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THE ACCOUNTING PROFESSION IN THE 1980'S

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THE ACCOUNTING PROFESSION IN THE 1980's

Predicting the future developments with respect to any group such as our profession is a risky venture even under the best of circumstances. But to engage in crystal-ball gazing about the next decade when we are in the midst of the most rapid series of changes in the history of our profession borders on being foolhardy in the extreme. Unfortunately, I agreed in a moment of immodesty over two years ago to deliver a paper on the accounting profession in the 1980's. Being caught up in this dilemma I have decided that I would rather be scorned for having cloudy vision than be known as one who fails to meet his obligations.

With great misgivings, what follows are the considered guesses about the next decade from the perspective of my role with the American Institute of Certified Public Accountants over the past seven years. They are necessarily based largely upon my knowledge of the circumstances in the United States. While these may not necessarily be relevant to all countries around the world, I believe that the current problems are sufficiently universal in nature to portend what may eventually occur internationally.

History has generally proven the validity of the notion that the future is largely an extension of the present. Thus, if one wishes to improve the quality of his projections, he must first identify current and emerging trends and attempt to appraise how they are apt to interact in the future. It is useful, therefore, to start with an examination of the broad trends that are already having an impact on our role and responsibilities as accountants.

Without attempting to assign any particular order of importance, the following are some of the principal developments of our time that must be taken into account.

1. The impact of new modes of transportation and communication on attitudes toward governments and institutions, both public and private.
2. Evolving patterns and methods of conducting business domestically and internationally.
3. Continuing disruptions in the historical economic patterns of the developed nations and instability in the international monetary system.

4. Growing concerns about the quality of life.

Each of these will be discussed with a view toward pointing out their implications for the future of our profession. It should be kept in mind, however, that society is an ever-changing kaleidoscope in which future developments may drastically alter the present trends that we see emerging.

IMPACT OF NEW MODES OF TRANSPORTATION AND COMMUNICATION

Within the lifetime of some of us we have seen the development of jet-air travel, television, communications satellites and high speed computers. Today it is possible to witness on television events as they occur in most parts of the world. Politicians and public figures are seen and heard by audiences of millions of people both domestically and internationally. We can travel almost anywhere within a matter of hours or, at most, a day or two. Vast quantities of data can be processed, stored, and retrieved through the use of computers.

These technological developments have had a significant impact on our lives in a number of ways. One of these has been the emergence of the broadcast journalists who have

engaged in almost constant investigative reporting and in some cases muckraking exposés. As a result, governments, politicians, corporations, and virtually all of society's institutions have come under intensive scrutiny and attack. Full disclosure and operating in a fish-bowl environment have become the norm of the day.

This erosion in privacy has revealed a variety of imperfections that has stimulated the idealists to express loud demands for reforms of all kinds with little regard for whether the cures will be worse than the newly discovered ills. The steady drum-fire of fault-finding has taken its toll in the form of a pervasive loss of confidence in our institutions. We have become to a considerable degree a world of cynics, distrustful of those in power and of most of what we do not individually control.

Compounding this lack of trust has been the combined effects of the new mobility of large segments of the population and the explosion of available information made possible by powerful computers and the new means of communication. These have substantially altered traditional family and religious patterns. Also, the shock of accelerating change in daily lives has caused a widely held sense of instability that contributes to the feeling that all is not right with the world.

All of these factors point to an important implication for the future of our profession. The demand for full accountability at all levels of our society is a direct outgrowth of the distrust that has been engendered. Since, as a profession, we are engaged in expressing opinions with respect to the reliability of financial statements it seems highly likely that our role will be expanded to provide the types of assurances necessary to restore confidence in the integrity of our institutions or to point the way to restoring integrity where it is found to be lacking. Such an expansion would require the profession to broaden the range of its concerns well beyond its present preoccupation with financial statements. A variety of disciplines would have to be utilized to cope with the more subjective judgments that would be involved in appraising such things as appropriate conduct or the efficiency or effectiveness of programs or enterprises affecting the public interest.

It may be that such tasks will prove too heavy a burden for a single profession to shoulder and the responsibilities will be distributed among a number of specialized professional groups. Even so, the broad demand for accountability has become so pronounced that it is almost certain to be a major influence in shaping the future of our profession.

PATTERNS AND METHODS OF CONDUCTING BUSINESS

A second major category of significant developments that is likely to have a continuing effect on our profession is the changing manner in which business is conducted. During the past thirty years we have seen the emergence of a great number of giant corporations whose operations span national borders around the world. Lifting of trade restrictions and the ease of communications and international travel have combined to shrink the size of the business world. As a result, the economies of the developed regions have become thoroughly interdependent and the fabric of business activity has become substantially more complex.

The sheer size of the multi-national corporations and the broad geographic scope of their operations have placed them in a position of great power. Their operations can have a significant influence on the economic and political well-being of entire countries, and this has spawned increasing concern about their control and accountability to national governments.

The United Nations has been devoting considerable attention to the conduct of these giant corporations and what steps might be taken to assure that their powers will

not be utilized improperly or contrary to the public interest. Codes of conduct, increased financial disclosures, and the application of uniform accounting standards are seen as first steps toward bringing about greater accountability for their actions.

Clearly these matters directly involve the accounting profession. Harmonization of accounting standards on an international scale has become an urgent matter. In addition, the structures of independent auditing firms have had to be designed to cope effectively with the need to audit operations on an international scale. This, in turn, aggravates an already widening gulf between the interests of that segment of the profession which operates on a purely local or domestic basis and the large auditing firms that increasingly expand their operations internationally. In addition, the differences in practice pose serious problems for the profession's organizations in their attempts to maintain unity among their members and to adopt uniform standards that apply equally to all types of clients regardless of size or public ownership.

DISRUPTIONS IN ECONOMIC AND MONETARY PATTERNS

Another broad area of developments which promises to have a lasting impact on our profession consists of the changes which have occurred in the economic and monetary patterns around the world. High rates of inflation that are seemingly out of the control of individual governments and instability in the foreign exchange markets have raised great concern in government circles and in the private business sector as well.

No doubt there are many causes of the dislocations which are being experienced but one which stands out was the sudden escalation in the price of oil imposed by the OPEC nations. The full effects of this single event are yet to be fully determined but they have already permanently altered previous flows of money and investments and centers of wealth.

Another major factor has been the tendency of developed countries to engage in deficit spending to pay for rapidly expanding programs for social welfare and environmental control. In too many cases the deficits have been financed by printing additional quantities of money which has served to aggravate inflation and at the same time cause serious

upheavals in the international monetary system. Within recent times we have seen the evolution of international banking operations coupled with the emergence of a new type of stateless money in the form of Eurodollars and other similar currencies.

As national governments struggle to bring these economic and monetary problems under control, they engage in planning and controls which rely heavily on great quantities of data about their respective economies. The data, in turn, is based in large part upon financial statistics gleaned from the financial statements of the business community. Because national prosperity and political careers are at stake, it is not surprising that government officials have come to recognize the importance of obtaining reliable financial data upon which to base their national and international policy decisions.

It is this recognition which is generating the growing interest by governments in the performance of the profession particularly in the United States and to a lesser extent in a few of the European countries. As governments become more aware of their dependence upon the work of auditors, it comes as a shock to learn that audits have not been infallible.

Indeed, some of the more spectacular business failures and undetected management frauds have badly shaken the confidence in the profession's performance in several countries. To make matters worse, in the United States, hundreds of the largest companies have admitted to making illegal political contributions, bribes, and other improper payments of substantial sums out of unrecorded slush funds. Government officials find it difficult to understand why the independent auditors did not detect these improprieties and insist upon their disclosure.

These events understandably cause governments to seek ways to assure that the profession does a better job. Government regulation is a cure which immediately occurs to those who have decided that action must be taken. Thus, a growing recognition by government of the importance of the profession's role carries with it pressures for regulation and for the profession to assume greater responsibility. These pressures, stemming from the need of governments to deal with highly complex economic and monetary problems, will almost certainly have a major effect on the profession during the next decade and well beyond.

GROWTH IN CONCERNS ABOUT THE QUALITY OF LIFE

Another important part of the mosaic of trends in recent times has been the combination of a populist movement and a rapid growth in concerns about the quality of the environment. Social welfare programs and the imposition of rigid controls over land, water, and air pollution have mushroomed into programs involving huge increases in government spending and have saddled private industry with an added burden of costs that have contributed to inflationary pressures.

There is little doubt that many of these programs have merit and that broad segments of the voting populations look to their national governments to provide an increasing array of services and assurances of their security. But it is also true that the politicians have, to a substantial degree, been irresponsibly buying votes by supporting spending programs that far exceed their country's financial capability.

Ultimately, a day of reckoning arrives and drastic measures must be taken to restore a semblance of financial health. One need only look at the recent financial travails of New York City for a prime example of what has been occurring in many areas of the world with varying degrees of severity.

When the time arrives that it becomes good politics to control government expenditures rather than incur bankruptcy and economic chaos, the services of accountants and auditors are quickly sought. Financial facts must be determined. Archaic accounting and management systems must be modernized and streamlined. Audits must be performed to assure that political manipulation of funds and budgets does not continue. Perhaps most important, the efficiency and effectiveness of government programs must be measured to determine where reductions in expenditures can be made with the least amount of damage to vital services.

Because the practice of excessive government spending is prevalent in many of the advanced countries of the world it seems reasonable to expect that with increasing frequency our profession will be drawn into a role of providing the kinds of analyses necessary to restore financial integrity. Assuming we have the courage to tackle this challenge and that we perform well, we may also expect that an expanded role as important advisors to government will become a continuing responsibility. This can have a profound and lasting effect on the nature and stature of our profession.

A similar result may also occur as special interest

groups and the underdeveloped countries step up their demands for a more equal distribution of wealth and actions are taken to meet these demands through quota schemes, modifications of systems of taxation and government social welfare and subsidy programs.

The populist movement increases the demand for reliable financial data to determine more precisely which groups are being short-changed and how inequities should be rectified. Sophisticated accounting is imperative if one is to answer questions about the proper shares that should be allocated to labor, investors, managers, government, less developed countries or to improve the quality of the environment.

As society becomes more complex, accounting takes on greater importance. Because increasing complexity is virtually a certainty, our profession is faced with a challenge and opportunity whose dimensions are so immense as to be staggering.

It is possible that the future tasks will be spread among many groups and we will not be called upon to shoulder the whole burden. But one thing seems certain; one way or another we are going to be greatly affected in the future

by the trends that are currently interacting within our respective countries and across international boundaries.

The more detailed predictions for the profession which are contained in the balance of this paper are based upon the foregoing discussion of current social developments. Virtually all of the predictions have been foreshadowed by current events and no completely new and unheralded changes are foreseen. It can be expected, however, that the pace of changes will continue to accelerate and in this sense, the profession is expected to undergo a significant transformation in the years ahead.

PREDICTIONS FOR PUBLIC PRACTICE

As already indicated, the range of services which the public practitioners will be expected to supply is likely to be greatly expanded. This may seem contrary to the current concerns about the effects of non-auditing services on the independence of auditors but the urgency of the need for the accountants' skills can be expected to override the questions relating to independence.

Public accountants will be pressed to assume review and reporting responsibilities on such things as published

financial forecasts, systems of internal control and compliance with social goals. Of even greater importance will be the profession's involvement in government financial analyses for policy decision-making. Analyses of the efficiency and effectiveness of spending programs and assistance in bringing deficit spending under control will be a major new area of service if the profession is prepared to assume these responsibilities. This is particularly crucial to the future status and prestige of the profession since it will have the opportunity to become the trusted advisor to government and may well draw increasing numbers of accountants into politics, thereby diluting the present concentration of lawyers in government.

It is to be expected that the traditional services of public accountants will also receive attention. For example, there will be pressures to make audits of financial statements more effective. There is already a strong belief on the part of users of financial statements that auditors ought to accept responsibilities for detecting all material management frauds. While there are sound reasons why not all such frauds can be detected

even if reasonable cost is not a concern, the profession must nevertheless find a way to improve its performance or risk a serious erosion in its credibility.

The profession will be forced to reexamine traditional auditing techniques to make them more efficient and to devise new techniques to be more effective in detecting irregularities. For example, far greater emphasis should be placed on methods of interrogation as a primary means of discovery. Also, the use of computers for audit verification procedures and the application of statistical sampling techniques should be more extensively developed and utilized.

The organizational structure and regulation of the profession will also receive much more attention in the years ahead. The paradox of pressures to assume new responsibilities at the same time that the profession is under heavy criticism for poor performance has been previously mentioned. The inclination to impose some additional forms of government regulation to assure a better performance will not be easily dissipated. To avoid this result, the profession will find it necessary to devise effective systems of self-regulation that will discipline not only individual practitioners but accounting firms as well.

Although the profession already has disciplinary machinery in place in many countries, it is probably fair to say that it has not been impressive in its effectiveness. In many instances the disciplinary actions have concentrated on compliance with self-serving behavioral rules of conduct rather than technical practice standards. Also, the machinery typically does not have jurisdiction over the public accounting firms as entities.

The profession must be seen to be effectively imposing penalties on firms and individual accountants when audit failures occur and it is established that standards of due care were not met. This may be difficult to achieve for a variety of reasons depending upon the legal climate and the authority of the profession's organizations in each country. It may involve preempting the judiciary process, bringing outsider participation into the profession's disciplinary determinations, or coupling mandatory peer reviews on a periodic basis with sanctions for failure to adhere to standards of quality control.

Even if the profession is initially successful in maintaining a credible system of self-regulation, its reputation may be so badly damaged by a major audit failure

that government will be stimulated to intervene. The threat of government regulation and control of the profession will be ever present and it is an open question as to how long self-regulation will survive. It can and will if the profession takes aggressive action to establish a substantive system of imposing sanctions for failure to live up to its technical standards.

Equally troublesome will be the growing disparity in the size of accounting firms and the results of eliminating prohibitions against advertising and solicitation. The competition within the profession has always been present even though it has varied in intensity from country to country. However, as the trend toward protection of the interests of consumers continues, there will be more actions to force professions to eliminate their rules of conduct which act as deterrents to competition.

It is virtually certain that competition within the profession will become far more intense. If the experience in the United States is a reliable guide, it will lead to widespread underbidding for engagements which will ultimately have a depressing effect on the income levels of the profession. This will be especially hard on the smaller firms who do not have the equal resources with which to compete.

This is not to suggest that smaller firms will disappear. But the fruits of intense competition are ill feelings within the profession that are highly divisive and the problems which already exist because of the disparity in the size of firms will be magnified. Carried to an extreme, the profession may well be divided into two camps to the detriment of all concerned. A major challenge for the profession's leaders will be to find a means of preventing such a split by serving, under one umbrella, a variety of interests that are sometimes in direct conflict.

Another area of continuing concern will be the exposures of auditors to legal liability. The extent of such exposures varies widely from country to country depending upon the existing laws. In the United States, which has probably been the most litigious environment, there is little prospect of relief either legislatively or in the courts. The concerns about accountability and protection of investors and credit grantors far outweigh any present worry about the liability plight of auditors. At some point in the future, the scales may tip in the other direction but the bankruptcy of

one or more major accounting firms might have to occur before relief would be seriously considered.

Because of the liability exposures the accounting firms have become far more careful and defensive in their work. For this reason, the incidence of lawsuits in the U. S. seems to have abated and may continue at a lower frequency barring a substantial number of business failures as a result of a major recession.

Finally, as the volume of international commerce grows, the profession will have to devise ways to speed up the process of harmonizing accounting and auditing standards and facilitating practice across national borders. A good start toward these goals has been made with the establishment of the International Accounting Standards Committee and the International Federation of Accountants. Nevertheless, we have a long way to go before we are all prepared to surrender over national sovereignty in setting standards and practice rights in favor of those set by an international body.

This is a hurdle that all accountants must work very hard at surmounting or accounting could well become

an impediment rather than an aid to international trade. With the growth of international banking and the free flow of capital around the world, we may not have too much time left to achieve harmonization of financial reporting. Hopefully, good progress will be made as the International Federation of Accountants steps up the pace of its activities and the existing international accounting firms or networks of affiliated firms become more fully integrated and increasingly operate on the basis of a common set of standards.

PREDICTIONS FOR MANAGEMENT ACCOUNTANTS

It seems clear that the demands for improved financial reporting will continue. Even though primary financial statements are likely to be based largely upon historical costs for the foreseeable future, it is to be expected that attempts to deal with the distortions caused by inflation will result in the perfection of methods of reflecting some form of current values. Such amounts will be increasingly reported both on a supplementary basis and through a change in the valuation method applied on a limited basis to certain of the items in the basic financial statements.

It also appears that the trend toward additional types and amounts of disclosures in financial reports will continue unabated. The demands for corporate accountability can be expected to result in more disclosures about the make up and compensation of management and boards of directors and relationships with the independent auditors, legal counsel, and other key participants in the accountability process. Expanded disclosures on contingencies, deficiencies in systems of internal control, and compliance with social goals and corporate codes of conduct are also likely to occur. In addition, some form of management report to accompany the financial statements, setting forth the responsibilities being assumed by management, may emerge as a requirement. Less certain is whether financial forecasts will become a part of public reporting, although it seems likely that users of financial reports will continue to press for such information to be disclosed. In short, financial reports are going to become more voluminous and complex than ever before.

This will probably lead to a reappraisal of the format of financial statements which has remained essentially unchanged for decades and may have become obsolete. There

are already serious discussions taking place regarding the need to draw a distinction between the financial statements and other information useful to investors and credit grantors to be included as part of a financial report. If such a distinction is made, many future disclosure requirements will not be regarded as generally accepted accounting principles necessary to make the financial statements not misleading. This would be particularly important to smaller, privately-held companies since the requirement for disclosures that are irrelevant or unduly burdensome for such companies could then be limited to only larger, publicly-traded companies.

Hopefully, the present format of financial reports will also be revised to be more readable and informative. At the present time, information about functional operations of a business is scattered among the financial statement captions, the footnotes, and elsewhere within annual reports. It would be far more useful to group all information along natural lines of interest to users, primarily for predictive purposes. Thus, the reporting format might be designed to provide groupings of information on such matters as sales, order backlogs, marketing programs, and product development. Other groupings might relate to such subjects as productive plant, working capital and cash flows, labor relations and

social responsibility programs. If this approach is pursued, the present format of financial statements might be greatly condensed and included only as a transitional link to the past. Also, the need for a closed articulation system of reporting would be greatly reduced.

As the volume of disclosures grows, much more attention must be given to the way it is packaged and presented. Such a development is long overdue and is likely to occur in the next decade.

Another area involving primarily management accountants is the continuing development of computer techniques. The development of versatile and lower cost mini-computers is leading to a return of computer processing to the various user groups within a company. By providing these groups with their own mini-computers, they are freed from being totally reliant upon a large monolithic computer installation. This form of distributed processing will provide greater flexibility to the various management levels in meeting their specific data processing needs.

The decentralized data processing centers will be tied by telecommunication lines to a central computer

system which will be used to maintain a corporate-wide data base. The improvements in storage and retrieval capabilities will make it increasingly possible to design computer systems so that data need be recorded only once and retrieved to serve a variety of uses.

In summary, management accountants will be required to become more sophisticated in their financial reporting techniques and in their participation in the design and use of computer installations. The demands for more disclosures, better financial reports, and greater accountability will expand the activities of management accountants and enhance their importance in the corporate structure.

PREDICTIONS ON EDUCATION AND TRAINING

To meet the demands for a broader range of services and improved financial reporting, both of which will involve dealing with subjects that tend to be highly subjective, the profession will find it necessary to draw representatives of other disciplines into its ranks. This suggests that specialization will grow within the profession since the greater number and more complex bodies of knowledge required

will make it ever more difficult for a single individual to maintain competence in all areas of accounting.

The formal accreditation and recognition of specialists within the profession will not come about without a great deal of controversy. The competitive effects of distinguishing between qualified accountants on the basis of specialization will make it difficult to depart from the present position that a qualified accountant is competent to provide the whole range of services.

Also, the profession's organizations will find it difficult to restructure themselves to accommodate specialist groups drawn from other disciplines. But if the profession is to expand its horizons to meet the predicted demands for service, it will have to come to terms with the notion of a multi-discipline base. The umbrella may have to become the broader role of providing expertise on the utilization of and accounting for resources. If so, the preparation and auditing of financial statements will become only one of several different functions, albeit a very basic and important one.

A transition to a multi-discipline based profession with formal recognition of specialization would have a far-reaching impact on the entrance and education requirements.

Examinations for entrance to the profession would have to cover a broader range of subjects than at present and perhaps at less depth in any single area. Formal recognition of specialization would require additional examinations that would each cover a narrow body of knowledge in great depth and at a highly sophisticated level.

Pre-entry education for a broader based profession would entail an expansion in the subjects covered in the curriculum. A likely result would be the emergence of separate schools or programs of professional accounting geared to teach the bodies of knowledge covered in the profession's entrance examinations.

Even if the envisioned evolution to a multi-discipline base does not occur, accountants will be forced by technical developments and the expansion of services to participate in post-entry education. The growing complexity of financial reporting and all facets of public practice will make it imperative for all accountants to attend continuing education courses to stay abreast of new developments. Also the trend to specialization will require additional training to attain the depth of knowledge necessary to meet standards of competence.

It seems inevitable that the profession must move toward making continuing education mandatory if it is to meet its responsibility to maintain high levels of performance. It is no longer satisfactory to depend solely upon an entrance examination and subsequently acquired experience. Unstructured study and patterns of experience are not likely to be sufficient to keep up with the rapid technical changes which are taking place.

To summarize, the growth in the range of services and their degree of sophistication will tend to lead to a profession that encompasses several disciplines and formal categories of specialization. These developments will require significant changes in how members are trained for entrance to the profession and make continuing education a necessity.

CONCLUSION

The profession is on the threshold of a period of great opportunity and challenge. Most of the trends of our times point toward a continuing escalation in the demands for accountability in all segments of our society. As impartial auditors and skilled analyzers, we are in a unique position to help restore confidence in our institutions, improve the level of conduct in our society, and aid governments to regain their financial health.

This is a role which is a far cry from that of the legendary green eyeshade bookkeeper. To fill it we will have to exercise the courage to accept greater responsibilities that involve making judgments that are substantially more subjective than those in the past. Some may wish to shrink from assuming such risks. If we do, we will have lost an opportunity to make a vital contribution and to greatly enhance the stature of our profession in the process.

To meet the challenge, we will have to take advantage of every ounce of our ingenuity to solve the perplexing problems that we are already encountering. It will require strong leadership to improve what we are already doing at the same time that we are blazing a new trail to an expanded role. We will have to improve our standards as well as our performance and devise an effective means of assuring that we deserve to remain self-regulated. We will need to find ways to absorb the skills of other disciplines into the profession to broaden our competence. Above all, we will need unity and cooperation to succeed.

This vision of the future of the profession may be deemed by some as too grandiose. It need not be. If we have the will, we have the talent. If we aspire to greatness we can achieve it; and even if we fall short, we will have done far more by reaching out to help create a better life.