. and (2) considerations in offering computer processing services under the AICPA rules of ethics.

The CPA firms represented at the conference voted to establish a CPA Computer Services Group associated with the American Institute of Certified Public Accountants. An organizing committee was chosen to implement this decision. The first meeting of the proposed group is scheduled for October 31-November 1, 1967 in New Orleans.

The Ethics session was composed of three parts:

1. An address by Wallace E. Olson, Managing Partner, Alexander Grant & Co., and member of the ethics committee
2. Small group discussion sessions
3. Wrapup general session

Mr. Olson's talk summarizes concisely the background of the ethics problem and describes very clearly the fundamental issues. At a subsequent meeting of the ethics committee, revision to Opinion No. 7 was adopted. This is included as an appendix.

Gordon B. Davis
Computer Consultant
Technical Services Division
AICPA

AICPA
NATIONAL CONFERENCE OF CPA COMPUTER USERS

Address by
Wallace E. Olson
At Session on Ethics

ETHICAL PROBLEMS OF CPA COMPUTER USERS

The ethical considerations relating to computer processing by CPAs are a highly controversial and complex subject. For this reason, it is with considerable apprehension that I embark upon a discussion of the background of the exposure draft of revised Opinion 7.

Perhaps the main reason why this matter is so controversial is the fact that we are trying to reconcile two overriding objectives which are virtually incompatible.

The first of these objectives is to make it possible for CPAs to compete in the data processing field with commercial data processing enterprises.

The second objective is to avoid making it possible for CPAs to use data processing services as a means of "feeding" their public accounting practices and encroaching on the practices of other practitioners.

During the past year, a special subcommittee of the Executive Committee of the Institute, a subcommittee of the Ethics Committee, and the full Ethics Committee have struggled with reconciling the problems presented by these two major objectives. As one who participated in these deliberations, I must say that it has been quite a challenge.

To assure you that every effort was expended to arrive at a conclusion that would be satisfactory from both a professional and

a computer user standpoint, I would like to trace very briefly for you the events which gave birth to the present exposure draft.

1. In December, 1965 the Ethics Subcommittee on Inquiries reviewed the many inquiries being received and decided that data processing services to other practitioners should be regarded as being engaged in the practice of public accounting and therefore all the ethical rules would apply to such services.
2. Because of the importance of this decision, it was referred to the Executive Committee for consideration at their December 1965 meeting. The Executive Committee questioned the propriety of the decision and appointed a special subcommittee to study the whole matter of data processing services in greater depth.
3. In May, 1966, this special subcommittee and the data processing subcommittee of the Ethics Committee met jointly to interview various CPA users and gather facts regarding what was required by CPAs to compete in this field.
4. The results of this meeting were reviewed in June, 1966 by the full Ethics Committee. As a result of this review, it voted to reverse

the December 1965 decision by taking the position that offering data processing services to other practitioners did not constitute offering public accounting services to the public.

5. In July, 1966, the special subcommittee of the Executive Committee submitted its report suggesting two approaches, which for the sake of brevity, I will not discuss at this juncture.
6. In subsequent meetings of the Ethics Committee in August and December 1966, the two approaches of the special subcommittee were revised to provide a combined and unified statement of principles. These principles were incorporated in the present exposure draft as adopted by the Ethics Committee at its December meeting.

Based on this history, I am sure that you will agree that the entire problem has received the full consideration merited by its importance to the public accounting profession.

Before attempting to dissect the various ethical questions involved, it might be well to address ourselves to the broad question of why CPAs should attempt to be competitive in data processing in the first place. I suppose that each of us has our own answers to this question. However, I believe it is safe to

assume that computers have a great potential impact on the practices of all CPA firms and practitioners--large and small. As time-shared networks become commonplace, we can probably expect great inroads to be made in our tax, management services and unaudited financial statement work. The only part of our present services which might not be subject to erosion is our licensed right to perform opinion audits, and there are some who feel that even this portion of our work is not entirely safe. The Institute has been particularly concerned about the fate of the thousands of smaller practitioners who derive a large portion of their incomes from write-up and other work which is especially vulnerable to the impact of computers. It does seem clear that there is a real need for CPAs to carve out a role in the data processing field if they are to either retain their present position or move forward in the expansion of their services to the public.

If this is a valid conclusion, then what do CPAs really need to compete with non-CPAs in the data processing field. It has been widely asserted by CPA computer users that as a very minimum a corporation is necessary to make it possible for smaller practitioners to band together to acquire and manage the required hardware. Some have indicated that the corporate form is not a vital necessity. It is generally agreed, however, that a corporation is a far more convenient vehicle and would enhance the CPA's competitive position.

Another vital requirement to being competitive would seem to be the right to advertise and solicit for work to fill up the capacity of the computer. This apparent need stems from the

economics of computer processing and the fact that non-CPAs can engage in advertising unhampered by any rules of ethics. Curiously enough, many CPA computer users seem quite willing to forego any advertising to the general public and to observe the ethical rules relating to promotional practices. This raises the question of whether the right to advertise is really necessary.

However you answer this question, it seems clear that if the profession were to permit advertising to make CPAs more competitive in data processing, it would be sacrificing a vital part of its ethics and might well be sounding the death-knell of its status as a profession. This leaves us in the dilemma of possibly losing a substantial portion of our practices if we are not competitive in data processing or losing our status as a profession if we give up our ethical rules to become competitive.

The exposure draft of revised Opinion 7 attempts to arrive at an acceptable compromise between the two horns of this dilemma by giving as much leeway to the CPA as possible without completely fracturing the ethics of the profession. I am aware that many of you feel that it does not provide enough latitude to effectively compete with commercial data processors. I suspect that you are at least partially right in this belief. However, to be more permissive would surely open the floodgates to using data processing to solicit, to feed and to encroach, all of which would have a highly damaging effect on our professional status. We are faced, then, with a choice of becoming all-out commercial data processors or being members of a profession whose reliability and objectivity is recognized on the basis of its code of ethics. I have strong doubts

that we can find a satisfactory way to be both at the same time.

The whole subject of ethics in relation to data processing is very complex. There are several reasons for this:

1. First, a large number of sections of the code and opinions must be taken into consideration, as follows:
 - (a) Independence - Rule 1.01 and Opinion 12.
 - (b) Confidential relations with client - Rule 1.03
 - (c) Advertising - Rule 3.01 and Opinions 5 and 11.
 - (d) Solicitation - Rule 3.02
 - (e) Fee sharing - Rule 3.04 and Opinion 6.
 - (f) Fictitious name - Rule 4.02
 - (g) Applicability of the code - Rule 4.05
 - (h) Corporate practice - Rule 4.06.
 - (i) Encroachment - Rule 5.01.
 - (j) Designation of specialty - Opinion 11.
 - (k) "Feeders" - General underlying concept.
2. A second reason for the complexity is the wide variety of approaches which may be employed in offering data processing services, for example:
 - (a) The form of organization may be a corporation, a partnership or a sole practitioner. Multiple CPA firms might join together in either corporate or partnership form.
 - (b) Some or all of the typical types of services may be offered:
 - (1) Block machine time only

- (2) Machine time with operating personnel
 - (3) Systems design
 - (4) Programming.
- (c) The clients served might be limited solely to other practitioners engaged in public accounting or may embrace the entire general public.

3. A third reason why the subject is difficult to deal with is the wide disparity in the technical knowledge and understanding of the data processing field on the part of those who must debate the ethical issues involved.

Having stated some of the reasons why there is so much confusion about the ethics of data processing, let's examine precisely what the present Opinion 7 and the revised exposure draft provide.

Briefly stated, the existing opinion says that the operation of a statistical tabulating service bureau is considered to be offering "services of a type performed by public accountants" and that under Rule 4.05 all of the provisions of the code must be observed even if the services are rendered by a separate partnership. The proposed revised opinion expands upon this basic position in three major respects:

1. It first provides that offering data processing services solely to practicing accountants is not considered to be offering accounting services to the public and that under these circumstances it

is permissible to solicit business from other practitioners and to operate in corporate form. It should be noted here that great care was taken to avoid stating that data processing services solely to other practicing accounts are not "services of a type performed by public accountants." The purpose of this distinction was to retain the applicability of the code under Rule 4.05. The specific exceptions to the corporate practice and solicitation rules are made as interpretations of such rules under the special circumstances of restricting the services to only other practicing accountants.

2. The second major change included in the proposed revision is the statement that offering block machine time devoid of any systems design, programming or service is not considered to be the practice of public accounting and therefore the code of ethics does not apply. The only restriction placed on such activity is the prohibition of disclosing the names of CPAs or the fact that CPAs are involved. Presumably the purpose of this provision is to make it possible for a group of CPAs to band together to own a computer in a corporation. Under these circumstances, however, the corporation would not be allowed to perform any services other than routine maintenance of the facilities.

3. A third change is intended to avoid placing a member in violation of the code where he is a shareholder in a bank, insurance company, computer manufacturer or similar organization which incidentally provides data processing services to the public. The Ethics Committee had considerable difficulty in trying to describe the distinguishing circumstances for this purpose. To close all possible loopholes, it concluded by stating that all shareholders engaged in the practice of public accounting as a principal occupation may not:

- (a) Have a controlling interest.
- (b) Participate in management.
- (c) Be more than just an investor.
- (d) Use it as a "feeder."
- (e) Disclose that CPAs are involved.

The crucial question with respect to the ethics problems of advertising, solicitation, fee sharing, corporate practice, encroachment and feeding is whether or not data processing services are in fact "services of a type performed by public accountants." To conclude that they are not, would make a mockery of our code of professional ethics since CPA firms could almost certainly use data processing services to feed their accounting practices at the expense of their fellow practitioners. The net result might well be that the firms with the greatest resources would dominate the field, leaving little room for a small practitioner to compete.

The Ethics Committee has wisely, I believe, concluded that data processing services are in fact "services of a type performed by public accountants." To conclude otherwise would be far too high a price for the profession to pay to be in a better position to compete with commercial data processing organizations.

Two other ethical questions which are continually asked regarding the use of computers by CPAs are how it affects their independence and their confidential relationships with clients. Neither the present nor the proposed Opinion 7 attempt to deal with these questions in any direct way. They do, however, provide that under Rule 4.05 the Code of Professional Ethics must be complied with. This would include the rules of independence and confidential relationships with clients.

It is not my intention to dwell at length on these questions since I do not consider them to be of paramount importance. However, I should mention that the Institute does not presently have a rule that provides for the loss of independence when write-up work is performed. The SEC does have such a rule but this would not seem to pose a serious problem since most clients requiring data processing services from their CPAs would not usually be of a size to be subject to SEC regulation.

The rule on confidential relationships with clients becomes involved whenever a CPA processes a client's data through a service bureau outside the CPA's organization. In such cases, it seems clear that the CPA must take the necessary steps to protect the confidential status of the client's data or, as an alternative obtain the client's prior permission to use an outside data

processing service without such protection.

Two additional rules which apply to data processing and are often overlooked are the prohibition of practicing under a fictitious name (Rule 4.02) and designating a specialty in a name or publication (Opinion 11). Under these rules it is improper to use an impersonal fictitious name and to designate "data processing" in the name of either a partnership or corporation where member CPAs are involved. Since no attempt was made in the revised draft of Opinion 7 to deal with these two rules, it can only be concluded that they will continue to apply. It would seem logical, however, to remove these restrictions where services are rendered to other practicing public accountants, only. In such cases, these rules would seem to be in the same category as the corporate practice and solicitation rules.

In conclusion, I would like to provide you with a simplified version of the principal rules included under the exposure draft of revised Opinion 7. It is my hope that it will be useful in guiding your thinking when you consider the many questions and combinations of circumstances that arise in relation to the ethical problems of data processing services.

These rules are as follows (page 12):

While I am sure that what I have discussed is not satisfying to you as computer users, I hope that I have been at least partially successful in providing you with a better understanding of the considerations underlying the revised opinion. If a way can be found to improve the competitive position of the CPA computer user without sacrificing our professional status, I feel confident that

the Ethics Committee would be most anxious to adopt it. Perhaps we shall find some clue during the ensuing discussions today.

SUMMARY OF RULES
UNDER
REVISED DRAFT OF OPINION NUMBER 7

CORPORATE FORM

May provide full services only to practicing public accountants.

PARTNERSHIP FORM

May provide full services to anyone.

IN EITHER FORM

May solicit business only from other practicing public accountants.

May advertise to the general public block machine time only but may not disclose that CPAs are involved.

The code of ethics and opinions apply.

REVISION TO OPINION NO. 7

(Adopted at a meeting of the Committee on
Professional Ethics - June 6-7, 1967)

Inquiries have been received as to the applicability of the Code of Professional Ethics to data processing services.

Some members propose to offer a full range of data processing services only to practicing public accountants; others, to offer such services directly to the general public; and some propose to serve both the public and the profession. Some members would offer data processing services through their existing public accounting practice; others would offer these services through a separate partnership, and still others suggest that the corporate form is preferable for such activities.

Whether data processing services are offered to other practitioners or to the general public, the same basic services are usually offered. These include the accumulation of data to be used for accounting purposes and statistical studies, maintenance of accounts, and bookkeeping services. The committee has long held that services of this type are similar to the "write-up" work in bookkeeping services rendered by many public accountants, and therefore, when offered to the public, are "services of a type performed by public accountants!"(Rule 4.05).

This means that in performing such services for the public, members must abide by the Institute's by-laws and Code of Professional Ethics even though services of this type are also offered by non-professional commercial operations not bound by ethical rules.

1. Practitioners may not offer data processing services in corporate form to the public.

A member may individually or in partnership with other persons engaged in the practice of public accounting as a principal occupation perform the full range of data processing services for the public as well as for other practitioners. When such services are performed for the public, they are considered to be those of a type performed by public accountants and consequently the by-laws and Code of Professional Ethics, including Rule 4.06, which prohibits practice in corporate form, must be observed (Rule 4.05). However, a member may have a financial interest in a corporation offering data processing services to the public provided such interest is not material to the corporation's net worth, and his interest in and relation to the corporation is solely that of an investor. In addition, a corporate vehicle may be used for owning or leasing of the equipment.

2. Data processing services solely to practitioners may be offered in corporate form.

A member who offers data processing services solely to practicing public accountants is not considered to be offering accounting services to the public and accordingly, would not be prohibited by Rule 4.06 from becoming an officer, director, stockholder or agent of a corporation engaged exclusively in that activity. Since advertising comes to the attention

of the general public it would be permissible to circularize other practitioners, only in letter form, announcing that the necessary equipment and expertise are available for their clients' benefit, but are not available directly to the public.

3. Block time.

The offering of "block time" on data processing equipment does not in itself constitute the practice of public accounting so long as it does not entail systems design, programming or service of any kind and what is being offered is the use of the equipment only. Accordingly, the availability of "block time" may be advertised provided the names of the CPAs and the fact that CPAs are involved are not disclosed. The offering of "block time" must not be used as a feeder to the member's practice.