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AICPA: Serving America's Business and Financial Needs

Philip B. Chenok

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AICPA

*Serving America's
Business and Financial Needs*

PHILIP B. CHENOK



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“Were American Newcomen to do naught else, our work is well done if we succeed in sharing with America a strengthened inspiration to continue the struggle towards a nobler Civilization—through wider knowledge and understanding of the hopes, ambitions, and deeds of leaders in the past who have upheld Civilization’s material progress. As we look backward, let us look forward.”

—CHARLES PENROSE

(1886-1958)

Senior Vice-President for North America

The Newcomen Society

for the study of the history of
Engineering and Technology

(1923-1957)

Chairman for North America

(1958)



This statement, crystallizing a broad purpose of the Society, was first read at the Newcomen Meeting at New York World’s Fair on August 5, 1939, when American Newcomen were guests of The British Government.

“Actorum Memores simul affectamus Agenda”

This address, dealing with the history of the American Institute of Certified Public Accountants, was delivered at a "1988 National Meeting" of The Newcomen Society of the United States held in New York, when Mr. Philip B. Chenok was the guest of honor and speaker on May 25th, 1988.



“The creation of the Securities and Exchange Commission and the requirement for audits of corporate financial reports by publicly held companies, did more than anything else to foster the enormous growth of public accounting.”

—PHILIP B. CHENOK



AICPA _____
“The Measure of Excellence”

AICPA

Serving America's Business and Financial Needs

PHILIP B. CHENOK

PRESIDENT
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, NEW YORK



THE NEWCOMEN SOCIETY OF THE UNITED STATES
NEW YORK EXTON PRINCETON PORTLAND

1988

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SET UP, PRINTED AND BOUND IN THE UNITED STATES
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INTRODUCTION OF MR. CHENOK IN NEW YORK,
ON MAY 25TH, 1988, BY MR. RUSSELL W.
BRACE, PRESIDENT OF THE NEWCOMEN SOCIETY

Fellow members of Newcomen and guests:

As the embryonic American economy took off late in the eighteenth century, demands for investment capital soon outstripped homegrown resources. European financiers, mainly British, recognized a good thing when they saw one and made major investments in the fledgling nation. Along with their money, these investors sent over agents charged with accounting for these investments to ensure that their profits found their way home.

From these beginnings there arose a highly skilled profession, whose integrity, objectivity and competence are heavily relied upon throughout America and abroad. CPAs are represented in this country by the American Institute of Certified Public Accountants, the profession's national organization, which celebrated its centennial last year replete, I understand, with a musical tribute at Radio City Music Hall.

Philip B. Chenok, CPA, is president and chief staff officer of the AICPA and, with his many talents and broad scope of activities, personifies today's CPA.

Phil became president of the institute on July 1, 1980, coming to the AICPA from public accounting.

As president, he provides overall direction to the AICPA's operations and its 600-member staff in New York and Washington. He serves as a principal spokesman for the more than 270,000 CPAs who make up the institute's membership.

Phil is frequently called upon to testify before congressional committees and regulatory agencies not only on accounting matters, but also on the possible impact of proposed legislation or regulations affecting the business community.

He has played a major role in the development of the profession's standard-setting process. Among other committee service, Phil was chairman of the AICPA's Auditing Standards Board from 1976 to

1979. The board sets the standards for the nation's independent auditors.

Phil received his undergraduate degree from New York University and an MBA degree from NYU's Graduate School of Business. He was certified as a CPA in New York in 1961.

It gives me great pleasure to introduce a man who is in the forefront of his profession's efforts to meet the challenges created by today's rapidly changing needs. I present to The Newcomen Society, its members and friends—PHILIP B. CHENOK.



Members of Newcomen and guests:

THE American Institute of Certified Public Accountants is honored to join the ranks of the many other fine business and professional organizations recognized for excellence by The Newcomen Society. This honor is particularly welcome since we recently celebrated our one hundredth anniversary. On behalf of over 270,000 CPAs employed in public practice, industry, education and government who comprise the membership of the AICPA—their professional organization—I would like to thank The Newcomen Society for this recognition.

The Accounting Profession—Its Earliest Years

Although the formal organization of accountants in this country is only 100 years old, the roots of the accounting profession go back to the dawn of written history.

As far back as 3000 B.C., the ancient Sumerians devised a primitive system of writing which they, and later Babylonians and Assyrians, used to record tax collections and other receipts and disbursements on clay tablets. These records of financial transactions are among the oldest known historical records.

In ancient Greece, the accounts of public officials were reviewed by appointed citizens who engraved the accounts on stone and presented the results to the public.

Later, Roman bookkeepers and clerks developed increasingly sophisticated methods for recording tax collections, payrolls and other financial information.

Faced with complex business and government financing problems, Venetians and the citizens of other medieval city-states found that they needed professionals to assist them in recording the profits and losses of their mercantile voyages and the revenues and expenses of their governments. These “examiners of accounts” or “book-keepers” had to meet certain established requirements and demonstrate high moral character.

A highly significant step was taken in the sixteenth century when the Franciscan monk Luca Paciolo set forth the first scientific explanation of double-entry bookkeeping, the principles of which are still used today.

Modern accounting can be said to stem from the bursting of the South Sea Bubble in 1720. An accountant was called in by the British parliament to examine the books of the defunct South Sea Company and his written report is generally regarded as the first audit by a public accountant.

The auditing role of the public accountant was greatly expanded in the mid-nineteenth century with the passage of the British Companies Acts. These laws required shareholders or outside accountants to "audit" the records and financial statements prepared by companies under their jurisdiction.

Accountants Come to America

Moving to this side of the Atlantic, the first accountant who came to the New World is generally believed to have been King Ferdinand's controller, who sailed with Columbus to record the gold, spices and other treasures they expected to acquire. As it turned out, the controller returned to Spain with little to show for his efforts. But his appointment to this important position is indicative of the trust placed in accountants through the ages.

Basic accounting and record keeping have existed in America, on a more permanent basis, since colonial days. These activities, however, were generally directed toward accountability to the owners of enterprises or to government. In fact, financial records were deemed so important that the United States Constitution requires (under Article I, Section 9) that "a regular statement and account of the receipts and expenditures of all public money shall be published from time to time."

In the nineteenth century, as this young nation moved from an agrarian to an industrial economy, the expanding needs for private capital could not be met domestically. Therefore, funds were increasingly sought from abroad. As European investors, primarily British, began to invest more capital in growing American industries, more and more British auditors crossed the Atlantic to check on their companies' investments. Gradually, British accounting firms began setting up shop in major United States cities so they could keep a closer watch on the companies in which their clients had stakes. Seeking to expand their staffs, these firms recruited American bookkeepers and accountants and trained them in conducting audits. Officially recog-

nized by the Crown as chartered accountants, these British accountants served as the foundation of the accounting profession in the United States.

American Accountants Get Organized

British chartered accountants found that their American counterparts, while competent “keepers of accounts,” had diffuse practices, and had little experience in giving opinions on financial data. With the encouragement of their British mentors, a handful of American accountants gathered in New York City in 1887 to form the first nationally-oriented accounting group, the American Association of Public Accountants. This group was the direct predecessor of the American Institute of Certified Public Accountants.

Little did this original group realize that the next 100 years would see their numbers grow to well over a quarter of a million, with members performing a variety of services well beyond the comprehension of the charter members.

As you can see, the very concept of auditing, as well as established accounting practices, were imports from our British forefathers. It wasn't until 1896, when an act “to regulate the profession of public accountants” was signed by the governor of New York, that these functions were legislatively recognized in America. Similar state laws establishing the title of “certified public accountant” were adopted throughout the nation over the next twenty-five years. They were based largely on the importance of the public interest in independent audits.

From the earliest days, CPAs met the generally accepted criteria of a profession, as set forth by Abraham Flexner in his seminal 1913 work on the medical profession. These criteria included a body of specialized knowledge, formal education, admission standards, a code of ethics, and recognition of a societal obligation.

During the next fifty years, the scope of CPAs' services broadened considerably to meet the changing needs of the business community and the public. Some of the demands placed upon the CPA profession included pressures by banks on industries to have independent audits (U.S. Steel set a precedent when it published audited financial statements in 1903); the growth of federal regulatory agencies such as the Federal Reserve Board and the Federal Trade Commission; the 1913

income tax law which opened a whole new area for the profession's services; and the Securities Acts of 1933 and 1934. The creation of the Securities and Exchange Commission and the requirement for audits of corporate financial reports by publicly held companies, did more than anything else to foster the enormous growth of public accounting.

The latter half of the accounting profession's first century was largely devoted to strengthening technical and ethical standards, and devising measures to cope with an increasingly complex business environment. These measures included meeting the challenges of the computer age and responding to corporate America's needs for additional services, such as providing assistance with computerized information and analyzing areas not directly related to financial data. To better meet these needs, standards of accounting and financial reporting had to be established, or updated, and interpretations of current ones had to be developed.

The Profession Changes with the Times

It soon became clear that the standard-setting function of the CPA profession had to be accelerated if the profession was to meet the challenges of an increasingly complex financial world. As early as World War I, the institute realized that general committees could not continue to meet the many specific needs that were surfacing. To remedy this situation, the institute created a committee on procedure, followed two years later by a committee on terminology. Later, a special committee on accounting procedure was formed, succeeded in 1937 by a standing committee under the leadership of George O. May, one of the profession's outstanding pioneers. The work of the accounting procedures committee was a significant development in meeting accountants' need for technical guidance. It led to the establishment of the Accounting Principles Board, which issued pronouncements on what constituted generally accepted accounting principles. The dedicated volunteers who served on these committees helped to pioneer accounting standard setting.

In an attempt to meet the expanding financial needs of the business community, the AICPA sponsored the formation of the Financial Accounting Standards Board in 1972. This independent board provides full-time experts, drawn from the practicing CPA profession, industry, government and academia to deal with the issues of account-

ing and reporting standards-setting. AICPA members are committed to observing the board's pronouncements.

As you are well aware, change continues at an ever-accelerating pace. New technologies move people and information faster and faster every day. CPAs must work hard to keep pace with these changes and to anticipate new ones. Reliable information, effectively communicated, is the cornerstone of our economic system. That was true in 1888, and it is even more so today. Investors have the right to know about the financial condition of their investments.

The public's expectations for the accounting profession and the realistic ability of the profession to meet such expectations can be difficult to gauge. Therefore, in 1986, the AICPA engaged Louis Harris and Associates to conduct a nationwide survey to identify exactly what American people expect from the accounting profession.

The results of this survey were, at the same time, both exciting and disturbing. We learned that the profession was doing its job almost too well, if that's possible.

There was plenty of good news. For example, when compared with other professions, CPAs rated highest in terms of ethical behavior. That's very gratifying, especially at a time when national interest in business ethics is growing.

On the other hand, there appears to be a tendency on the part of the American public to expect CPAs to perform beyond the limits of reasonable expectation. In other words, we do our job so well and the image of the CPA is so high, that the public mistakenly believes CPAs should do more than can be reasonably expected. The survey findings focused our attention on a fundamental question: What can the CPA profession reasonably do to meet the public's rising expectations?

The answers are important because the stakes are high. Frankly, if the profession is not successful in addressing the challenges put forth by the American people, the public's opinion of the accounting profession is sure to suffer.

CPAs, like any other group, cannot be all things to all people. Certain universal standards, however, must be understood, observed and enforced in order to maintain public confidence in the work of the profession.

The AICPA Prepares for the Future

In 1986, after considerable study, the AICPA adopted a Mission Statement which clarifies the institute's role (see box). This statement emphasizes the institute's commitment to excellence in serving both the public and the profession. The institute does so by:

- providing standards of conduct and performance;
- promoting uniform certification and licensing requirements;
- monitoring professional performance; and
- seeking highly qualified recruits for the profession.

Such directives help to ensure quality service to the public, enabling the profession to maintain its credibility.

The institute has developed a number of initiatives and programs to address the expanded responsibilities of CPAs and to meet the public's expectations. Among them are the following:

Washington Activities—The institute has greatly expanded its Washington efforts. At one time, our major Washington activity involved making technical comments on tax proposals. Now that the institute has taken a more aggressive posture in Washington, we are helping to introduce and develop legislation on a broad range of issues from federal financial management to securities legislation. We continue to support efforts to promote a more effective and simplified tax structure and we are dedicated to protecting the rights of taxpayers.

Treadway Commission—The AICPA was an initiator and a primary sponsor of the independent National Commission on Fraudulent Financial Reporting, chaired by former SEC Commissioner James Treadway, Jr. (Treadway Commission). Its charge was to investigate the increasingly apparent problem of fraudulent financial reporting and to propose solutions. The commission's recommendations to help prevent and identify fraud have been praised by Congress, the SEC and leaders in industry. Our efforts moved Representative John Dingell (D-M), chairman of the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations, to make this observation: "The accounting profession—through the American Institute of CPAs—has made substantial improvements in its audit standards to meet the Treadway Com-

MISSION STATEMENT OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The American Institute of Certified Public Accountants is the national professional organization for all certified public accountants. The mission of the AICPA is to act on behalf of its members and provide necessary support to assure that CPAs serve the public interest in performing quality professional services. In fulfilling its mission, the AICPA gives priority to those areas where public reliance on CPA skills is most significant.

To achieve its mission, the AICPA:

1. Promotes uniform certification and licensing standards for CPAs.
2. Sets requirements for maintaining members' professional competence.
3. Assists members in the continuing development of professional expertise.
4. Provides standards of professional conduct and performance.
5. Monitors professional performance to enforce professional standards.
6. Promotes public confidence in the integrity, objectivity, competence, and professionalism of AICPA members and the services they perform.
7. Encourages highly qualified individuals to become CPAs and promotes the availability of appropriate educational programs.
8. Unites CPAs—whether in public practice, industry, education, or government—in their efforts to serve the public interest.
9. Serves as the national representative of CPAs to government, regulatory bodies, and other organizations.
10. Assists members in understanding and adjusting to changes in the economic, political and technological environment.

mission's recommendations. Its decisive and timely action, as well as its willingness to work with the subcommittee on further improvements, is commendable."

The recommendations set forth positive actions that can be taken by government, business, the accounting profession and the academic community to help reduce the incidence of fraud in financial reporting. While the number of such incidents is very small, each time a problem surfaces, it damages all concerned. Working with other sponsoring organizations, the AICPA is helping to monitor progress in making the commission's recommendations a reality.

New Auditing Standards for New Needs

Early in 1988, the AICPA's Auditing Standards Board issued nine new statements on auditing standards, one of the most dramatic actions taken by the institute in the last fifty years. These standards, which begin to take effect January 1, 1989, serve to clarify and strengthen current auditing requirements. Known as the "expectation gap" standards, these statements are aimed at reducing the gap that exists between the public's perception of the auditor's responsibilities and the auditor's ability to reasonably meet the public's expectations.

Of particular interest to the business community and the public is the new standard that makes key revisions to the auditor's standard report—the report that states what the auditors did, what they are responsible for, and their opinion on what they found.

Because there is considerable misunderstanding in the public's mind about the respective roles and responsibilities of management and the independent auditor in the financial reporting process, the new standard report helps clarify the situation. The revised auditor's report now explicitly states what was formerly implied: Financial statements are management's representations and the auditors' opinion is based on an audit of those representations. A brief description of what an audit entails is also included.

Another misconception that led to the formation of the Treadway Commission was the belief that the unqualified opinion of the independent auditor is a guarantee that no fraud exists. Those familiar with the auditing process can appreciate that while audits provide an economical and reasonable level of assurance that the financial statements are free of material fraud, they cannot provide such a guarantee.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>	<u>1988</u>
Total AICPA Membership	161,319	188,706	218,855	240,947	272,479
Public Accounting	54.1%	52.5%	51.5%	49.1%	46.5%
Business & Industry	35.5%	37.6%	38.4%	39.5%	39.6%
Education	2.9%	2.5%	2.7%	2.8%	2.7%
Government	3.3%	3.2%	3.3%	3.2%	3.6%
Retired & Miscellaneous	4.2%	4.2%	4.1%	5.4%	7.6%
Membership in Public Practice	87,339	99,141	112,673	118,226	126,771
Firms with one member	23.8%	23.5%	23.1%	25.1%	24.8%
Firms with 2 to 9 members	33.1%	34.0%	34.0%	34.3%	33.6%
Firms with 10 or more members, except the 25 largest firms	13.0%	14.5%	15.1%	15.0%	16.4%
25 largest firms	30.1%	28.0%	27.8%	25.6%	25.2%



PHILIP B. CHENOK (L), PRESIDENT, AICPA, RECEIVES SCROLL OF THE NEWCOMEN SOCIETY FROM CHARLES PENROSE, JR., CHAIRMAN, NEWCOMEN'S BOARD OF TRUSTEES

Nonetheless, in an effort to strengthen the public's reliance on audited financial statements, the profession has assumed increased responsibilities. The new standards clarify the auditor's responsibility for detecting and reporting fraud and illegal actions, and for evaluating a company's ability to remain in operation in the coming year. To this end, the revised standard report will state that the necessary procedures have been undertaken to enable the auditor to give *reasonable assurance* that the financial statements do not contain any significant misstatements, such as errors, misappropriation of assets or fraud.

These new standards are another example of the profession's commitment to serving the American people and meeting their expectations for reliable financial reporting.

Responding to New Needs

Recognizing that we live in an age of increased specialization that demands wider and more specific application of traditional services,

the AICPA has established voluntary specialty groups. Granting formal recognition to certain specialties is another way the institute can ensure that the profession's standards are maintained. The first such accredited specialist designation was established in 1988 in the field of personal financial planning. To earn the designation of "Accredited Personal Financial Specialist" a CPA must pass a stringent test and have experience in serving clients in this specialty area.

Probably the most important of all recent achievements are the changes in requirements for membership in the institute. These changes were necessary to meet the challenges we face in our second century. In January 1988, our members voted overwhelmingly to approve six proposals that, together, comprise *The Plan to Restructure Professional Standards*. The approved proposals accomplish several things:

- they strengthen the profession's code of ethics by providing members with basic ethical concepts to follow so that they can maintain their integrity, objectivity and competence;
- they mandate, for firms in public practice, participation in a program to monitor the quality of accounting and auditing work, which provides the public with an added measure of assurance that the firms have appropriate quality control policies and procedures in place;
- lastly, they establish educational requirements so that users of CPA services can be assured that CPAs have been appropriately trained at the entry level and that the training continues throughout their professional careers.

This unprecedented vote testifies to the commitment of AICPA members to render superior service to their clients, employers and all who benefit from their skills. Truly a watershed event, the vote makes membership in the institute the mark of quality and the measure of excellence for CPAs across the country.

The institute and its members have expanded their communications activities to reflect the profession's image as an independent and objective authority on financial information. We are taking positions on issues of public rather than parochial interest. In addition to accounting and financial matters, we are speaking out on a variety of issues, such as increased ethical standards in business; a fair, equitable and

simpler tax structure; the importance of continuing education for all; and the need for increased entrepreneurship in this country.

From professional initiatives to legislative activities to educational programs, the AICPA's primary purpose is helping its members serve the public interest. Many of the activities of the institute are new—developed to anticipate the needs of our changing society—but some things never change. Our 270,000 AICPA members continue to foster those qualities which our predecessors embraced more than 100 years ago, and in which we all take great pride—integrity, objectivity and competence.

THE END



“Actorum Memores simul affectamus Agenda!”



THE NEWCOMEN SOCIETY OF THE UNITED STATES

IN APRIL 1923, the late L. F. Loree (1858-1940) of New York, then dean of American railroad presidents, established a group now known as "American Newcomen" and interested in Business History, as distinguished from political history. Its objectives center in the beginnings, growth, development, contributions, and influence of Industry, Transportation, Communication, the Utilities, Mining, Agriculture, Banking, Finance, Economics, Insurance, Education, Invention, and the Law—these and correlated historical fields. In short, the background of those factors which have contributed or are contributing to the progress of Mankind.

The Newcomen Society of the United States is a nonprofit membership corporation chartered in 1961 under the Charitable Law of the State of Maine, with headquarters at 412 Newcomen Road, Exton, Pennsylvania 19341, some five miles east of Downingtown, Pennsylvania, and 32 miles west of the City of Philadelphia. Here also is located The Thomas Newcomen Memorial Library and Museum in Steam Technology and Industrial History, a reference collection, including microfilm, open to the public for research and dealing with the subjects to which the Society devotes attention.

Meetings are held throughout the United States of America and across Canada at which Newcomen Addresses are presented by leaders in their respective fields.

The approach in most cases has been a life-story of corporate organizations, interpreted through the ambitions, the successes and failures, and the ultimate achievements of those pioneers whose efforts laid the foundations of the particular enterprise.

The Society's name perpetuates the life and work of Thomas Newcomen (1663-1729), the British pioneer, whose valuable contributions in improvements to the newly invented Steam Engine brought him lasting fame in the field of the Mechanic Arts. The Newcomen Engines, whose period of use was from 1712 to 1775, paved a way for the Industrial Revolution, Newcomen's inventive genius preceded by more than 50 years the brilliant work in Steam by the world-famous James Watt.

The Newcomen Society of the United States is affiliated with The Newcomen Society for the Study of the History of Engineering and Technology, with offices at The Science Museum, South Kensington, London, S.W. 7, England. The Society is also associated in union with the Royal Society for the Encouragement of Arts, Manufactures and Commerce, whose offices are at 6 John Adam Street, London, W.C. 2, England.

Members of American Newcomen, when in Europe, are invited to visit the home of Thomas Newcomen at Dartmouth in South Devonshire, England, and to see the Dartmouth Newcomen Engine working.





*“The roads you travel so briskly
lead out of dim antiquity,
and you study the past chiefly because
of its bearing on the living present
and its promise for the future.”*

—LIEUTENANT GENERAL JAMES G. HARBORD,
K.C.M.G., D.S.M., LL.D., U.S. ARMY (RET.)
(1866-1947)

*Late American Member of Council at London
The Newcomen Society
for the study of the history of
Engineering and Technology*

