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Classification and Appropriate Certificates

THE IDEA of classifying accountancy services originated some seven years ago. A palpable need preceded the idea. The need was for some device which would overcome confusion. The results of confusion were wasted time, unnecessary expense, and annoyance.

The confusion arose from diversity in technical concept, technical performance, understanding, undertaking, and reference in relation to professional engagements. Those who contributed to the diversity were principals who took engagements from clients, supervisors who observed the execution, in-charge accountants who planned and gave instructions to assistants concerning the work, and general executives charged with technical administration of the organization as a whole.

The results of diversity were conflicting opinions, uncertainty as to technical policy, unwillingness to accept responsibility, unevenness in service and reports. Each practice office served its clients, according to the best judgment of those responsible for the office. Each accountant in charge of an engagement did the best he could under the circumstances, or as he was directed by his superior. How widely the judgment and direction differed is too sad a memory to be recalled or recounted.

The correction of these conditions may be attributed to a service classification. The classification was conceived in theory. It was born in trial on five thousand engagements coming from all parts of the world and from all lines of business, as they flowed by a central point. Its practical usefulness has been demonstrated by application in some twenty-five thousand additional engagements. Few changes have been required since the classification was first prepared. Those were minor in character and were made in the early years.

The organization now has a common language relating to engagements. Those who

deal with engagements have only to learn the language. The newest member of the staff may learn in a short time as much about the firm's policy concerning classes and general specifications of work as the oldest accountant or executive.

The person who takes an engagement from a client, whether the person is a staff accountant, or a partner; whether the client is an individual, or an officer of a corporation; whether the location is New York, or Shanghai, China, has a definite outline for discussion, a helpful guide in considering the client's needs, and a prescribed basis on which to arrange the undertaking, once the type of service desired is ascertained.

With this start, uniformity follows naturally. The type of service is indicated by number and name on the engagement memorandum. Records are kept and statistics are compiled accordingly. A basis is afforded on each engagement for checking performance from executive offices, down the line through practice offices to the field where the engagement is in progress, and back, in reverse order, to culmination in reports. Technical administration is facilitated. Unnecessary discussion and correspondence are eliminated. Order replaces disorder. Every one has a standard for guidance.

One particular advantage of service classification has been the almost complete disappearance of differences with clients concerning the kind of service undertaken. Clients understand now, apparently, that the greater the limitations placed by them on the scope and character of the work, the less chance the auditor has of uncovering irregularities, or discovering errors in principle and practice. This may be attributed to the fact that the classification is discussed with the client before he decides on the service to be engaged. Thus, he is afforded an opportunity of understanding the scope and limitations of the various

types and to close the negotiation with knowledge of the arrangement into which he is entering.

Definite understanding of the service to be undertaken is of equal importance to the accountant. In the event that his work is ever questioned later, at least the question must be confined to how he did his work, not what he undertook to do. A client who understands that a general examination does not contemplate such detailed testing of operating transactions as should disclose understatements of assets concealed therein, is not likely to criticize the accountant if a shortage concealed in that manner is discovered subsequent to the examination.

A staff accountant who knows that a general audit requires carefully designed testing of cash and operating transactions is not likely to resent being reproved if he fails to uncover an irregularity which should have been detected by such tests, and admits that he failed to apply those tests. At least there are removed all questions as to what should be done. Any controversy centers on how the work was done.

Since the first classification of accountancy services was devised and put into practice, several professional societies have considered the matter through special or through standing committees. In 1926, the Committee on Education of The American Institute of Accountants proposed a classification, which as yet has not been made public. In 1930, The American Society of Certified Public Accountants promulgated a classification, recommended by one of its standing committees, and urged considera-

tion of the subject by the various state societies.

The New York State Society of Certified Public Accountants, of which Colonel Carter is president, recently has given long and thoughtful consideration to the matter of classification and appropriate certificates, through a joint committee comprising the members of the Committee on Classification of Accountancy Services and the Committee on Practice Procedure. This committee presented a report to the May meeting of the directors and of the society, which was ordered reproduced and distributed to members. Further, the report was placed on the calendar for discussion at the all-day meeting of the society next October.

The New Jersey Society also has the matter under consideration. A large special committee, appointed by President Fernald, has delegated the intensive work to a sub-committee which is now engaged in that undertaking. President Sagal of the Connecticut Society also has appointed a committee to consider the matter and cooperate in the movement.

While new ideas move slowly, they gather momentum as they move, provided they have merit. The many voluntary converts to the idea of classification and appropriate certificates bear witness to the merit of that idea. One of the original purposes of classification was to map out the field of professional practice as an aid to educators who are training students for that field. Perhaps one of the outstanding benefits of the scheme will be to give practitioners a perspective of the work in which they are engaged.

English in Accountancy Work

SOME YEARS ago one of the outstanding members of the profession was asked by a teacher which subject, of those comprehended in the preparation for accountancy, he considered the most impor-

tant. In reply, he wrote a letter which is particularly appropriate at this season of the year, when the ranks of accountancy are being entered by so many young men recently graduated from the professional