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## Remarks by Philip B. Chenok, AICPA/GAO Colloquium, Cherry Hill, New Jersey, November 5, 1980

Philip B. Chenok

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REMARKS BY PHILIP B. CHENOK

AICPA/GAO COLLOQUIUM  
CHERRY HILL, NEW JERSEY  
NOVEMBER 5, 1980

- GOOD MORNING
- WELCOME AND THANKS FOR PARTICIPATING
- ATTENDANCE DEMONSTRATES INTEREST AND CONCERN FOR AUDITS OF FEDERALLY ASSISTED PROGRAMS -- CONCERN WE SHARE AS PROFESSIONALS AND AS CITIZENS
- REVIEW OF BACKGROUND PAPERS INDICATES SERIOUSNESS OF MATTERS TO BE DISCUSSED
- CONGRATULATE CO-CHAIRMAN, ED HALLER AND DON SCANTLEBURY
  - ARRANGING FOR PROGRAM
  - SPEARHEADING BACKGROUND PAPERS
  - GETTING EVERYONE TOGETHER
- OBJECTIVES OF COLLOQUIUM
  - COMMUNICATION -- PERSPECTIVES DIFFER -- NEED TO UNDERSTAND CONCERNS OF EACH GROUP
  - MUTUAL UNDERSTANDING THAT PROBLEMS MAY BE CREATED BY UNREALISTIC EXPECTATIONS
  - SOLUTIONS -- MEANINGFUL AND PRACTICAL SUGGESTIONS FOR IMPROVEMENTS CAN ONLY COME FROM AGREED ON DEFINITION OF THE PROBLEM AND LOGICAL AND RATIONAL ANALYSIS OF THE ISSUES

- ASSURE GROUP THAT AICPA IS COMMITTED TO TAKING ALL NECESSARY AND APPROPRIATE STEPS TO IMPROVE QUALITY OF WORK PERFORMED BY MEMBERS AND TO DISCIPLINE THOSE WHO VIOLATE ETHICAL STANDARDS
- VERY IMPORTANT TO DEVELOP RECOMMENDATIONS AND SUGGESTIONS FOR THE FUTURE; SHOULD AVOID CONCENTRATING ON PAST MISTAKES

THE EXTENT OF SUBSTANDARD PERFORMANCE IS NOT KNOWN PRECISELY. POOR AUDITS RECEIVE UNFAVORABLE PUBLICITY, BUT THE THOUSANDS OF GOOD AUDITS PERFORMED ANNUALLY RECEIVE NO ATTENTION. THIS IS HOW IT SHOULD BE BECAUSE THE CLIENT EXPECTS, PAYS FOR, AND SHOULD GET A QUALITY AUDIT. I AM SURE WE WILL HEAR A NUMBER OF EXAMPLES OF SUBSTANDARD WORK DURING THIS MEETING. I HOPE THAT THEY ARE THE EXCEPTIONS AND NOT THE NORM. SINCE HUMAN FAILURE IS THE ULTIMATE CAUSE OF POOR PERFORMANCE WITHIN A PROFESSION, WE CANNOT ELIMINATE THE PROBLEM COMPLETELY; BUT WE CAN CONSTANTLY STRIVE TO REDUCE THE NUMBER OF CASES.

- EVENTS LEADING UP TO COLLOQUIUM
  - IN 1973, IN RESPONSE TO A GAO STUDY THAT CITED EXAMPLES OF SUBSTANDARD WORK, THE AICPA INSTITUTED AN ETHICS ENFORCEMENT PROGRAM WHEREBY FEDERAL AGENCIES RECEIVING ALLEGED SUBSTANDARD WORK

FROM CPAs WOULD SUBMIT THE REPORTS TO THE AICPA'S ETHICS DIVISION FOR APPROPRIATE ACTION. FOR VARIOUS REASONS, OVER A SIX-YEAR PERIOD THE AICPA RECEIVED ONLY 22 CASES INVOLVING MEMBERS OVER WHICH THE ETHICS DIVISION HAD JURISDICTION.

- IN 1979, THE GAO DID ANOTHER REVIEW OF THREE FEDERAL AGENCIES AND FOUND OTHER EXAMPLES OF SUBSTANDARD WORK. WALLY OLSON, THEN PRESIDENT OF THE AICPA, MET WITH ELMER STAATS AND MEMBERS OF HIS STAFF AS WELL AS REPRESENTATIVES OF THE ACCOUNTING PROFESSION, TO DISCUSS THE UNDESIRABLE SITUATION. MR. OLSON RECOMMENDED THAT THE AICPA EMBARK ON AN ACTIVE ETHICS ENFORCEMENT PROGRAM TO IDENTIFY AND DISCIPLINE CPAs WHO WERE NOT ADHERING TO THEIR PROFESSIONAL RESPONSIBILITIES.
- ON NOVEMBER 1, 1979, AT THE SUGGESTION OF ELMER STAATS, THE CHAIRMAN OF THE AICPA ETHICS DIVISION, ED LAMB, AND OTHER MEMBERS OF THE AICPA, MET WITH ALL OF THE INSPECTORS GENERAL OR THEIR REPRESENTATIVES, AS WELL AS THE GAO AND OMB TO PRESENT THE AICPA'S PROGRAM AND TO SOLICIT THEIR PARTICIPATION AND SUPPORT. THE PROGRAM WAS UNANIMOUSLY ACCEPTED AND APPLAUDED. ED LAMB WILL REPORT TO YOU IN GREATER DETAIL ON THE CURRENT STATUS OF THIS PROGRAM.

- THESE EFFORTS ARE ALL DIRECTED TO FERRETING OUT INSTANCES OF SUBSTANDARD WORK AND DISCIPLINING THOSE WHO FAIL TO ACHIEVE STANDARDS.
  - EFFORT IS NECESSARY
  - DECISION TO HOLD COLLOQUIUM DEMONSTRATES THAT PUNISHMENT ISN'T THE ONLY ANSWER
  - MUST TRY TO IDENTIFY ROOT CAUSES AND THEN DEVELOP SOLUTIONS
  
- IMPROVING THE QUALITY OF PERFORMANCE MEANS MORE THAN MAINTAINING AN EFFECTIVE DISCIPLINARY SYSTEM TO IMPOSE PENALTIES AGAINST THOSE WHO DEPART FROM ESTABLISHED STANDARDS.

ONE CHARACTERISTIC OF A PROFESSION IS THAT IT SEEKS TO IMPROVE THE QUALITY OF PRACTICE. THIS MEANS:

- ESTABLISHING HIGH STANDARDS OF SKILL AND COMPETENCE BOTH FOR ENTERING THE PROFESSION AND FOR CONTINUING THE RIGHT TO PRACTICE.
  
- DEVELOPING AND PROMULGATING TECHNICAL AND ETHICAL STANDARDS THAT SERVE BOTH AS PERFORMANCE GOALS AND AS MEANS OF MEASURING DEPARTURES.
  
- DESIGNING AND IMPLEMENTING QUALITY CONTROL POLICIES AND PROCEDURES TO MONITOR AND ENCOURAGE COMPLIANCE WITH THE TECHNICAL AND ETHICAL STANDARDS.

IN RECENT YEARS WE HAVE DEVOTED CONSIDERABLE EFFORT TO SELF-REGULATION BY SETTING MORE RIGOROUS TECHNICAL AND ETHICAL STANDARDS AND DESIGNING AND IMPLEMENTING BETTER MEASURES TO CONTROL QUALITY. FOR EXAMPLE, WE HAVE FORMED A DIVISION FOR CPA FIRMS THAT REQUIRES AMONG OTHER THINGS THAT ALL MEMBER FIRMS HAVE A PEER REVIEW ONCE EVERY THREE YEARS. THROUGH THE DIVISION FOR CPA FIRMS, THE PROFESSION NOW HAS JURISDICTION OVER FIRMS, WHEREAS PREVIOUSLY IT COULD ONLY DISCIPLINE INDIVIDUALS. IN ADDITION, THE INSTITUTE'S AUDITING STANDARDS DIVISION HAS FORMED AN AUDITING STANDARDS ADVISORY COUNCIL TO PROVIDE THE AUDITING STANDARDS BOARD WITH THE PERSPECTIVE OF PEOPLE OUTSIDE THE PUBLIC ACCOUNTING PROFESSION. MORE SPECIFICALLY, THE CPE DIVISION IS DEVELOPING A NUMBER OF PROGRAMS RELATING TO AUDITING FOR GOVERNMENT ENTITIES. ON FRIDAY, ED LAMB AND JIM LEISENRING WILL TELL YOU MORE ABOUT WHAT'S GOING ON WITHIN BOTH THE ETHICS DIVISION AND AUDITING STANDARDS DIVISION. THESE EFFORTS HAVE BEEN IMPRESSIVE AND HAVE DEMONSTRATED OUR SINCERE CONCERN TO DO A GOOD JOB. BUT MUCH REMAINS TO BE DONE IF WE ARE TO REACH ALL PRACTITIONERS AND ASSURE THAT WE ARE ALL PLAYING BY THE SAME RULES.

IN CLOSING, I'D LIKE TO THANK YOU ON BEHALF OF THE ACCOUNTING PROFESSION FOR PARTICIPATING IN THE EFFORT. I ASK YOU TO LOOK AT EACH ISSUE OBJECTIVELY AND FAIRLY; TO DEVELOP MEANINGFUL

AND PRACTICAL SUGGESTIONS; AND TO JOIN TOGETHER TO IMPROVE  
THE PROCESS. COLLECTIVELY, WE CAN DO IT!

THANK YOU.

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