

University of Mississippi

eGrove

Guides, Handbooks and Manuals

American Institute of Certified Public
Accountants (AICPA) Historical Collection

6-5-1975

**CPA Profession: National Regulatory Trends. National Conference
on State Legislation, Fairmont Hotel, San Francisco, Calif. June 5,
1975**

Wallace E. Olson

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_guides



Part of the [Accounting Commons](#)

THE CPA PROFESSION: NATIONAL REGULATORY TRENDS

by Wallace E. Olson, President
American Institute of Certified Public Accountants

National Conference on
State Legislation
Fairmont Hotel
San Francisco, Calif.
June 5, 1975

One of the principal characteristics of a profession in our country is that it enjoys a monopoly which is granted under state laws. The legalization of such a monopoly is based upon a widespread belief that the services involved are of such complexity and importance to public welfare that consumers must be protected from malpractice by establishing rigorous qualification requirements for those authorized to render the services. The price of this form of government-sponsored monopoly is acceptance by a profession of some degree of government regulation and demonstration that an effective system of self-regulation can be maintained.

These concepts are easily understood with respect to the legal and medical professions where there is a cohesive body of knowledge and, services involving a single and clearly defined area of human affairs such as health or justice. In our profession, however, the basis for our statutory status -- the expression of opinions on financial statements -- is made confusing by the fact that we render many other types of services requiring a multiplicity of kinds of knowledge. The lack of a statutory status for services other than the attest function leaves us in a position of competing with a diversity of unlicensed and unregulated groups in part of our practice and enjoying a special privilege in the regulated portion of our services. These circumstances are not unique since there are overlapping services among a number of groups in our society. However, in

our case they are considerably more extensive and pronounced. As a result, our regulation is a complicated matter and our privileged status is made more vulnerable to attack.

The report of the scope and structure committee attempts to rationalize our position by identifying a common characteristic of all our services to be that of providing consulting on business management and accounting. Because the field of business is so broad and pervasive it is understandable that we do not have it exclusively to ourselves. Nor is this likely to ever be the case. And for the same reason we can expect other groups to periodically attempt to gain access to our special area of expertise in expressing opinions on financial statements.

All of these factors render our regulation a highly complex subject making it imperative that we clearly define our role and objectives, that we pursue our goals with a vigorous legislative effort and that we maintain an acceptable balance between regulation by government and self-regulation. Because these matters are crucial to our ability to serve the public interest I would like to discuss several propositions under the two broad classifications -- 1. the attest function and 2. other services.

As a first proposition relating to the expression of opinions on financial statements it seems clear that our profession believes that the public interest is best served by a

single regulatory class statute coupled with the minimum of government regulation necessary to maintain the integrity of the profession. Stated another way, we want only CPAs to be granted the right to attest to financial statements and we would prefer to be substantially self-regulated.

These notions are embodied or implied in our model accountancy statute and are not likely to be challenged by CPAs. However, based upon experience to date, public accounting practitioners who are not CPAs can be expected to continue their efforts to gain rights substantially equivalent to those of CPAs even though a slightly different title might be used.

The National Society of Public Accountants has been attempting to create a facade of its members having met membership requirements which are equivalent to the requirements to become a CPA. They have instituted an examination, adopted a code of ethics, embraced the Institute's generally accepted auditing standards and established an Accreditation Council on Accounting. But up to the present time these steps have lacked substance and are a subterfuge to avoid taking the CPA examination. Their examination is a joke, there is no surveillance of practice or machinery to enforce the code of ethics, and the degree of their adherence to the Institute's technical standards is highly dubious.

Because many non-CPAs cannot meet educational requirements they are barred from taking the CPA examination. No doubt this is a part of the motivating force behind NSPA's program. But I suspect that even if the educational requirements were waived there would be many who would not sit for the examination and would continue to seek statutory recognition.

Clearly we ought to resist any attempts to short-cut the qualifications required to express opinions on financial statements. What is not so clear is what should be done with respect to bookkeeping and the preparation of unaudited financial statements. The state legislatures and courts have not generally seen fit to regulate these services in the past and we have not pressed for exclusivity for CPAs. I have some misgivings that with the growing importance of unaudited financial statements we may be running counter to the public interest by opposing some form of regulation in this area. I recognize the practical political obstacles to confining this work to CPAs. Also I am aware of the dangers of the alternative course of requiring non-CPAs to meet certain minimum standards to perform such services. Perhaps there is no satisfactory answer to this problem but we need to keep in mind that the courts are increasingly inclined to assign some degree of responsibility to public practitioners for unaudited financial statements with which they are associated. This would seem to imply that protection of

the public is involved and that regulation might be imposed at some future time.

I am not certain that we have too much to fear if we maintain a vigilant legislative program. This leads me to my second proposition which is a belief that our profession has done so much and so well in most aspects of self-regulation that we should have little difficulty in maintaining our exclusive rights to express opinions on financial statements at least in those states where it exists. This is not to say that we can relax in our legislative programs. But we do have an excellent and impressive record of accomplishment which ought to win the day if we put forth the appropriate effort. Let me review that record with you.

1. A common body of knowledge was determined in the "Horizons for a Profession" study and is generally being adopted over a period of time.
2. We are embarked upon a program to establish schools of professional accounting. Among a number of schools that are taking this step is the University of Missouri.
3. We have under study the establishment of standards for accreditation of schools of professional accounting or accounting programs offered by universities.

4. We have had for many years a uniform examination which is conducted and graded on a national basis. The examination is unique in this respect and is widely recognized as a stringent test of qualifications.
5. Our code of ethics is one of the most extensively developed of any of the professions and has contributed substantially to the generally high level of conduct and independence on the part of our profession.
6. Our machinery for surveillance of practice is one of the strongest in existence in the private sector. It consists of a number of parts, all of which are designed to assure a high level of performance. Among these parts are:
 - a. Active ethics committees and trial boards to carry out disciplinary actions. We are in the process of integrating the work in this area on the state and national levels to provide greater uniformity and effectiveness and to eliminate unnecessary duplication. Over 40 state societies are expected to participate.
 - b. Practice review programs to identify and

correct cases of substandard financial reporting.

- c. Quality review programs to assure that generally accepted auditing standards and procedures are being followed. Our local firm program in this area is developing very successfully. With respect to the larger firms we have encountered some difficulties but a revised proposal has been developed by a special committee on self-regulation of firms chaired by Sam Derieux. This proposal involves a program of registration of firms of all sizes -- large and small -- who meet certain standards and filing requirements.
- d. Establishment of a national register of disciplinary actions is close to the implementation stage. We expect to seek participation by the state societies and state boards of accountancy some time this fall.
- e. We periodically appoint special groups to study matters of over-riding importance to the performance of the profession. One such group which is currently at work is the Commission on Auditors'

Responsibilities being chaired by Manny Cohen. Another, which has just completed its work and issued its report, is the Special Committee to Study the Implications of Equity Funding as to the adequacy of present auditing standards and procedures.

I am certain that you will agree with me that we are far from complacent about meeting the need to monitor the quality of the auditing work being performed by the profession.

7. Another major part of our record which is convincing evidence that we merit retaining our privileged status is our extensive achievements in continuing professional education. We have been a leader among the professions in adopting a policy of mandatory requirements. Sixteen states already have mandatory requirements and many more are in the process of seeking legislation for this purpose. Still others are experimenting with voluntary programs and some state societies have adopted mandatory requirements as a condition for membership.

8. Last, but by no means least, has been our continuous development of technical standards in the accounting and auditing areas. There are those who say that in many cases we have acted too slowly or failed to act in establishing needed standards. No doubt there is truth in these criticisms but when viewed in the perspective of accomplishments by other groups both in government and the private sector I believe our accomplishments reflect an outstanding record of responsible behavior. We should be proud of the fact that we took the initiative in establishing the FASB in response to the widespread view in the business community that a broader participation by interested parties was in the public interest.

None of the foregoing parts of our record is new but we seldom take the time to add them all together. I believe you will agree that our accomplishments, taken together, are indeed impressive. Surely they should be more than adequate to convince legislators that their continuing trust and support of the profession is warranted. If our story is presented, the facts should speak for themselves and the contrast between our qualifications and those of non-CPA groups should be so stark as to be overwhelming.

Having dwelled at some length on my second major point that we have an impressive record, I would like to identify a need which has not as yet been completely fulfilled.

This leads me to my third proposition that there is a need for a formal program of self-regulation of CPA firms.

Most of our machinery and efforts in the past have been designed to deal with individual CPAs. This was a natural result of accreditation on an individual basis and the fact that in earlier times the preponderance of practice units were relatively small and local in nature. But the emergence of large national and international CPA firms to serve the evolving multinational corporations has caused a shift of responsibility for audit opinions to firms rather than individual CPAs. Audits of large companies require the cooperative effort of teams of CPAs and it is often difficult to fix responsibility on any single individual.

The SEC has been inclined, in its enforcement actions, to direct its attentions to CPA firms where large company audits have been involved. Its injunctive actions and mandated quality control reviews under Rule 2e proceedings have been aimed at firms rather than individuals.

As I previously mentioned, we are already moving toward a scheme of self-regulation of firms. Our voluntary quality control review programs are a major effort in this

direction. The work of the Derieux Committee is aimed almost entirely at meeting the need for an effective and feasible program of self-regulation of firms. The tentative proposals of this group for the voluntary registration of firms for quality control purposes have been initially discussed with the Board of Directors and Council last month. Based upon early reactions the plan seems to have considerable merit.

The Committee plans to develop the proposals in greater detail over the next few months and hopes to place the matter on the agenda of the fall meeting of Council in October. I urge each of you to become fully familiar with this new plan of self-regulation so that you may appraise its merits.

My final proposition with respect to the area of attest services is that there is a likelihood of greater involvement by government in regulating this function -- particularly at the federal level. There are a number of reasons why I think this may occur.

1. During the recent development of that portion pertaining to auditors of the American Law Institute's project to recodify the Federal securities laws, the SEC endeavored to insert explicit authority over auditing standards and the power to regulate the qualifications of CPAs practicing before the Commission. We have been

successful so far in resisting this proposal but it is an indication of an attitude that there should be greater governmental regulation.

2. The growing dimensions of legal liability problems for all the professions is likely to lead to legislative efforts to establish some form of tolerable limitations. The medical profession is currently in the forefront of trying to solve this problem by legislative action but I believe that our profession will also need to seek legislative relief sometime in the not too distant future. This need will become acute when, as I expect, we will no longer have underwriters willing to provide insurance at an acceptable cost. If and when we do pursue a legislative solution we can almost certainly expect an accompanying quid pro quo of greater governmental involvement in the affairs of the profession.
3. The problems and dislocations that are occurring in our capital markets and the tremendous need for capital formation are factors that are bound to focus even greater attention on the financial reporting process and our role as auditors. The

resulting scrutiny of our profession by Congress and the regulatory agencies may well lead to demands for more government regulation or changes in our profession, whether or not warranted. Also, even more pressure will be brought to bear on the FASB to quicken the pace of standard-setting. And the SEC may well feel compelled to take a stronger part in both standard-setting and regulation of our profession. These events are not inevitable but they are sufficiently likely that we need to keep them in mind.

4. The continuing trend toward federal government funded programs coupled with audit requirements also may lead to a layering of federal regulation on top of state requirements. So far this has been confined to specifications for audits and auditors' reports being included in the various pieces of legislation. But if scandals relating to misapplication of funds should become prevalent we can expect a large share of the blame to be directed at the auditors. The result will be demands for reform involving more regulation.

There are no doubt other trends that could be cited

which point toward more government control of our affairs. Hopefully none of the developments I have described will come to fruition if we do our job well and if we maintain a vigilant watch over the evolving needs and act promptly to meet our responsibilities.

The regulatory situation with respect to CPA services other than the attest function has traditionally been given little attention primarily because it has been thought that regulation of tax services and management consulting was not required from the standpoint of public interest. The policy has been based on "let the buyer beware."

This situation is, I believe, rapidly changing. Consider, for example, the implications of these developments:

1. The states and Federal government are struggling with devising methods of regulating the work of commercial tax return preparers.
2. The legal profession is moving toward formal recognition of specialization in tax practice.
3. Several states are in the preliminary stages of considering the need for licensing of management consultants.
4. The Institute of Management Consultants is considering whether to pursue a course of seeking

statutory accreditation and licensing of management consultants on a state level.

5. Several states are passing laws regulating employment agencies and personnel recruiting services and these laws tend to include broad definitions that apply to services rendered by CPAs.
6. Recently a bill to establish an Agency for Consumer Advocacy got thru Congress.
7. The new pension law, ERISA, contains provisions for the regulation of fiduciaries under definitions that include some of the services rendered by CPAs.

These developments lead me to two general conclusions about the non-attest areas. First, I believe that government regulation of the non-attest areas of our practice is likely to evolve and that our profession will not enjoy exclusive rights to offer such services.

Second, there is an urgent need to examine our legislative policy, or lack thereof, with respect to all services other than expressing opinions on financial statements. I don't think we can afford to sit idly by and run the risk that new

forms of regulation effecting substantial areas of our practice will be shaped solely by other groups possibly to our detriment.

We are, of course, taking some steps to deal with these developments. The MAS body of knowledge study is specifically designed to come to grips with the question of whether management consultants can and should be licensed. The scope and structure committee report poses a course that might rationalize what is now a confusing and unorganized approach to the full range of CPA services. The possibility of formal accreditation of specialists is highly relevant to the matter of regulation, whether it be governmental or self-imposed.

We are also carrying on discussions with the appropriate federal agencies and congressional committees on all of the proposed or enacted legislation which has a bearing on the practice of CPAs.

It seems clear to me that we need to broaden our thinking in our legislative policies. We need to pay attention not just to our attest function but to our whole scope of services. We need to think thru how we can best coordinate our efforts both at the state and federal levels. Something approaching a long-range master plan must be devised and embraced by our membership or I fear that we may flounder in a sea of conflicting objectives and initiatives.

The task that lies before us is substantial. This

conference and the proposal to organize on a regional basis is an important step toward meeting the challenges at the state level. But a great deal more needs to be done. I am fully confident that by working together, both the Institute and the state societies can, over a period of time, bring about a more orderly pattern of regulation of our profession and cope successfully with the somewhat chaotic situation in which we presently find ourselves.

#