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Self-regulation - what's ahead? Address before the Ethics Conference, Nov. 20, 1979

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SELF-REGULATION -- WHAT'S AHEAD?

LIKE BEAUTY, THE MEANING OF THE TERM "SELF-REGULATION" IS DEPENDENT UPON WHO IS PROVIDING THE DEFINITION. THOSE WHO ARE EXPECTED BY SOCIETY TO REGULATE THEMSELVES GENERALLY HAVE A VERY DIFFERENT PERSPECTIVE FROM THOSE WHO MIGHT HAVE TO USE AND RELY UPON THE WORK OF THE SELF-REGULATED.

BECAUSE THERE IS SUCH A WIDE RANGE OF VIEWS ABOUT HOW MUCH REGULATION OF THE ACCOUNTING PROFESSION IS NECESSARY AND WHAT FORMS IT SHOULD TAKE TO PROPERLY PROTECT THE PUBLIC, WE NEED TO STAND BACK AND ASK OURSELVES "WHAT EXACTLY IS OUR OBJECTIVE." WE NEED TO ADDRESS SUCH QUESTIONS AS:

1. WHO ARE WE TRYING TO PROTECT? IS IT OURSELVES, THE CLIENT, THE INVESTOR, THE CREDIT GRANTOR, GOVERNMENT, THE PUBLIC IN GENERAL, OR SOME COMBINATION OF THESE PARTIES? WHO EXACTLY DESERVES PROTECTION AND HOW MUCH?

2. IF PROTECTION IS WARRANTED, IS DEPENDING UPON SELF-RESTRAINT OR SELF-REGULATION EXPECTING TOO MUCH OF HUMAN BEHAVIOR? MUST THERE BE RESTRAINT IMPOSED EITHER BY LEGAL LIABILITY OR BY GOVERNMENT? IS A COMBINATION NECESSARY OR DOES THIS RESULT IN UNNECESSARY DUPLICATION?

3. MUST REGULATION INCLUDE PROVISION FOR PUNITIVE SANCTIONS TO BE EFFECTIVE OR IS AN EDUCATIONAL PROGRAM SUFFICIENT? IF BOTH ARE DESIRABLE, WHAT KINDS OF SUBSTANDARD PERFORMANCE SHOULD GIVE RISE TO PUNITIVE SANCTIONS?

THERE ARE NO EASY ANSWERS TO THESE QUESTIONS WHEN ADDRESSED IN THE ABSTRACT. HOWEVER, WITHIN THE CONTEXT OF OUR EXISTING ENVIRONMENT IT MAY BE VALID TO DRAW SEVERAL CONCLUSIONS:

1. AS MEMBERS OF A PROFESSION WE HAVE A GENUINE INTEREST IN ASSURING THAT THE NORMS OF PRACTICE ARE ADHERED TO. THIS INTEREST MAY BE PARTIALLY ALTRUISTIC IN THE SENSE THAT WE WISH TO PROTECT THE USERS OF OUR SERVICES BUT IT STEMS ALSO FROM A DESIRE TO ELEVATE OUR OWN IMAGE AS A PROFESSION.

2. IN GENERAL, WE PREFER TO KEEP GOVERNMENTAL REGULATION OF OUR PROFESSION AT A MINIMUM AND ARE AT LEAST PARTIALLY MOTIVATED TO REGULATE OURSELVES TO AVOID OUTSIDE INTERFERENCE IN OUR AFFAIRS.

3. GOVERNMENT OFFICIALS ARE NOT GENERALLY WILLING TO RELY SOLELY ON SELF-REGULATION AND ARE INCLINED TO ADD LAYERS OF GOVERNMENTAL

REGULATION TO CURE OR PREVENT PERCEIVED SHORTCOMINGS.

4. REGULATION, WHETHER INTERNALLY OR EXTERNALLY INFLICTED, MUST INCLUDE PROVISION FOR PUNITIVE SANCTIONS IF IT IS TO HAVE CREDIBILITY. A PROGRAM THAT AIMS SOLELY AT EDUCATION IS NOT LIKELY TO BE REGARDED AS ADEQUATE REGULATION.

5. IN REPRESENTING THE PUBLIC INTEREST, GOVERNMENT OFFICIALS ARE PRINCIPALLY INTERESTED IN:
   A. ASSURING THAT CONSUMERS ARE PROVIDED OUR SERVICES AT A COST BASED UPON A FULLY COMPETITIVE SYSTEM.
   B. ASSURING THAT CPAS PERFORM IN ACCORDANCE WITH APPROPRIATE PROFESSIONAL STANDARDS.

   THEY GENERALLY HAVE LITTLE OR NO INTEREST IN THE BEHAVIORAL STANDARDS CONTAINED IN OUR RULES OF CONDUCT. ALSO, THEIR INTERESTS TEND TO CENTER ON PUBLICLY-TRADED COMPANIES RATHER THAN PRIVATELY-HELD BUSINESSES.

STARTING WITH THESE ASSUMPTIONS, WHAT THEN SHOULD OUR PROFESSION'S SYSTEM OF SELF-REGULATION CONSIST OF?

At the outset it seems clear that there is relatively little in the way of behavioral restraints that can legally be regulated by the AICPA or state societies. As private organizations, we are not in a position under the anti-trust laws to prohibit advertising, solicitation, or encroachment. While we can discipline our members for false, misleading, or deceptive advertising, it would not seem likely that this will prove to be a source of any significant number of cases.

It may be that our members will increasingly claim to be specialists, particularly in the process of advertising their services. Although we currently prohibit such claims, there is reason to doubt whether we could sustain enforcement of such a prohibition if we were challenged. In anticipation of this possibility, we appointed a Special Committee to develop guidelines for determining the circumstances under which self-designation as a specialist would be considered false, misleading, or deceptive. The committee's report will be considered by the Board of Directors next month and the results of its action will be reported to the Professional Ethics Executive Committee for its guidance on this matter.

With the exception of the few ethics cases that may arise in the advertising and claims of specialist areas, the great majority of all future disciplinary cases are likely to be based

UPON VIOLATIONS OF PROFESSIONAL TECHNICAL STANDARDS OR THE RULES ON INDEPENDENCE. THIS SUGGESTS THAT VIRTUALLY ALL OUR ATTENTION IN THE FUTURE SHOULD BE DIRECTED TOWARD ENFORCEMENT OF COMPLIANCE WITH TECHNICAL STANDARDS AND INDEPENDENCE RULES. BASED UPON OUR EXPERIENCES TO DATE, THIS WILL NOT BE AN EASY TASK BECAUSE THERE ARE FORMIDABLE PROBLEMS THAT WILL HAVE TO BE RESOLVED. THESE CONSIST OF IDENTIFYING AND GAINING ACCESS TO CASES INVOLVING SUB-STANDARD WORK OR IMPAIRMENT OF INDEPENDENCE AND FINDING THE RESOURCES IN TERMS OF BOTH MONEY AND QUALIFIED INVESTIGATORS TO CARRY OUT REGULATORY PROCEEDINGS.

AT THE PRESENT TIME, THE ENFORCEMENT OF TECHNICAL STANDARDS AND INDEPENDENCE RULES IS BEING ADDRESSED IN A VARIETY OF WAYS. LIABILITY LAWSUITS AND DISICPLINARY ACTIONS BY THE SEC ARE TWO OF THE MOST POWERFUL FORCES AT WORK TO ASSURE THAT CPAS MEET THEIR RESPONSIBILITIES. IN ADDITION, HOWEVER, THE PROFESSION HAS BEEN UNDER INCREASING PRESSURE TO DO MORE TO REGULATE ITSELF TO PREVENT SUBSTANDARD PERFORMANCE.

ONE RESPONSE HAS BEEN THE INTRODUCTION OF PEER REVIEWS AS A REQUIREMENT FOR MEMBERS OF THE DIVISION FOR CPA FIRMS. IN ADDITION, THE SECPS IS ON THE BRINK OF ESTABLISHING A SPECIAL INVESTIGATIONS COMMITTEE AND PROCEDURES FOR DEALING WITH CASES OF ALLEGED AUDIT FAILURES INVOLVING SEC CLIENTS. THESE

PROCEDURES INCLUDE A REQUIREMENT OF MEMBER FIRMS TO REPORT ALL LITIGATION INVOLVING ALLEGED SUBSTANDARD WORK ON SEC CLIENTS.

THESE INITIATIVES ARE DESIGNED TO DEAL WITH FIRMS RATHER THAN INDIVIDUALS BUT IT MAY PROVE VERY DIFFICULT TO DISTINGUISH BETWEEN THEM IN CARRYING OUT INVESTIGATIONS OF ALLEGED SUBSTANDARD PERFORMANCE. IT IS DIFFICULT TO INVESTIGATE ONE WITHOUT THE OTHER. AS A RESULT, WE ARE FACED WITH THE PROSPECT OF THREE PARALLEL INVESTIGATIONS OF THE SAME CASE, BY THE SECPS, THE PCPS, AND THE PROFESSIONAL ETHICS DIVISION, IF THE FIRM INVOLVED IS A MEMBER OF BOTH PRACTICE SECTIONS. ALSO, A FOURTH BY STATE BOARDS. THIS WOULD BE AN INTOLERABLE SITUATION AND WE MUST FIND A WAY TO AVOID UNNECESSARY DUPLICATION.

PERHAPS THE SOLUTION LIES IN ESTABLISHING PRIORITIES AS TO WHICH BODY SHOULD HANDLE A CASE DEPENDING UPON ITS NATURE AND THE NEED FOR CREDIBILITY IN THE EYES OF THE PUBLIC. FOR EXAMPLE, ALL CASES INVOLVING SEC CLIENTS OF MEMBERS OF THE SECPS MIGHT BE HANDLED BY THAT SECTION WITH RESPECT TO BOTH THE FIRM AND THE INDIVIDUALS INVOLVED. SUCH A POLICY WOULD COMMENCE WITH THE EFFECTIVE DATE OF THE SPECIAL INVESTIGATIONS COMMITTEE, LEAVING ALL OTHER CASES PRIOR TO THAT DATE TO BE CLEANED UP BY THE PROFESSIONAL ETHICS DIVISION OR POSSIBLY TO WIPE THE SLATE CLEAN.

BECAUSE THE PCPS WAS NOT INTENDED TO BE REGULATORY IN NATURE, IT PROBABLY SHOULD NOT ATTEMPT TO SET UP DISCIPLINARY MACHINERY BUT SHOULD REFER ALL CASES COMING TO ITS ATTENTION TO

THE PROFESSIONAL ETHICS DIVISION. THIS WOULD LEAVE THE ETHICS DIVISION IN A POSITION OF DEALING WITH ALL NON-SEC CASES AND PROVIDE IT WITH GREATER FREEDOM TO MOUNT A POSITIVE PROGRAM OF SURVEILLANCE AND ENFORCEMENT OF COMPLIANCE WITH TECHNICAL STANDARDS.

THIS APPROACH WOULD AVOID UNNECESSARY DUPLICATION AND GIVE RECOGNITION TO THE FACT THAT THE SECPS MUST BE SEEN TO BE DEALING EFFECTIVELY WITH SEC PRACTICE IF THE PROFESSION'S SELF-REGULATION IS TO HAVE CREDIBILITY. IT WOULD ALSO AVOID SOME OF THE DIFFICULT QUESTIONS REGARDING CONFIDENTIALITY OF THE ETHICS DIVISION'S FILES AND MIGHT PROVE MORE EFFECTIVE IN DEALING WITH LITIGATED CASES SINCE THE SEC SECTION CAN IMPOSE MORE EXTENSIVE REPORTING AND COOPERATION REQUIREMENTS ON ITS MEMBERS.

IT MIGHT BE THAT AN APPROPRIATE BYLAW AMENDMENT OR COUNCIL RESOLUTION WOULD BE REQUIRED TO AUTHORIZE THE PROFESSIONAL ETHICS DIVISION TO DELEGATE ITS AUTHORITY OVER CERTAIN CASES TO THE SECPS. THIS SHOULD NOT, HOWEVER, PRESENT A SERIOUS OBSTACLE TO RATIONALIZING OUR DISICPLINARY MACHINERY.

ANOTHER POTENTIAL AREA OF DUPLICATION IS THE DISCIPLINARY ACTIONS OF THE STATE BOARDS OF ACCOUNTANCY. IN THE PAST, MOST OF THE BOARDS HAVE BEEN RELATIVELY INACTIVE IN HOLDING DISCIPLINARY HEARINGS. THIS HAS BEEN DUE, IN PART, TO A LACK OF

RESOURCES BUT ALSO TO THE INABILITY TO SURVEILL PRACTICE TO IDENTIFY CASES OF SUBSTANDARD WORK.

THIS SITUATION MAY CHANGE, HOWEVER, AS A RESULT OF PRESSURES ON THE BOARDS TO BECOME MORE ACTIVE. NASBA, THE SEC, AND THE IMPACT OF SUNSET REVIEWS UNDER STATE LAWS ARE ALL PUSHING THE BOARDS TOWARD A MORE AGGRESSIVE DISCIPLINARY PROGRAM. A FEW STATE BOARDS ARE MOUNTING A SO-CALLED "POSITIVE PROGRAM" TO AGGRESSIVELY SEEK OUT CASES OF SUBSTANDARD WORK BY REVIEWING AUDIT REPORTS FILED WITH STATE AND LOCAL GOVERNMENTAL BODIES. THERE IS SOME QUESTION, HOWEVER, WHETHER THESE PROGRAMS WILL BE SUCCESSFUL. THE NECESSARY ADDITIONAL FUNDS AND MANPOWER MAY BE DIFFICULT TO OBTAIN AT A TIME WHEN LEGISLATURES ARE TRYING TO CUT SPENDING. ALSO, THE INDEPENDENT STATUS OF STATE BOARDS IS BEING INCREASINGLY DILUTED BY BEING COMBINED WITH OTHER LICENSING BODIES UNDER UMBRELLA AGENCIES.

THE PROFESSION IS LIKELY TO VIEW THESE DEVELOPMENTS WITH MIXED EMOTIONS. WE CERTAINLY WANT THE STATE BOARDS TO RETAIN THEIR INDEPENDENT STATUS AND TO REMAIN EFFECTIVE AS THE LICENSING BODIES FOR OUR PROFESSION. HOWEVER, WE HAVE SOME DOUBTS ABOUT THE UTILITY OF DUPLICATE DISICPLINARY ACTIONS FOR THE SAME OFFENSE.

Because of these concerns, we appointed a special joint committee with NASBA last year to study the present system and make recommendations for improvements. That committee, chaired by Marshall Armstrong, will be reporting its tentative conclusions within the next month or two. At this point, I do not know what the committee's recommendations will be so I feel free to offer my own suggestions.

It seems to me that the authority of our Professional Ethics Division should be modified to permit the following courses of action with respect to all non-SEC technical standards and independence cases coming to its attention:

1. Contact the appropriate state board to determine whether it plans to investigate and dispose of the case.

2. If so, the Ethics Division should refrain from any action pending disposition by the state board at which time the finding and penalty would automatically apply to the member's status in the AICPA and state societies. This should be possible since there should be complete uniformity in the rules applying to technical standards and independence.

3. If not, the Ethics Division should investigate the case and dispose of it either by supplying the facts to the appropriate state board, if it agrees to act, or by handling it under the JEEP program.

Besides eliminating unnecessary duplication, this approach would provide other benefits:

1. The Professional Ethics Division could devote a greater share of its efforts toward a more aggressive program of practice surveillance, thus improving the quality of performance.

2. The effectiveness of the state boards would be enhanced, thereby strengthening their defense when undergoing sunset reviews.

Some may object to the procedures I have outlined on the grounds that to protect its self-regulatory credibility, the profession cannot afford to delegate so much to the state boards. This is not likely to be a problem if it is coupled with the delegation to the SECPS as I have suggested. The critics of the profession are largely concerned about audits of SEC companies and Federal grant programs and are not likely to be impressed no matter what our disciplinary record may be with respect to private companies practice. On the other hand, the critics of state boards are

LIKELY TO BE IMPRESSED ONLY BY THE NUMBER OF CASES HANDLED BY THE BOARDS, IRRESPECTIVE OF WHETHER THE CLIENTS ARE PUBLIC OR PRIVATE.

EVEN IF THIS ANALYSIS IS FAULTY, WE CAN CERTAINLY DEFEND OUR OWN RECORD BY INCLUDING IN OUR STATISTICS ALL MATTERS REFERRED OR DELEGATED TO THE STATE BOARDS. IF WE ACT AS AN AGGRESSIVE FEEDER TO THE STATE LICENSING BODIES, FEW CRITICS WOULD BE INCLINED TO ATTACK OUR INTEREST IN SELF-REGULATION.

REGARDLESS OF THE COURSE FOLLOWED IN OUR FUTURE PROCEDURES, IT IS CLEAR TO ME THAT WE MUST FIND WAYS TO GAIN ACCESS TO ALL WORK BEING PERFORMED BY THE PROFESSION ON A RANDOM SAMPLE BASIS. ONLY BY TAKING THE INITIATIVE TO REVIEW AN ACROSS-THE-BOARD SAMPLE WILL WE GENERATE THE KIND OF PSYCHOLOGICAL PRESSURE NECESSARY TO ASSURE THAT ALL PRACTITIONERS MAKE A CONSCIOUS EFFORT TO COMPLY WITH OUR PROFESSIONAL STANDARDS. WE CAN NO LONGER AFFORD TO ALLOW A SEGMENT OF OUR MEMBERS TO HAVE A COMPETITIVE ADVANTAGE BY IGNORING STANDARDS WITH IMPUNITY. NEITHER CAN WE AFFORD TO ALLOW SUBSTANDARD AUDITS OF FEDERAL GRANT PROGRAMS TO CONTINUE UNSCATHED IF WE ARE TO AVOID THE RISK OF SEVERE CRITICISM FROM FEDERAL OFFICIALS.

OUR BOARD OF DIRECTORS HAS AUTHORIZED THE PROFESSIONAL ETHICS DIVISION TO MOUNT AN AGGRESSIVE PROGRAM TO DEAL WITH

THESE PROBLEMS. ADDITIONAL STAFF HAS BEEN AUTHORIZED TO ADMINISTER SEEKING OUT AND ESTABLISHING RANDOM SAMPLE REVIEWS OF ALL AUDIT REPORTS IN THE PUBLIC DOMAIN AT THE STATE AND LOCAL GOVERNMENTAL LEVELS. WE ARE ALSO AUTHORIZED TO PURSUE A SIMILAR PROGRAM AT THE FEDERAL GRANT AGENCIES IN CONJUNCTION WITH THE INSPECTORS GENERAL AND THE GAO.

EVEN THOUGH THESE WILL BE AMBITIOUS PROGRAMS, THEY WILL HAVE THE DEFECT OF COVERING ONLY THAT PORTION OF PRACTICE THAT COMES TO LIGHT THROUGH GOVERNMENTAL REPORTING REQUIREMENTS. IF WE ARE TO DO A COMPLETE JOB, WE MUST FIND A WAY TO GAIN ACCESS TO THE TOTALITY OF PRACTICE. THE TIME MAY HAVE ARRIVED FOR US TO SUBJECT ALL CPAS TO BEING SELECTED IN A RANDOM SAMPLE FOR A REVIEW OF THEIR WORK UNLESS THEIR FIRMS ARE BEING REVIEWED UNDER AN APPROVED PEER REVIEW PROGRAM. SUCH A REQUIREMENT COULD BE IMPOSED EITHER UNDER STATE ACCOUNTANCY LAWS OR AS A CONDITION OF MEMBERSHIP IN THE AICPA AND STATE SOCIETIES AND COULD BE EITHER SOLELY EDUCATIONAL OR PROVIDE FOR DISCIPLINARY MEASURES. IT WOULD PROVIDE BENEFITS AS FOLLOWS:

1. A STRONG PSYCHOLOGICAL PRESSURE WOULD BE EXERTED ON ALL PRACTITIONERS TO COMPLY WITH STANDARDS.

2. THE PRESENT ATTEMPTS TO IMPLEMENT COSTLY AND ADMINISTRATIVELY BURDENSOME PEER REVIEWS OF

PRIVATE COMPANIES PRACTICE COULD BE MINIMIZED OR ELIMINATED IN FAVOR OF A MORE WORKABLE SYSTEM OF ENGAGEMENT REVIEWS OF INDIVIDUAL PRACTITIONERS ON A RANDOM SAMPLE BASIS. THE SIZE OF THE SAMPLE COULD BE EXPANDED OR CONTRACTED TO FIT WITHIN REALISTIC CONSIDERATIONS.

3. PROCEDURES COULD BE ADOPTED WHEREBY UNSATISFACTORY FIRST REVIEWS WOULD RESULT IN A FOLLOW-UP REVIEW THAT COULD LEAD TO DISCIPLINARY PROCEEDINGS IF APPROPRIATE CORRECTIVE ACTIONS WERE NOT TAKEN. THUS, THE PROGRAM WOULD BE EDUCATIONAL IN THE FIRST INSTANCE BUT PUNITIVE IN THE EVENT OF CONTINUING SUBSTANDARD WORK.

4. OUR PRESENT PRACTICE REVIEW AND PROFESSIONAL ETHICS FUNCTIONS COULD BE COMBINED INTO A SURVEILLANCE AND INVESTIGATIVE ARM WHICH COULD FUNCTION EFFECTIVELY IN CONJUNCTION WITH THE STATE BOARDS AND SECPS AS I HAVE PREVIOUSLY OUTLINED.

EVEN THOUGH WE MAY NOT IMMEDIATELY EMBRACE A <u>COMPREHENSIVE</u> SURVEILLANCE PROGRAM, WE DO INTEND TO PURSUE A REVIEW OF AT LEAST THOSE REPORTS THAT ARE CURRENTLY FILED WITH GOVERNMENTAL AGENCIES

AT ALL LEVELS. THIS, COUPLED WITH THE PROBLEMS OF DEALING WITH A SUBSTANTIAL INCREASE IN THE NUMBER OF TECHNICAL STANDARDS CASES, AND THE RAPID DISAPPEARANCE OF BEHAVIORAL STANDARDS CASES, SUGGESTS THAT WE SHOULD NOW RESTRUCTURE THE PROFESSIONAL ETHICS DIVISION.

AS ONE OF THE ARCHITECTS OF THE PRESENT STRUCTURE AND HAVING BEEN INVOLVED BEFORE IT WAS IMPLEMENTED, I BELIEVE THAT IT WAS APPROPRIATE IN THE PAST. BUT THE CIRCUMSTANCES HAVE NOW CHANGED DRASTICALLY AND IT IS TIME TO MAKE ADJUSTMENTS. IT NO LONGER SEEMS NECESSARY TO RETAIN SUBCOMMITTEES FOR EACH OF THE THREE TYPES OF CASES FOR THE FOLLOWING REASONS:

1. THE NUMBER OF BEHAVIORAL STANDARDS CASES SHOULD SHRINK TO A DE MINIMUS NUMBER.

2. INDEPENDENCE CASES HAVE ALWAYS BEEN FEW IN NUMBER AND ARE NOT LIKELY TO SUBSTANTIALLY INCREASE.

3. THE EXECUTIVE COMMITTEE SHOULD BE ABLE TO DEVELOP RULINGS AND PROPOSED RULE CHANGES BY ESTABLISHING TASK FORCES FROM AMONG ITS MEMBERS.

4. THE DUPLICATION INHERENT IN THE PRESENT SYSTEM FOR TECHNICAL STANDARDS CASES OF TASK FORCE TO SUBCOMMITTEE TO EXECUTIVE COMMITTEE COULD BE

AVOIDED BY APPOINTING A TASK FORCE FOR EACH CASE TO REPORT ITS FINDINGS DIRECTLY TO THE EXECUTIVE COMMITTEE.

5. REVIEWING RANDOM SAMPLES OF REPORTS FILED WITH GOVERNMENTAL BODIES CANNOT BE EFFECTIVELY HANDLED BY A SUBCOMMITTEE. TASK FORCES WILL HAVE TO BE UTILIZED TO ATTAIN A BROAD COVERAGE.

I HOPE THAT STARTING WITH THE NEXT COMMITTEE YEAR WE CAN ADOPT A STREAMLINED STRUCTURE THAT WILL EXPEDITE OUR HANDLING OF CASES AND PROVIDE FOR THE SUBSTANTIAL EXPANSION IN ACTIVITY THAT SHOULD RESULT FROM GOING ON THE OFFENSIVE.

ONE FINAL SUBJECT THAT I WOULD LIKE TO TOUCH ON IS THE NEED TO ARTICULATE MORE CLEARLY THE CONCEPT OF INDEPENDENCE AS IT APPLIES TO OUTSIDE AUDITORS. WE MUST MAKE IT CLEAR THAT SELF-REVIEW BY AUDITORS DOES NOT CAUSE THEM TO BECOME INSIDERS OR PART OF MANAGEMENT. THUS, THEIR INDEPENDENCE WITH RESPECT TO THEIR CLIENTS IS NOT IMPAIRED SIMPLY BECUASE THEY REVIEW THEIR OWN WORK DONE FOR THEIR CLIENTS.

USERS OF FINANCIAL STATEMENTS PRIMARILY SEEK ASSURANCES FROM AN OUTSIDE PARTY THAT MANAGEMENT IS NOT ENGAGING IN MISREPRESENTATION. SO LONG AS THE AUDITOR REMAINS AN OUTSIDER, IT SHOULD

MAKE NO DIFFERENCE THAT HE IS INVOLVED IN DETERMINING HOW TRANSACTIONS ARE RECORDED.

THIS CLARIFICATION OF THE OBJECTIVE OF AN AUDIT IS CRUCIAL TO RESOLVING THE QUESTIONS BEING RAISED REGARDING THE EFFECT OF NON-AUDIT SERVICES ON AUDITOR INDEPENDENCE. UNLESS WE CAN STATE THE CONCEPT OF AUDIT INDEPENDENCE MORE CLEARLY, MANAGEMENT ADVISORY SERVICES, AS WELL AS TAX SERVICES AND PERFORMING SUCCEEDING AUDITS MAY WELL BE JEOPARDIZED. I URGE THE DIVISION TO ATTEMPT TO MEET THIS NEED AS SOON AS POSSIBLE. I WILL BE HAPPY TO SUPPLY A WHITE PAPER WHICH I HAVE PREPARED ON THIS SUBJECT SETTING FORTH THE RATIONALE THAT I BELIEVE SHOULD BE ARTICULATED IN OUR LITERATURE.

IN CONCLUSION, IT SEEMS CLEAR THAT WE NEED TO RETHINK AND RESTRUCTURE OUR APPROACH TO SELF-REGULATION TO MAKE IT MORE EFFECTIVE AND TO AVOID THE DUPLICATION WHICH NOW EXISTS. IN GENERAL, WE OUGHT TO LEAVE SEC CLIENT CASES TO THE SEC SECTION AND REFER AS MANY PRIVATE COMPANY CASES TO STATE BOARDS OF ACCOUNTANCY AS THEY ARE WILLING AND ABLE TO HANDLE. WE SHOULD DOWN-PLAY DISCIPLINARY ACTION BY THE PCPS. WE SHOULD GO ON THE OFFENSIVE TO SEEK OUT CASES OF SUBSTANDARD WORK. THE ETHICS DIVISION SHOULD BE RESTRUCTURED TO DEAL WITH THE CHANGED CIRCUMSTANCES THAT NOW CONFRONT US AND WE SHOULD SEEK THE NECESSARY COUNCIL ACTIONS OR BYLAW CHANGES TO IMPLEMENT OUR REVISED APPROACH TO DISCIPLINE.

THE ETHICS DIVISION HAS A FORMIDABLE TASK TO CARRY OUT. IT IS NOT A POPULAR ACTIVITY BUT IT IS A VERY VITAL ELEMENT TO RETAINING THE CREDIBILITY OF OUR PROFESSION WHICH IS OUR ONLY STOCK IN TRADE. THE PROFESSION OWES ALL OF YOU A DEBT OF GRATITUDE FOR YOUR EFFORTS AND I URGE YOU TO CONTINUE MAKING YOUR IMPORTANT CONTRIBUTION AND TO ENCOURAGE OTHERS TO LEND THEIR ASSISTANCE AS WELL. WE WILL NEED ALL THE HELP WE CAN ENLIST AS WE ENLARGE OUR EFFORTS TO CARRY OUT EFFECTIVE SELF-REGULATION.