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Is Professionalism Dead? An address at the Tenth Annual Center Dinner of the University of Hartford Center for the Study of Professional Accounting May 1, 1978

Wallace E. Olson

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An address by **Wallace E. Olson,** CPA
President, American Institute of Certified Public Accountants

at the Tenth Annual Center Dinner
of the University of Hartford
Center for the Study of Professional Accounting

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In the past we have been laying claim to being a profession on the grounds of having all the trappings traditionally identified with those of other professions. However, our pre-occupations have been largely with matters within the profession. Our understanding of the true public interest nature of our role has not been as clear as it is now becoming. It has been all too easy to espouse in our literature our dedication to serving the public. Now, however, we are being pressed to make our actions correspond more fully with the ideals that we have articulated in the past.

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University of Hartford

Center for the Study of Professional Accounting

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Introduction of Mr. Olson by Professor Goodman

The American Institute of Certified Public Accountants, the national organization of CPA's, has a membership of 136 thousand. It occupies two floors of office space in a New York skyscraper on the Avenue of Americas, has a staff of 400, and carries on a publishing business with an annual sales of 6.5 million dollars.

The chief executive officer of this important organization, the man who is the chief spokesman for the entire accounting profession in the United States, is Wallace E. Olson.

Mr. Olson assumed the post on September 1, 1972 after being associated with Alexander Grant & Co. for more than 25 years. He joined the firm in 1946 when it had only four offices. Alexander Grant had opened a new office in LaCrosse, Wisconsin, Mr. Olson's home town, just as he returned home looking for work after serving in the Navy during World War II.

Twenty years later he became the executive partner of the firm at its headquarters in Chicago. At that time the firm had 20 offices. In 1972 when Mr. Olson left for the American Institute, the firm had 52 offices. Today it has 57 offices and 165 affiliates in 50 countries.

During his last two years with Alexander Grant, Mr. Olson served as chairman of the Institute's Professional Ethics Division and helped recast the CPA's Code of Professional Ethics.

He was also a member of the Blue-Ribbon Study Group—the Wheat Commission—which proposed the formation of the Financial Accounting Standards Board.

A few weeks after he became President of the Institute, Mr. Olson expressed this opinion in an interview: *"I couldn't be more bullish on the prospects for the accounting profession. Of course, we have our problems. But all of the forces in our highly developed country point towards more and more communication of data, more and more measurement, more and more accountability. I expect the demands for the CPA's services to expand at a rapid rate, because I can't think of another group better qualified to respond to these developments."*

Six years have passed since this statement was made, and during this time, Mr. Olson, your predictions have proved to be very accurate. During this period the membership of the Institute has grown from 80,000 to 136,000, and the demand for accountants by public accounting firms has almost doubled. And during this time the profession has had problems.

It has been a turbulent period. The demands placed on Mr. Olson's time by Congressional Committee hearings, SEC inquiries, reorganization of the Institute, the news media, the membership and the staff, have been of the highest magnitude ever experienced at the Institute. It has meant working from early in the morning to late into the night to meet these demands.

In my regular visits to the Institute, I have never seen him impatient, undignified, thoughtless. I have never seen him too busy for courtesy or for someone who needed him.

He has won the respect and the confidence of his profession, the business community, and the government, at home and abroad.

The Center for the Study of Professional Accounting is pleased and proud to present its 1978 National Distinguished Service Award to Wallace E. Olson, CPA, President of the American Institute of Certified Public Accountants. The inscription on the award reads:

> *For your selfless and timeless devotion to the American Institute of Certified Public Accountants, outstanding performance of every duty, total dedication to the accounting profession.*

Wallace E. Olson, CPA

President, American Institute of Certified Public Accountants

Wallace E. Olson, CPA, is president and chief staff officer of the American Institute of Certified Public Accountants with headquarters in New York City.

Formerly executive partner of the accounting firm of Alexander Grant and Company with which he had been associated for 25 years, Mr. Olson assumed his Institute position on September 1, 1972. As president, Mr. Olson provides overall direction of the Institute's operations in New York and Washington and is a principal spokesman for the 135,000 member national professional organization.

A graduate of the University of Wisconsin, Mr. Olson has served on numerous Institute committees and is a former member of its governing Council.

Is Professionalism Dead?

by Wallace E. Olson

It is not uncommon these days to hear expressions of grave concern within our profession about excessive competition, unrestrained solicitation, concentration and a general decline in intra-professional courtesy. At the same time representatives of our federal government are criticising our profession for not being sufficiently independent of corporate management, failing to fully recognize our responsibilities to the public and engaging in practices designed to restrict competition and entrance into the profession.

These concerns have led some to worry that our professionalism is either already dead or teetering on the brink of extinction. There are yearnings among us to return to the good old days when the firms were small, there were leaders of great stature and comraderie rather than competitive rivalry was the rule. We would prefer to forego the critical commentary about our profession which has become commonplace in the print media. And few of us are overjoyed by the attention being given to our professional affairs by Congress.

Even though we all have a natural tendency to resist change such a course is rarely productive or successful. A more constructive approach involves paying careful attention to the social trends that are playing a part in shaping our future and devising ways to meet changing public demands. To do this it is necessary to look back at what has been happening during the past thirty years within our profession and the business community.

Following the second world war our profession went through a transformation that largely paralleled the rapid expansion of the economy. It was during the next 15 years that the growth-by-merger movement took hold in the profession. The large firms became much larger by absorbing local firms and establishing operating offices in an ever-increasing list of cities. The scope of services was expanded by employing members of other disciplines to meet the demands for a widening array of consulting assistance. Also, to meet the needs of clients who were becoming international in scope the large CPA firms devoted a great deal of effort toward establishing affiliations on a worldwide basis.

Out of these developments grew the substantial gap that exists today between the eight largest firms and the rest of the profession. To be sure, a number of other national firms with international affiliations emerged during this period; but they started from a much smaller base of publicly-held clients and their practices were built primarily by serving smaller and medium sized companies.

It was also during this period that the pressure to establish more extensive accounting and auditing standards arose and the concerns about preparatory education and aggressive programs for recruiting college graduates took hold.

Following the second world war our profession went through a transformation that largely paralleled the rapid expansion of the economy.

In short, it was a time when a segment of public accounting was becoming a big business to meet the needs of users of financial statements of publicly traded companies that had grown to become corporate behemoths. The larger CPA firms could no longer operate efficiently as professional partnerships in the traditional sense. They adopted many of the operating characteristics of the large corporate enterprises that they served. Partners delegated broad management powers to executive committees and managing partners that resembled boards of directors and chief executive officers in the corporate world. Thus central management involving national office staffs and line divisional officers in the form of managing partners of operating offices became the normal organizational structure of the national firms.

In the meantime, a large segment of public accounting chose to continue to practice as local or regional firms. These firms were also prospering as a result of business expansion and some grew to considerable size by serving smaller and privately-held business enterprises. Generally, however, such firms continued to be operated as true partnerships and their managements were shared by their partners.

Out of these developments grew the two-tiered profession which exists today, characterized by sharp differences in organizational and management structure and the general nature of clientele being served. The large national firms adopted all the commercial traits that their size required. Their practices became more commercial in tone. Their chief executive officers became subject to pressures from the owner-partners to achieve annual increases in gross fees and net earnings. Aggressive tactics to sell more services and attract new clients became commonplace. If such activities did not violate the letter of the profession's behavioral rules of conduct they certainly did damage to their spirit.

The smaller firms were also becoming more aggressive but it is probably fair to say that they were far more restrained and more inclined to abide by the intent of the rules of conduct. Perhaps this reflected the fact that their practices were still being conducted on a more personal basis and in the form of a traditional professional partnership.

The changes in attitudes that emerged during this era are at the root of the uneasy feeling that the traditional notions about professionalism are in danger of becoming extinct. It had long been accepted that one of the main characteristics of a true profession was a dedication to putting unselfish service to clients and the public ahead of income considerations. The size, structure and operating methods of the largest firms seemed to run counter to this ideal. Partly because of this perception, local firm practitioners have become increasingly critical of the larger firms, whose activities they regard as turning their profession into a commercial business.

The fundamental changes in approach to the practice of public accounting adopted by the larger firms were carried into the 1960s. It was during this decade that the merger movement within the profession began to subside and a period of consolidation took place. At the same time, however, the corporate world was embarking upon a wild spree of mergers and acquisitions culminating in the birth of many new large conglomerates.

Some of the individuals responsible for assembling the conglomerates were a new breed of management who had discovered how to take advantage of alternative accounting principles to reflect earnings on financial statements before such earnings had actually been realized. Others utilized a similar approach to capitalize on the widespread speculation taking place in the securities markets particularly in such fields as franchising and real estate development.

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Because the profession had just come through a period of rapid expansion it was ill-prepared to deal with these new developments. The firms were often inclined to view their responsibility as running primarily to management and generally felt justified in expressing unqualified opinions on financial statements so long as they conformed to one of the alternatives permitted under generally accepted accounting principles. Ultimately the combination of abuses in the application of accounting principles and the rampant speculation in the securities markets culminated in a series of spectacular business collapses followed by a rash of class action lawsuits against the auditors.

Meanwhile, the financial press began to discover that the work of auditors was newsworthy as a result of the collapse of such major corporations as Penn Central. The importance of accounting principles was quickly identified and the cry went up that the setting of accounting standards was too important to be left solely to the accounting profession. Members within the profession were also calling for reforms in the setting of accounting standards thereby reflecting the differences in views which existed between the national firms. It was in this context that the Wheat Committee was appointed which led to the establishment of the present Financial Accounting Foundation and the Financial Accounting Standards Board.

By the mid 1970s the pressures of civil liability suits and SEC injunctive and enforcement proceedings had brought about significant changes in attitudes within the national CPA firms.

Initially, the profession was slow to realize the full implications of the mounting public concern about accounting principles and the outbreak of lawsuits against auditors. However as the lawsuits multiplied and the claims for damages assumed monumental proportions the national firms began to take steps to protect themselves. Extensive training programs were instigated, defensive auditing procedures were adopted and intensive systems of quality controls and compliance reviews were installed. The large firms were rapidly becoming acutely conscious of legal liability and began building in-house legal departments to cope with the growing volume of litigation.

By the mid 1970s the pressures of civil liability suits and SEC injunctive and enforcement proceedings had brought about significant changes in attitudes within the national CPA firms. Responsibility to investor and creditor interests came to be more fully recognized and every precaution was being taken to assure that audited financial statements were not based upon accounting measurements that reported earnings prematurely. The forces of the marketplace and existing institutions had truly resulted in correcting the abuses of the 1960s and have had a profound and lasting impact on the practice of public accounting as it relates to publicly-traded companies.

Not to be overlooked during this period was the combined impact on accounting principles of an aggressive and activist Chief Accountant at the SEC and the emergence of the Financial Accounting Standards Board. Beginning in 1972 the

SEC issued a steady flow of Accounting Series Releases which greatly increased the amount of disclosures required in financial reporting and pressed auditors to assume new responsibilities. Reviews of interim financial statements, expressing preferability with respect to alternative accounting principles, disclosures of replacement costs of productive plant and inventories and reconsideration of the desirability of publishing financial forecasts were among the many issues that were addressed.

Meanwhile the FASB was getting into high gear. It issued standards on such long-standing problems as accounting for research and development costs, leases, translation of foreign exchange rates and segments of a business. The standing of the FASB's pronouncements was greatly enhanced by the issuance of Accounting Series Release 150 which acknowledged the SEC's willingness to rely upon standards established by the FASB.

In the space of less than five years these developments caused an enormous growth in both the volume and complexity of financial accounting and reporting standards. This upsurge in activity was a direct result of the demands for better accounting and disclosure that arose from the abuses and business failures of the late 1960s.

Despite the impressive progress being achieved in making financial statements more informative and reliable, events were occurring that were arousing the interest and concerns of congressional committees. A resurgent Congress was discovering that economic data being used for establishing national policies was only as reliable as the financial statements on which it was based. This fact became painfully clear when, as a result of the energy crisis, Congress discovered that financial reports of the oil and gas companies were not comparable because various methods of accounting measurement were being employed. Congressman John E. Moss of California promptly introduced an amendment to the 1975 energy legislation to mandate the establishment of uniform accounting standards for the petroleum industry. In the process, he raised anew the question about whether accounting standards should be established entirely by a governmental body rather than relying on the private sector.

A resurgent Congress was discovering that economic data being used for establishing national policies was only as reliable as the financial statements on which it was based.

Hard on the heels of this development came the disturbing revelations of improper political contributions, illegal bribes and off-book slush funds of hundreds of the nation's largest corporations. The shock waves from disclosures of these practices are still reverberating and they raised questions about the performance of independent auditors that have badly damaged the credibility of the profession.

Subcommittees of both houses of Congress, the SEC, the Federal Trade Commission and the Justice Department are all engaged in deliberations about what should be done to make auditors more effective and financial reporting more reliable.

Out of these and other related events have come the current wave of investigations by various governmental bodies into the role and performance of our profession. Subcommittees of both houses of Congress, the SEC, the Federal Trade Commission and the Justice Department are all engaged in deliberations about what should be done to make auditors more effective and financial reporting more reliable. Among the concerns being addressed are:

1. The establishment of accounting and auditing standards.
2. The independence of auditors.
3. Regulation of independent auditors practicing before the SEC.
4. Anti-competitive practices and concentration within the profession.

Although the profession did not anticipate much of what has happened it was sufficiently concerned about its growing loss of credibility that an independent commission was appointed in 1974 to study the role and responsibilities of auditors. The final report of this commission, chaired by the late Manuel Cohen, was issued early this year. It contained over forty recommendations which, if fully implemented, will have a far-reaching effect on how independent auditors discharge their responsibilities.

During the past two years the profession has thus been confronted with a bewildering and sometimes conflicting array of recommendations for reform emanating from congressional subcommittees, the Commission on Auditors' Responsibilities, CPAs in formal statements and testimony before congressional hearings, the Justice Department and the SEC. Clearly, the profession had to respond to these calls for changes or it ran the very real and imminent risk of losing a voice in the shaping of its own destiny. The threat of federal legislation to impose new layers of regulation on the profession was too serious to be ignored.

Starting in June 1977, the AICPA formulated a comprehensive program to respond to criticisms and recommendations that had been expressed. The key features were:

1. Establishment of a Division For CPA Firms to provide a means of self-regulation of firms and also deal with the problems relating to differences in the size of firms and nature of clients served in public practice.
2. Improvement in the effectiveness of the disciplining of individual CPAs.
3. Steps to enhance the independence of auditors.
4. Changes to improve the auditor's report, the setting of auditing standards and corporate accountability through expanding the role of auditors based largely upon recommendations of the Cohen Commission.
5. Modifying the profession's rules on advertising, solicitation and other behavioral prohibitions which might be regarded as being anti-competitive.
6. Providing for greater public participation in the affairs of the profession by adding public members to the AICPA Board of Directors and opening meetings of other policy making bodies to the public.

During the past two years the profession has thus been confronted with a bewildering and sometimes conflicting array of recommendations for reform emanating from congressional subcommittees, the Commission on Auditors' Responsibilities, CPAs in formal statements and testimony before congressional hearings, the Justice Department and the SEC.

This massive overhaul of the profession's structure has been in the process of implementation during the past ten months and is currently well along toward completion. It has not had smooth sailing however.

The establishment of a Division For CPA Firms with two sections, one for SEC practice and another for private companies practice has given formal recognition to the long-standing differences involved in serving clients that are publicly traded and those that are not. Fears have been expressed that institutionalizing these differences will aggravate the competitive problems of the smaller firms and result in a divided profession. A group of eighteen practitioners has brought a lawsuit against the AICPA seeking to require a referendum of the Institute's membership presumably with the intention of bringing about changes in the implementation of the Division For CPA Firms.

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The fact is that no amount of pretending that differences in practice do not exist will make them disappear. There is no denying that regulation of firms practicing before the SEC is being demanded and either the Federal government or the profession will establish a mechanism for this purpose. It is clear that the vast volume of complex accounting and auditing standards appropriate for SEC registrants has become excessively burdensome when applied to smaller and privately-held companies and a method of drawing distinctions must be devised. There is little doubt that more competition, not less, is being called for and that artificial devices to protect CPA firms of all sizes from the ravages of competition are not likely to be permitted. Few would deny that there are great pressures to expand the role and responsibilities of auditors as part of a broader demand for greater accountability by publicly-traded corporations.

The sooner our profession faces up to these facts of life the more likely it is that we will avoid becoming obsolete. The social forces that are confronting us are not to be denied and clinging to the old traditions is not likely to result in maintaining the status quo.

The profession's present program is designed to bring about changes that will deal realistically with the facts which confront us and keep us in harmony with the trends in our society. There is room for debate about specific parts of the program but those who believe that changes are unnecessary are truly inviting extensive governmental intervention.

The SEC is supporting the profession's program and is opposing any additional regulatory legislation at this time. However it is sharply critical of the profession for not going far enough and it is applying substantial pressure for additional changes.

At this point in time it is difficult to predict with precision the future effects of the developments which have evolved during the past thirty years and converged at a rapidly accelerating pace into the present state of affairs. When viewed in perspective, however, it is possible to conclude that what is happening is the evolution toward greater professionalism, not its death.

In the past we have been laying claim to being a profession on the grounds of having all the trappings traditionally identified with those of other professions. However, our pre-occupations have been largely with matters within the profession. Our understanding of the true public interest nature of our role has not been as clear as it is now becoming. It has been all too easy to espouse in our literature our dedication to serving the public. Now, however, we are being pressed to make our actions correspond more fully with the ideals that we have articulated in the past.

There are many signs that our professionalism is becoming more substantive. By dropping our bans on advertising and solicitation we are getting away from the notion that being professional depends partially upon such restraints. Instead we have come to recognize that high levels of skill and expertise are far more important. Greater emphasis is being placed on pre-entry education as well as continuing post-entry education. Independence, quality controls and compliance with standards are being given much greater attention to assure that the highest possible levels of performance are attained.

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The impact of liability suits has made it clear that auditors cannot afford to view their role as being primarily responsible to corporate management. The acceptance of a role that is more closely akin to that of a public servant is reflected in the accounting and auditing standards being adopted. Responsibilities to do more than find a way for clients to conform to generally accepted accounting principles are being more widely recognized. The implications of Rule 203 of the Rules of Conduct which requires the exercise of a judgment about whether financial statements are misleading on an overall basis are being more fully recognized.

The need for a means to regulate CPA firms in addition to individuals has now gained acceptance and is bringing the profession's disciplinary machinery more squarely in line with the realities of modern practice.

Contrary to the concerns of some, openly addressing the practical differences in practice between large and small firms and between serving publicly-traded companies as compared to small privately-held companies has caused most CPAs in public practice to have a growing appreciation of the need for a satisfactory way to deal with these differences. We are trying to do this by working together to establish appropriate practice sections under the umbrella of the AICPA so that we can remain a unified profession on a national basis.

These are all indications that our profession is coming of age. We are tackling the hard problems that have been accumulating since the late 1940s. We are becoming more professional in the sense that we are addressing our public obligations in a much more substantive way than ever before. We are developing levels of skills and expertise that far transcend those of earlier times and give us a more legitimate claim to being professionals.

There is little doubt that much remains to be accomplished and that some of our present initiatives may prove to have been wrong in the light of hindsight. But one thing seems certain when viewed in the perspective of the events of the past thirty years. Our professionalism is far from dead or in danger of becoming extinct. To the contrary, we are moving rapidly in the other direction toward making our claim to professional status more soundly based than it has ever been. If we keep this firmly in mind during this difficult period of transition we will steer a safe course into the future.

This is not the time for superficial solutions and everlasting elocution, not for frantic boast and foolish word. Self-criticism is the secret weapon of the accounting profession. We dare not look back on great yesterdays. We must look forward to great tomorrows. What counts now is not just what we are against, but what we are for.

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