

University of Mississippi

eGrove

Guides, Handbooks and Manuals

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1-6-1975

Remarks Made at the Second National Conference on Current SEC Developments, Washington, D. C. January 6, 1975

Wallace E. Olson

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

Remarks Made At The
"SECOND NATIONAL CONFERENCE ON CURRENT SEC DEVELOPMENTS"

By

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

Statler-Hilton Hotel
Washington, D. C.
January 6, 1975

It is a pleasure for me to welcome you to the American Institute's "Second National Conference on Current SEC Developments."

As many of you know, the first such conference was held here in Washington one year ago and the reaction of those who attended was very favorable. We are gratified by the large number of participants present today which is evidence that there is a continuing high level of interest in a conference of this nature. As a result we expect to hold these conferences on an annual basis.

Our goal is to provide a forum for members of the accounting profession to hear and discuss first hand with representatives of the SEC as well as expert practitioners the new developments with regard to filings with the Commission. The sessions during the next two days will provide you with valuable information and insights that will assist you in your practice or filings before the SEC.

I believe that it is fair to observe that during the past year the Commission has continued a very aggressive program with respect to accounting and auditing matters. The Institute's committees have been kept busy analyzing and commenting on the many proposals for new accounting and reporting requirements.

This is a very important function for the profession to perform if the Commission is to avoid invoking

rules that are unworkable or impractical to apply.

There have been, of course, a number of differences of opinion about the desirability of specific proposals. These differences are no doubt the inevitable result of the normal disparity in the perspectives of a governmental regulatory agency and a private profession.

I believe that the profession feels at times that the Commission has been inclined to move too fast and to adopt too much of an adversary's attitude toward auditors. The large volume of new requirements are difficult to assimilate and implement all at one time. And CPAs are astounded and deeply troubled when they find themselves being charged with committing fraud when, in the light of hindsight, it is evident that they exercised very poor judgment. While poor judgments may be evidence of poor performance, auditors do not believe that they have knowingly aided and abetted the frauds of their clients.

On the other hand, the Commission perceives an urgent need to improve financial reporting and disclosure to protect investors from emerging abuses. The profession is viewed as being too slow in taking corrective action or assuming new responsibilities and guilty of reckless performance in those egregious cases where disciplinary action is taken. Aggressive enforcement is seen as being necessary to bring about more effective audits.

Despite these tensions and differences I believe that the partnership between the Commission and the profession is intact and thriving even though it may not be wholly without problems. The exchange of viewpoints which occurs at a conference such as this helps a great deal to produce mutual understanding and solutions to existing problems.

We CPAs are inclined to be very introspective and to be our own worst critics. We sometimes bemoan the fact that we don't react quickly enough to the pressures that face the profession. But I would submit that we have a pretty good record of meeting our obligations. As evidence of this let me cite a few of the actions that we have taken in recent times:

1. The Institute established the Financial Accounting Standards Board in 1972 to provide for broader participation in the standard setting process.
2. The Code of Ethics was amended to make adherence to generally accepted accounting standards enforceable.
3. We initiated and completed a full scale study of the objectives of financial statements.

4. We have appointed a special commission under the chairmanship of former SEC Chairman Manny Cohen to study the question of what the responsibilities of auditors ought to be. The decision to appoint a commission composed of three practicing CPAs and four members from other disciplines arose out of a growing concern about the apparent gap between public expectations and the profession's understanding of its responsibilities. It is hoped that this landmark study will be completed by the end of this year.
5. We have established a voluntary peer review program designed to provide member panels to examine the quality control procedures of multi-office firms. The first such review was started in 1974.
6. The Institute has provided panels to conduct a quality control review imposed under a disciplinary action of the SEC. Two additional such reviews have been arranged for. While it is too early to evaluate these programs, it is hoped that they will

prove beneficial in ensuring the effectiveness of auditors.

7. We have just appointed a special committee to study the need for some form of self-regulatory program for firms. Disciplinary action is presently limited to individual members.
8. To promote mutual understanding between the profession and the SEC we have initiated periodic discussions between members of the Commission and leaders of firms heavily involved in practice before the SEC. These discussions have focused on current issues of major significance. Some of the matters discussed include:
 - a. The need for two-way exchange of information about clients who are under investigation by the SEC.
 - b. The exploration of alternative forms of disciplinary action and a review of the criteria used for bringing such actions against auditors.

- c. The need for some form of limitation of auditors' legal liability. We found the Commission to be quite sympathetic with the necessity of finding a solution to this problem.
- d. The responsibility of auditors to detect management fraud. We were pleased to find there were no great differences in views on this subject.

Another meeting is scheduled for January 20 to discuss the expanding responsibilities of auditors with regard to such matters as:

- Interim financial statements
- Other data in annual reports
- Forecasts
- etc.

- 9. With the expanded activity of the SEC, our Committee on SEC Regulations (which is responsible for this conference) has held quarterly meetings with the Chief Accountant and his staff and members of the Division of Corporation Finance. These meetings are designed to discuss implementation of new pronouncements as well as new

problems that arise in connection with existing regulations.

I think you will agree that these are not the actions of a dormant, unresponsive profession. To the contrary, we have demonstrated a strong desire to participate fully in the process of improving the quality of financial reporting. In this effort we have cooperated on a very close basis with the Commission over a long period of years. The Commission, in turn, has strongly supported the profession as evidenced by the many members who will be participating in this conference.

But much more remains to be accomplished. Auditors today are faced with a bewildering array of difficult problems such as:

1. Coping with related party transactions.
2. Deciding how to reflect the effects of high inflation.
3. Judging the going concern question in a period of severe recession when there is likely to be many business failures.
4. Resolving the problems of lawyers letters relating to contingent liabilities.

5. Finding a solution to the interim financial reporting problem.
6. Implementing the growing list of "What If" accounting requirements.

The Commission needs to be aware that the sheer volume of these matters are putting an almost intolerable burden on practitioners and that time is needed to accommodate this heavy flow of changes. It is not realistic to expect that perfection can be achieved overnight.

Despite this concern we in the profession stand ready to do our best. And I am confident that through continued cooperative effort the challenges which face us today will be mastered and the investing public will be better served.

#