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## **Accounting Profession's Role in Federal Government Matters, Before Members of Council, Colorado, Springs, May 10, 1971**

Leonard Savoie

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THE ACCOUNTING PROFESSION'S ROLE  
IN FEDERAL GOVERNMENT MATTERS

by  
Leonard M. Savoie  
before  
The Members of Council  
of  
The American Institute of Certified Public Accountants

Colorado Springs  
May 10, 1971



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In the April issue of its house publication, the Morgan Guaranty bank in New York carried a tongue-in-cheek article which reached the conclusion that by the year 2049 everyone working for wages or salaries in the United States will be employed by the Government.

To arrive at this prediction, the publication used a calculation worked out by that whimsical Englishman, Professor C. Northcote Parkinson, and applied to his own country.

The bank noted that in 1960 the U.S. civilian labor force numbered 69.6 million. In 1970 the labor force had reached 82.7 million -- thus showing an increase of 1.75 percent annually. Meanwhile, during the same decade, Government employment in the U.S., counting all levels of Government but not including the armed services, grew from 8.4 million to 12.6 million -- a rise of 4.2 percent annually.

Extrapolating these rates of increase on a chart, one finds that the two lines of growth cross in the year 2049, thereby demonstrating that, by that point in time, every member of the civilian labor force will be absorbed by Government!

Needless to say, the bank concedes that this is a bit of "statistical drollery". But it does serve to highlight the basic condition underlying my remarks today -- namely, the immense growth of Government.

That growth has been accompanied by a great increase in the demands of Government itself for accounting services. Each year hundreds of bills introduced in Congress call for accountability on the objectives of the proposed legislation. Many of the bills call for new measurement methods. Some specifically provide for reports from firms of independent public accountants.

The accounting profession already participates heavily in Federally stimulated independent audits. More than 50,000 such audits are performed each year, and the rate of growth in this activity is high.

The profession is interested in expanding its role in these areas. And Federal agencies, some of which disburse sums running into billions of dollars, want to engage independent public accounting firms to help them discharge their responsibility for accounting. For example, the Department of Labor is right now requesting proposals for audits of manpower training project contracts of three-quarters of a billion dollars. Occasionally, however, obstacles are encountered to the use of independent accountants. I submit that this fact raises questions about basic assumptions of the profession and should cause us to re-appraise our policies. Let me cite just three problem areas:

First, the profession seems often to take the attitude that our staple product is the standard short-form

audit report, even though the Government may have a need for something different. The department or agency involved may want a report on internal control or on compliance with a particular law or on performance evaluation of a program.

These are new and intriguing areas of auditing which provide great challenges and in turn should arouse professional interest and provide professional satisfaction. Performance evaluation may even require participation with people from other disciplines.

Government auditors are already performing audits of this kind to a much greater extent than are independent auditors. Yet there are not enough of them to meet the need, so administrators must turn to the accounting profession for help. In this circumstance, should not the profession find some way to provide the prospective client what he needs, rather than to insist that the client accept the auditor's traditional product?

Second, some Federal agencies which use independent CPAs want information on the cost of an auditing service before engaging a firm. This has caused problems in states where Boards of Accountancy and CPA Societies hold that giving an indication of estimated cost is a violation of the competitive bidding rules.

I believe the profession should re-examine this posture. One reason, as you know, is that legal counsel advised the Institute five years ago that its rule on com-

petitive bidding subjected it to risks under the antitrust laws. Another reason is that Federal administrators understandably want some idea as to costs of services before they contract for them. Actually this is not much different from the private businessman who insists on a fee estimate before engaging an auditor, and who obtains estimates from several firms -- except that the businessman's quest for this information does not attract the public attention that is directed to a published Federal request for proposals.

A third area where the profession encounters problems with Federal administrators is in client-auditor relations. When an audit of a business or non-profit organization is called for under a Federal program, who is the client -- the entity audited or the Government? If the profession maintains that the entity being audited is the principal client, is it any wonder that a Government administrator may question the auditor's independence for the purpose of the administrator's own accountability?

These three problem areas are of major importance to the profession. Even though Federal agencies want to use independent accountants, the continued existence of such obstacles may force the building of large staffs of Government auditors to perform needed work.

The problems cannot be solved by individual CPAs or their firms, but only by the organized profession. And if the profession does not take the initiative, the

issues will probably be resolved unilaterally by Government agencies, one at a time, and perhaps to our detriment.

In the three cited problem areas, I suggest that the Institute take these specific actions:

1. Intensify efforts to establish professional standards for examining and reporting on internal control, compliance with laws, and performance under Federal programs. Some good work has been done in these areas, but much more remains to be done.
2. Assume leadership in recommending a policy to State Boards and State Societies which will help them avoid confrontation with Federal antitrust laws, will give independent auditors reasonable opportunity to submit fee estimates in response to requests from Governments at all levels which is in the public interest, and still will guard against unscrupulous competitive bidding which is not in the public interest.
3. Clarify client-auditor relations to assure that audit reports to Federal agencies and to owners and other interested parties are equal in independence and objectivity.

I realize that these three recommendations are not solutions but actions which, with a lot of hard work,



should lead to solutions.

Turning to another aspect of Government-profession relations, there are at present more than 25 Institute committees which maintain liaison with various Federal departments and agencies. No doubt more could be used effectively to help communicate with this vitally important sector. For the Institute has the opportunity to assume a more positive role in setting policies for the profession in its relations with the Government.

Some individual CPAs and firms are now conspicuous in Federal matters primarily because of work related to Federal agencies. Occasionally, the attention they receive is unfavorable. For seldom is solid professional performance in an ordinary business setting likely to attract attention. Only the problem cases get attention and often auditors must share in criticism when things go wrong.

So far I have been talking mainly about Federal matters that affect the practice of public accounting directly. But a citizen should view his Government also from the standpoint of its objectives in meeting the needs of the people. A citizen who is a professional man has a special obligation to consider how his knowledge could help the Government in the accomplishment of its objectives. To do this in an organized way means that the Institute should take the lead.

There are Federal issues of broad concern on

which the Institute has taken a position, many more where it should take a position, and still others where it has an opportunity to take a position if it wishes to broaden its horizons and become known as a profession concerned with the great issues of the day. Let me give you some specifics.

For years the Institute has advocated accrual accounting for the Federal Government. The executive committee of the Institute issued a statement recommending the reporting of budget expenditures and receipts on an accrual basis. The Budget and Accounting Procedures Act calls for accrual accounting and cost-based budgets. The concept of accrual accounting has generally been agreed to throughout the Government and good progress in adopting it has been made by many departments and agencies. Yet the Department of Commerce is the only executive department to secure approval by the Comptroller General of the accounting systems of all of the department's major agencies with appropriate ADP documentation. This would indicate that the Institute could be more active in urging accrual accounting and budgeting for Federal departments and agencies.

Government auditing standards are being developed by an Audit Standards Work Group composed of representatives from several Government agencies including the General Accounting Office. The Institute is keenly interested in these standards and has set up a task force to work with the Government's study group. With this kind of close cooperation, it is likely that the Institute will want to support the standards which are ultimately adopted.

Clearly, accrual accounting and auditing standards are issues on which the accounting profession should have a position. But let me turn now to some issues which are not so directly identified as relating to our field of competence, but which nevertheless involve subject matter about which accountants have as much knowledge as other groups in the private sector.

One such issue is the proposals for reorganization of the executive branch of Government. These proposals were recommended by the President's Advisory Council on Executive Reorganization and outlined by the President in his State of the Union message of January 22, 1971. Inasmuch as professional accountants have particular interest in and knowledge about concepts of organization, it is only fitting that the Institute take a position on this subject.

The proposals would consolidate seven existing cabinet departments into four new ones, with related functions grouped in the same departments. Admittedly, these recommendations are controversial, with opposition coming from some congressmen, affected departments and special interest groups.

However, if the Institute wants to have a voice in national affairs, it must have the courage to speak up on issues. It does not take courage to support a non-controversial item -- and it follows that such support brings little credit.

If we really want to show courage, we should take a position on a separate recommendation of the Advisory Council which calls for a single administrator to replace multiple commissioners in certain regulatory agencies, including the SEC.

Many other issues should attract the scrutiny of the accounting profession. Take revenue sharing as an example. When the President proposed general revenue sharing, accountability became the most controversial feature. Critics contend the plan is devoid of accountability for the billions of dollars which would be handed over to state and local Governments, and proponents claim accountability would be enhanced. Professional accountants are highly qualified to speak out on accountability.

The profession has opportunity to take advantage of the current emphasis being placed on accountability. But to do so requires a re-examination of some basic attitudes as well as allocation of more resources to studying major issues confronting our Government.

I have touched on only a few matters which should be of concern to the accounting profession. And I haven't even mentioned the Federal income tax and securities laws which are the Federal areas best known to most CPAs. I hope I have conveyed, however, the idea that the Federal Government is of great and growing importance to us. I

strongly believe that we should take budgetary and organizational steps to deal more broadly and more creatively than we now do with our relations in this area.

I am pleased to say that this general subject was discussed in some depth at the Board of Directors meeting on May 10. The Board expressed support for the idea that we develop additional capability to study the big issues of Government, to determine appropriate Institute policies concerning them, and to make the positions known to the Government and public. I look forward to an increasing effort by the accounting profession in Federal Government matters.

Respectfully submitted,

Leonard M. Savoie  
Executive Vice President

May 10, 1971