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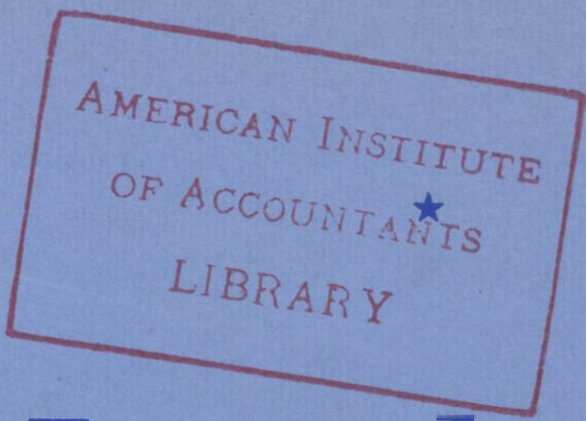
American Institute of Accountants

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Legislative Kit 1949

A How-to-Do It Kit, designed to help State Societies of Certified Public Accountants handle legislative problems which may arise in their States.

THE AMERICAN INSTITUTE OF ACCOUNTANTS
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What This Kit Contains

This kit is sent in a loose folder to permit the ready selection of individual items to fit the needs of a particular situation, or the special requirements of each society and chapter. Items included are:

- A covering letter from the President of the Institute.
- An outline of procedures — “If You Have a Legislative Problem.”
- A note on political angles.
- How a bill becomes a law — a step-by-step outline.
- A general background statement on the role of the CPA and the need for maintaining high professional standards — for adaptation as a document to be sent to members of the legislature, or use as source material.
- Questions and Answers covering points likely to be raised in connection with accounting legislation.
- A sample resolution to be adopted by a State society or chapter.
- Sample press release and letters.

STATE SOCIETY
SERVICE DEPARTMENT

American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

13 EAST 41ST STREET, NEW YORK 17, N. Y.

April 21, 1949

To Members of the
Council
Committee on State Legislation
State Society and Chapter Presidents
and State Society and Chapter Committees
on State Legislation


Gentlemen:

I am enclosing a transcript of recent hearings on a waiver bill before a committee of the Michigan State Legislature.

I believe that you will find this transcript well worth reading, both for the arguments presented in behalf of the Michigan Association and for what it reveals about the attitude of a number of members of a state legislature. I am sure that anyone faced with the problem of preparing for a legislative hearing will find it useful to read over this example.

Perhaps, for future reference, you might like to put it with the other material in the legislative kit which we sent you last fall.

Very sincerely yours,



Director of Public Information

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Enclosure

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PUBLIC HEARING ON SENATE BILL NO. 132

Re. Certified Public Accountants
March 29, 1949

Representative Storey

The hour of 10:30 has approached, and we are opening this hearing on Senate Bill 132. We have on our left--I'm an announcer for a prize fight organization too--the CPA's and on our right we have the PA's. I am not assuming the chairmanship of this meeting, but I will be in position for the knockdowns.

We are opening our hearing this morning on the CPA Bill, and our former auditor General, John Morrison, will be chairman of this group. Mr. Morrison, you may proceed.

John Morrison

Mr. Storey, Senator Tripp, members of the committee, and members of the profession, those of us who are opposed to Senate Bill 132 are attempting to bring before this committee this morning representatives of a cross section of the professional and business life of the state.

The first man who is to speak to us represents the CPA's--the accounting profession. He is a man who has been a CPA for many years. He is a man who has been recognized by his profession not only in this state but throughout the United States. He is the immediate past president of the American Institute of Accountants, Mr. George D. Bailey of Detroit.

Representative Storey

I do not wish to be discourteous but if we can save this applause until after the hearing is over, it will save time. It takes up time, and we are just allotted a certain period of time here. I will turn this meeting over to Senator Tripp, who is the introducer of this bill. Senator Tripp from now on will take charge of the meeting.

Senator Tripp

Gentlemen, the Senate today convenes at 12:00. If the hearing should take longer than that I will have to be excused, and

Mr. Storey will take over, naturally. The thing that I would like to point out is that we must allot our time to some extent. We want to hear all the facts that you have to bring to us today, and we don't want to cramp you for time; but the Senate does convene at twelve and as Mr. Storey just said, applause will neither affect the group that are listening or the group that is speaking so I think it is entirely unnecessary in the chamber of the House. Mr. Bailey.

Mr. Bailey:

As Mr. Morrison said, I have been in practice as a certified public accountant in Michigan since 1917. I have watched the growth of the profession in this state. I have participated in the hearings and discussions that led up to the original bill which this is an amendment to and which was passed in 1926. During that time, we have been pretty careful of the standards of the certified public accounting profession. We feel this proposed bill would have an important effect upon those standards.

This bill it seems to me, gentlemen, is much more than giving the title of Certified Public Accountant to some fifty or a hundred people without examination. It takes away even more from a thousand people. This thousand are people of responsibility and standing throughout the communities. They are professional people like lawyers and doctors where accounting is a profession and not a trade.

We in our Association owe this committee an apology for not having appeared before. We shouldn't be coming in on a recall of the bill, but we just don't have enough active contact with the pending legislation; and this bill came up, too, right in the middle of our busy season. Nevertheless, we do apologize for coming in at this late date to present the data from our point of view.

This bill is a confusing one. I think, in the first place, it is confusing in the way that it has been put on your calendar and on your records as a bill to waive the educational requirements. It is my understanding that when the original bill was passed, in 1925, the experience requirements were waived; the educational requirements were cleared up; and all that was required to be done by the PA's that got a certificate of PA at that time was to take the examination, to prove by examination their confidence in this field comparable with others in the field.

Now since 1925, a substantial number--roughly perhaps a hundred--have so qualified. And, there are only about a hundred left of

the people that got that public accounting PA title by waiver at the time the bill was passed. So that all that is left is an examination and it is not really a bill to waive educational requirements.

The bill is confusing in another way. Because it has lent itself to "catchwords" if I may use that term. For instance it is not a bill which "helps a few people without hurting anyone." It is not needed to break up a monopoly. It is not merely what has been approved in other states, and it is not merely dealing with two isolated groups of people. It definitely affects the public interest of the State of Michigan. This bill if passed would change fundamentally the position of the certified public accountant in his service to the state and to the people of his community.

This bill also, it seems to us, is but one of a series of attacks upon the CPA profession, and it could well be the first of a series of legislative requests to give to others some of the standing of the certified public accountant without comparable education or experience or examination requirements.

During my practice in the State of Michigan, I have watched the prestige of the certified public accountant grow from year to year. It has grown because of the fact that in order to have that title the individual must have an adequate education, considerable experience, must pass an examination, and must be held to a rigid code of ethics. There are now about a thousand registered certified public accountants in the State of Michigan who have contributed to that standing, and one reason for that is that Michigan in all of its history has never granted waivers without examination for the CPA degree even when the original bill was passed in 1906, two members constituted the first Board of Certified Public Accountants. These were the only two who were given the CPA title. All others in practice in the State of Michigan at that time had to pass an examination given by those first two--the first board which was appointed by the Governor under the Act of 1906. So we have had here in Michigan a long history of the granting of certified public accountant titles--the right to practice as CPA's only by examination.

The same situation generally exists nationally. We have certain standards applying to the term CPA nationally and that are recognized by national bodies. Many federal and state bodies permit practice or appearance before them solely on the showing as a certified public accountant just as they permit, in similar situations, the right or appearance to practice to lawyers solely on their qualifications as members of the bar. We, of course, do necessarily resist the dissolution of the standards of the CPA because the granting of such titles could

and in my opinion would eventually force all such bodies to substitute specific standards of their own for the general acceptance of CPA. The CPA would not be a mark of a professional man with a background of professional education and attainments but would merely be evidence of a license granting the right to practice to public bookkeepers. We have state laws, bond indentures, regulatory commission regulations, and many contracts providing for certification by CPA. Those bodies have done so because the standards set for CPA's have at least a minimum of competence for that task.

Is it right to negative all such contracts by now redefining what is a CPA? Is it in the public interest to substitute such legislation; to substitute lower standards for all such Michigan business for a favored few with lower qualifications? Accounting has become a profession based upon integrity which is founded on adequate knowledge and adequate equipment. It is like law or medicine, and not a trade. It is inconceivable that a legislature would now be asked to blanket in a group as lawyers or doctors with lower standards. Why should this legislature be asked to do so in respect to the accounting profession?

There is another phase of this and that is that the smaller people throughout the state--the smaller practitioner who practices as a CPA--would probably be hurt more than the larger ones. The accounting profession in Michigan is made up of the large firms in large cities and smaller firms and individual practitioners throughout the state much as it is true of lawyers. The lowering of the standards of the CPA would shift the emphasis and free use from those who established these standards of the CPA title to the selection of those CPA's who were known to have individual competence and reputation.

Aside from the fact that everyone suffers in the long run, the short-time effects would be in my opinion to make it harder for the smaller firm or the younger firm. The larger firm would probably benefit in the short-time effect. I hope we don't have legislation that reverses the trend to a broad base of practice which the profession has been working upon so earnestly. We want the practice of certified public accountants spread as broadly and in as many competent hands as we can.

Now the next thing that you are interested in is whether the CPA status is unduly restricted. We don't think it is. We have heard lately that the CPA has a monopoly. This is true only in the sense that a doctor or a lawyer has a monopoly. Whether it is bad depends upon the restrictions against giving them licenses. The emphasis from within the CPA ranks has been to add new CPA's rather than to restrict them. The need for

hiring CPA's is still unsatisfied. There is no restrictive philosophy within the profession. The certified public accountants in the United States have more than doubled since 1940. The practicing CPA's in Michigan have grown from 323 in 1929 to 540 in 1939 to 979 in 1949. Membership in the American Institute of Accountants is also more than doubled, more than trebled, in the last fifteen years.

Now let's look for a moment at the statutory requirements before a CPA title can be granted. We don't think they are too severe. The law provides a certain standard of education, a certain standard of practice, a certain kind of examination. These standards are not too high for the public welfare of the State of Michigan. They are set at the lowest level believed by accountants to be adequate to operate alone as a senior accountant, which is a relatively low level of qualification. A standard of education is graduation from high school or the equivalent thereof. It is a low standard as states go. Some of them, including New York, require a college degree as is required for lawyers and doctors.

As to experience the statute requires from two to four years practical experience under a CPA. The experience requirements are not long. It is not enough experience to make a top expert out of a man in any of the various fields in which an accountant may have to operate. He must have his practice under a CPA. It is a good deal like saying that a lawyer must get experience under a lawyer.

The next thing is what are the opportunities of employment by a CPA? Is it too restricted? Can a man get his practical experience? There are hundreds of individuals and partnerships practicing within the state with which a new man desiring to enter the profession can become associated. They are large and small; in large and small cities; and there are many races, religions, and colors. No one is blocked off from obtaining practical experience because of social factors.

Now this day the public accountant, the PA, has the right now to take the examination. Because of the basis of education and experience, that right was given to him in 1926 so that all that is left for the PA is whether or not he should take an examination or not.

Now we come back to this question of experience and say should there be any experience requirements at all? They do not require it in the legal profession, but the legal profession requires six or seven years of collegiate work. If the education requirements were raised, perhaps the experience requirements might be lowered.

Let's look at the question of the examination. Is it too hard? You have a lot of statistics which rather indicate that a very small percentage of people pass the CPA examination. Now that just isn't true with respect to Michigan. I have some figures which I will leave with you later but will summarize now showing that there have been 708 people taking the examination since May 1938--that is eleven years. Out of that number 393 or 61% passed. There still are 185 people taking the examination. Many of whom have passed in two or more subjects. So that taking the average, we can expect that 80% who have taken the examination in Michigan from May 1938 to date will eventually obtain a CPA degree. It is not a low percentage. A very high number of people pass the first time, but others pass the second and third time. Only 103 people have dropped out of this examination contest. Some of them dropped out because they left the state; some of them because they weren't interested in public accounting.

Now I don't remember in my experience of a man that has been taking his experience requirements with me and wanted his CPA who did not eventually get it. Firms always are trying to help their men have the education or the experience and practice requirements so that they can pass. Incidentally, throughout the country I have seen men that were still in college in their junior year pass all of this examination the first time. Of course they can't get their degree until they get adequate experience. But when college men in their junior year can pass the examination on all subjects the first time and they are not isolated cases but a very substantial number, then the CPA examination really isn't too hard.

We hear a great deal about what other states have done. There hasn't been blanketing-in of men in the profession. There was some of that in the early days when laws were first passed in the various states. But, we have grown through that period.

We hear something about changes of laws, particularly in Illinois. But it is a fact that in Illinois the examinations were given and the CPA degree was only given without any further examination to those who had already taken examinations comparable to the CPA at the time they got their PA degree.

Now the registered PA's who are still in practice do not need this bill to maintain their livelihood. There is nothing to prevent them going on as they have. On the other hand, many a CPA will lose part of his standing by the passage of this bill. The non-registered man doing accounting or bookkeeping sometimes on a semi-public basis does not need this bill. The

bill would injure many hundreds of accountants in Michigan and set back the profession nationally. It would benefit only a few who have either got so far behind in the profession generally that they are unwilling to take an examination or who are merely unwilling to prepare for an examination as do scores of young men in Michigan every year.

We in the CPA profession would like very much to have these public accountants take the examinations and pass them and come in as full CPA's. They have had considerable practice. They ought to have no more difficulty with the CPA examination than the young men just out of college if they have really kept up with the profession. But we do object to their coming in without any examination which proves their fitness for the wider practice that comes with the CPA title. We take this thing quite seriously, sir, and we hope that you will not pass the bill.

Incidentally, the bill which has been passed around for us here is the bill before the House amendments were added. It was finally passed by the House with some amendments in it which made it even more objectionable than in its original form because there was a certain amount of freedom with the CPA board with that first draft not adequate and ambiguous to us. We as accountants don't understand it. But in its present form, it seems to us to be completely mandatory and not good for one of the leading professions in this state. Thank you very much.

Senator Tripp

Just one question Mr. Bailey. You mentioned the education standards and the standards of practice. Is there any difference between the standards of practice for a CPA and a PA under the present law?

Mr. Bailey

Yes. Under the present law the PA was blanketed-in on the basis of the kind of experience that he had been following.

Senator Tripp

I am asking about the standards of practice under the board that regulates both PA's and CPA's at the present time.

Mr. Bailey

The CPA's are - - -. Yes that's true. The CPA in certifying to his statements assumes additional responsibilities that the PA doesn't assume. There is a much higher standard of knowledge and public responsibility in the CPA title than there is in the PA title.

Senator Tripp

Are there any questions that the members of the State Affairs Committee in the House would like to ask? If not, we will call on the next speaker, Mr. John Carey, and you represent the American Institute of Accountants?

Mr. Carey

Yes, sir. I am the Executive Director of the American Institute of Accountants, which is the national organization of Certified Public Accountants. Its headquarters are in New York, and my residence is there. I want to thank Senator Tripp, Mr. Storey, and the Committee for the privilege as an out-of-stater of saying a few words this morning.

I want to make just one point that there is a very real and a very vital national interest in this bill as well as the interest evidenced here by residents of Michigan. The national interest is so real that I had no hesitation in making the trip here this morning to talk to you for about two minutes. There is a national interest on the part of the accounting profession itself and on the part of the general public.

The accounting profession is the fastest growing profession in the United States today. When I went to work for this national organization twenty-odd years ago there were about six or seven thousand CPA's in the whole United States, and there were only 1500 members in my organization. Today there are about 32,000 CPA's in the country and about 13,000 members in this national organization--many hundreds of which are here in Michigan. Now the profession has grown by examination, sir. These numbers, with very few exceptions, have increased through young men who have burned the midnight oil; who have gone to college; who have studied hard to get this prized CPA certificate, and from their point of view to see it given away to others who have not passed that examination will surely make them feel badly.

In the other states a bill of this nature is watched with particular concern because Michigan has always been regarded as one of the states having the highest standards in the country for certified public accountants, and I think this is the kind of backward step which might set up a chain reaction in other places. It is therefore of particular concern to our national organization but even these factors are not of the greatest importance. I think the public interest in the matter is of the greatest importance.

And that is very briefly this; People all over the country have come to believe, and rightly so, that a certified public

accountant is a man who has passed a rather searching examination in accounting and auditing--a two and a half day examination. Therefore, people have come to believe that when a CPA's name appears on a financial statement they can rely on it. They can risk their money on it. Banks that make loans, credit men that extend commercial credit, stock exchanges and those that list securities, the securities and exchange commissions of the states and the nation, and the United States Treasury have all in one way or another recognized that fact. You may ask what that has to do with Michigan, but you must understand that financial statements have no state line. They cross state lines. A Michigan manufacturer may borrow money through Chicago banks. Statements with a CPA's signature here in Michigan may be going to San Francisco, St. Louis, and New York. They are going to Washington for various purposes all the time.

Without taking too much time this morning from the other witnesses I have prepared a little two and a half page statement with quotations from national representatives of the banking credit and stock exchange and other financial groups which I would like to leave and earnestly ask that you take one minute to look over before you act on this bill.

I think in these days even the labor unions are displaying a very vital interest in financial statements for collective bargaining purposes and I think that the research directors of the national unions, whom we have been in some touch with recently, would if they studied the matter of this kind, view with some apprehension a change in the CPA standards. I think it is not too strong a statement to say, sir, that the passage of a bill like this one would strike a blow not only at a highly respected profession but at the credit and financial structure of the whole country. Thank you very much.

Senator Tripp

Are there any questions that the members of the House State Affairs Committee would like to ask Mr. Carey? If not then we call on Mr. Horace Conthan, President of the Michigan Bankers' Association.

Mr. Conthan

Senator, Mr. Chairman, members of the Committee, I represent the Michigan Bankers' Association and in that capacity would like to express the opinion of our association in objection to the proposed bill.

We as bankers have come to rely upon the validity, the strength, and the integrity of financial statements as prepared by certified public accountants. The state of Michigan

has chosen to establish standards by which we may assume that those men who have been properly trained and who have established records of integrity have been given the right and title to call themselves certified public accountants. It does not appear wise nor proper that mere length of service should give to any individual the right to call himself a certified public accountant. The financial statements which Mr. Carey has spoken of pass across state lines and among banks. We cannot know the individuals nor the people who have prepared these statements and we do rely upon the fact that they are or are not a certified public accountant. As such in our judgment of financial statements we feel that there should be these standards maintained and that we may rely upon that particular fact in judging and evaluating statements. We hope that this proposed bill will not pass. Thank you.

Senator Tripp

Are there any questions from the members of the State Affairs Committee to Mr. Conthan? Mr. John Heine, Deputy Commissioner of the Michigan Cooperation Securities Commission.

Mr. Heine

My commission passes upon the sale of stock and other securities to the public. In that connection we pass on about 300-600 securities applications a year before the securities are permitted to be sold to the public. Those securities go to hundreds of thousands of Michigan investors and they amount to millions of dollars. Now before we let the securities permit them to be sold we require an audit report by a certified public accountant. In other words, we can't rely on the company's own figures. We want to be sure that a company is solvent when we let it sell stock. If the company claims to have earned a \$100,000 last year, we want to be sure that they have done so and that they haven't just earned \$50,000. For that reason we have to have a certified audit report. That is the only way we can tell. We also regulate stockbrokers and in that connection we have about 130 stockbrokers in Michigan. It used to be that we had a force of men that would go around throughout the year and examine these stockbrokers. Our budget is very much limited now and we have to rely upon reports. Once a year we require each broker to submit to us a certified audit report and we rely on that in order to be able to tell whether or not he should stay in business. In other words, we look at a good many hundreds of audit reports over a year's time and we don't know all of these CPA's or auditors; but if we have a certified audit report prepared by a CPA, we know that we can rely on it. We have a certain degree of assurance that he has met educational requirements and training and that

he has passed a pretty searching examination of two or three days. I don't believe that a man who has been in public accounting practice for twenty years has necessarily demonstrated his ability. That's merely a test of endurance, or persistence. His ability can only be demonstrated by his performance and that you can only tell by giving him a written examination.

My purpose here is not to argue that there shouldn't be so many CPA's. That is as far as I am concerned, there could be twice as many provided they all met a high standard of qualifications. The thing that we do wish to protect is the interest of the public, that is, the banker, the business man, the investor, the state commissions, and anyone who looks at an audit report. In other words, he has that assurance that it has been prepared by a qualified man. For that reason any attempt to lower the standards removes that assurance. That is why I am very much opposed to the bill.

Senator Tripp

Mr. Heine, you mentioned that perhaps the PA's were still practicing because of endurance. That may possibly be, but I would like to point out to you that they are registered under the same board and practice under the same rules and regulations as the CPA even though they are enduring it. Mr. Neheis, student of the University of Michigan

Mr. Neheis

I will confine myself to the time by reading this prepared statement that I have made. I wish to express my disapproval of Senate Bill No. 132, which I contend is wholly unfair to those who have spent four or five years in our colleges preparing to enter the accounting profession as well as those who are certified public accountants. I offer my experiences in history as evidence that this disapproval is not without basis. I was born and reared on a farm near Holland, Michigan. In 1936 I graduated from Holland High School. My family had suffered severe financial troubles making me resolve that I would prepare myself for the future so that I might avoid similar difficulties. To accomplish my ambitions for independence and security I enrolled in a business college in Grand Rapids in 1937 and graduated fourteen months later. For three years I was employed as a bookkeeper in a large manufacturing firm. Since advancements were infrequent and my aims for security were not being satisfied, I resigned to accept a position as an auditor of war contracts for the air forces in Detroit. It was in this position that a man who is not fully prepared for his work can make advances only with great

difficulty or assistance from others. After a year in this position, I enlisted in the army air forces and became a flying officer and flew a tour of duty in the south west Pacific area. In 1945 after returning to civilian life, I like many others faced the problem of starting a new life. With little hesitation I accepted the offer of the GI Bill of Rights and resumed my education, knowing from my pre-war experiences that this was the correct course if success were to be achieved.

For four and one half years I have pursued my studies. This period has not been pleasant. It has meant depriving my family of pleasant times because I had to study. It has meant an inadequate income during the period when others were receiving large salaries. It has meant thousands of hours spent reading and studying while others were relaxing and enjoying themselves. But my family and I felt that the sacrifices were not too great considering the hope for rewards of a professional status.

Now, with graduation two months away, the scene is altered by a bill which would allow men who because of improper training or other reasons have not been able to pass the required uniform examination to become certified public accountants. I have made great sacrifices and expended much effort to prepare myself for passing the examinations and getting my certificate only to find that the legislature is contemplating giving a similar certificate to the men who are in a position I might have been in had I not resolved to improve myself.

Giving these certificates to those who are unable to pass the examinations used in forty-six of the forty-eight states will mean that other states will not recognize a Michigan accountant as being qualified. It will mean a general decline of the public's confidence in the opinion of the accounting profession. Thus, the goal I sought is being taken from me just as I was about to have earned it. I believe that my case fully brings out the injustice of this bill.

Other students are expending the same time and making the same sacrifices. Those who have passed the examination have expended the same effort and have made the same sacrifices. How can it be equitable to give this goal to others and at the same time reduce the reward to those who have earned it?

Senator Tripp

Thank you. I know that we all consider the work that you have done, and we congratulate you on that. It has been your opportunity in these United States. However, I would like to

point out this one thing that you could have found yourself in the same position as this group of men would be impossible. That I think would be impossible because the group of men that will be covered by this bill should it come out and pass are men who were in the practice of public accounting four years prior to the date of the 1926 act. If it covers anyone else, I am not interested. I'll promise you that right now.

Mr. John McFarland of the Detroit Stock Exchange.

Mr. McFarland

Senator, chairman, gentlemen, I represent the Detroit Stock Exchange, an organization that has served Michigan for more than forty years. The membership maintains offices throughout the state. In the forty-two years of our existence, we have stressed--and strongly stressed--that public information of all acts of corporations was very important, that the public should be kept fully informed. That information is something that should be disseminated very widely. If that information is to be valuable to the many stockholders, to the many people who buy and sell securities--we in our small exchange traded over four million shares of stock last year--we feel that that information should be accurate. We feel that it would be a very grievous mistake for your body here in Lansing to pass a bill that is lowering the standards of accountancy. We have come to depend upon the certification of a certified public accountant and we strongly urge you to maintain those standards that are present today. Thank you, sir.

Senator Tripp

Thank you. Professor Husband, professor of accountancy at Wayne University.

Professor Husband

Senator Tripp, members of the committee, members of the House, I am interested in this bill because it concerns the market for our product.

I would like to point out that under the present law professional accountancy in Michigan has developed a reputation a prestige that is second to none of the states of the United States. I think the state of Michigan, as the accounting profession has developed under the present law, ranks with any state that we have in the United States. Of that I am proud, and I think you should be too.

Personally I think that it is one of the things that we need to protect. I don't blame the individuals who are seeking

a change in the present bill. In fact, I think it is a tribute to what has been done. If we had not developed the prestige that has already been established, the adding of the CPA to their names would not mean anything to them. On the other hand, I think there are times when it is necessary to make a decision in favor of the greater number and the greatest good. I believe that in favor of the welfare of the Michigan public and business in general that this is one of those times.

I would like to point out, as Mr. Bailey has indicated, that over the years from 80 to 85% of the individuals who take these examinations do pass them. I would like to point out further that over a period of twenty years allowing four years for the basic experience requirement there are sixteen years in which these examinations may be taken. Since the examinations are given twice a year, there are thirty-two opportunities to pass them and attain the initial "CPA" by the regular route. I think it is true that under the present law anyone can certify to a financial statement. The important question, however, is as to the meaning of that certification. As the practice is presently constituted, the initial CPA means that a definite set of requirements have been met. If we pass Bill 132, I am sure we will be doing damage to that situation.

I would like to emphasize the point that Mr. Carey has made that within the past so many years the profession of accounting in these United States has been the most rapidly growing of all professions. Between the years 1920 and 1940 the number of certified public accountants increased over 340%. The number of lawyers, on the other hand, increased only 47%. The number of dentists, 26%. The number of physicians and surgeons, only 14%. I am sure that with such opportunities we are not doing violence to anyone's privilege or opportunity to become a certified public accountant.

I am concerned with this bill, as I said, mainly from the standpoint of the effect upon our students. When I began teaching at Wayne University somewhat over twenty years ago, I taught all of the day classes in accounting and devoted half of my time to something else. At present we have over 1200 class registrations in accounting and we have held out to these people, and I think rightly so, under the present bill the fact that here is a worthy profession in which they by meeting certain requirements and making certain sacrifices will be able to fit.

Senator Tripp

Pardon me, but I don't think this bill would change that situation whatsoever.

Professor Husband

I have a feeling, Senator, if I may disagree just a little that it will.

Senator Tripp

I don't object to your making your point. That is all right, but we are going to run out of time. Let's stick to the question at hand.

Professor Husband

Let me make this one statement then I'll quit. If you pass the bill, you will create a division within the field of certified public accountants. In other words, the initials "CPA" will not mean the same thing in all cases and to do that will cast a reflection upon every CPA. I am sure that the individuals, the young folks whom we need, who are going into this field will consider that somewhat of an obstacle. I thank you, sir.

Senator Tripp

I would just like to point out that in the medical profession they go back and give quite a lot of credit to Pasteur, and at the present time at Mackinac Island an operation took place in which they were able to watch the inner workings of the stomach; and they are thinking of erecting some sort of a memorial there to that particular physician or doctor, whatever he might have been, back in the early days. They give credit to the older members of their profession in medicine.

Professor W. K. Paton, professor of accountancy, University of Michigan.

Professor Paton

Members of the House, I am going to prove that a school teacher can be brief. I have been teaching accounting with one or two minor interruptions at the University of Michigan for thirty-five years, and I am appearing here just to register my very earnest and sincere opposition to this bill. I want to just mention two points.

In the first place, I think I know something about examinations. I have watched this whole development in public accounting and the development of the CPA statutes across the country, and I can say to you, gentlemen, that our

present requirements are not too severe. Our present requirements are minimum requirements. Our present requirements are very fair requirements. As Professor Husband said, look at the way in which the certified public accountants of the United States have been increasing to meet the demand for their services. Just bear that in mind. A very considerable number of the PA's in Michigan, a special class that was created to protect certain rights when the 1925 act was passed, have passed the examination. The other thing I want to say is this, echoing what Mr. Carey said.

Accounting, I think, has achieved in the last twenty-five or thirty years a status as a profession from the standpoint of the function and service to the public and to governmental agencies that is the equal of any profession. I don't think that anything ought to be done that could in any way impair that development. Let's remember that the State of Michigan has a splendid legislative record on this subject, and we have been pointed to as leaders in this field.

Now I personally haven't a thing in the world against any of these PA's. I expect I know some of them. But, I want to say this, gentlemen, that they have not been on the job very properly it seems to me or they would have taken this examination and passed it before this. If they have taken it and worked on it and have not succeeded in passing the examination that we use, I would say that that indicates very clearly that they are not entitled to call themselves certified public accountants. Thank you.

Senator Tripp

Thank you. Any questions from the members of the State Affairs Committee?

At this time I would like to call on Mr. Newdeck, who is here representing the public accountants. If you will just come right over here by the microphones and state your side of the case.

Mr. Newdeck

Mr. Chairman, Senator Tripp, Senators, I have listened with great attention to the presentation of the case of the certified public accountants that has been made here this morning. I am surprised if I may be permitted to say so at that presentation. It has appeared to me that there is an impression upon the minds of the previous speakers that it is the intention of the legislature and it is the purport of this bill to break down the restrictions in the accountancy act in Michigan. All the talks that have been made

before your honorable body thus far have been directed at that point.

May I say definitely and distinctly, as I have said and the public accountants have said in their hearings before legislative committees, that it is not our intent or purpose to break down the restrictions of the accountancy act. It is our purpose to supplement those restrictions. It would be foolish on our part to attempt to break down the restrictions because of the fact that we are already under the accountancy act. We derive the same privileges of the act. We are regulated by the act. There is absolutely no distinction whatsoever between a public accountant and a certified public accountant in Michigan today. And there has not been since 1926 (the year that this act was passed) and if the gentlemen who have spoken here this morning, namely, the representatives of the banking groups and the representatives of the state securities commission had consulted us upon this matter, I am sure that this misapprehension would have been eliminated from their minds.

Let us clarify the picture here. Let us go to the law itself and ascertain whether or not we are attempting to break down the restrictions of the accountancy act. First of all, the public accountants are speaking in their own behalf. They are not speaking in behalf of anyone who would attempt to break down the restrictions since 1926. These public accountants were practicing public accountancy in Michigan prior to 1926 for at least four years. Prior to 1926 because the act provides that in order to secure a public accountant's certificate to practice accountancy in Michigan that they had to be practicing public accountancy for at least four years prior to the passage of the act. That would take them under the act four years prior to 1926 or 1922. So in 1922 every public accountant subsequently licensed by the state was practicing public accountancy--holding himself out to the public of Michigan as a skilled public accountant representing his clients in the state of Michigan and in his community as a public accountant. Most of them had been practicing public accountancy for a period of years much in excess of four years prior to the passage of the act. Many of them had been practicing for five years, ten years, fifteen years, twenty years and when this act was cast and, the act provided that they should be screened to ascertain whether or not they were genuine public accountants, they were taken before the board and only 302 were given their certificates of authority to practice public accountancy in the state of Michigan. Three hundred and two were given their authority to practice as public accountants in this state. Now they were given a certificate by the

Board of Accountancy, and each and every year subject to that time they have been given their annual registration card.

Is it to be believed that this board acting under this act (an act which I may say was drafted and carried through the legislature by the certified public accountants) is it reasonable to conclude that these men--the 302 men who were practicing in 1926 and were given their certificate of title-- I say is it reasonable to presume that this board all these years has been giving them the authority to represent themselves as public accountants skilled in their profession and representing themselves to the Michigan public as being skilled and yet as they say today not being skilled? I submit gentlemen that such a conclusion is ridiculous and absurd.

Now I stated that under the act these men were given certificates of authority in 1926 by the state of Michigan to practice public accountancy in this state. And they have further by virtue of their license since 1906 practiced with CPA's and along side of CPA's practiced public accountancy. They did so under Section 21 of the Accountancy Act. The act says the board shall require the same information from each applicant for a certificate of authority; namely, a public accountant as it requires from an applicant for a certificate as a certified public accountant.

In other words in 1926 when those who were licensed to do business from that year on were called before the board of public accountancy of this state, the PA's--the public accountants--and the CPA's--certified public accountants--were both called before the board screened, examined, and granted their certificates. When they got their certificates, they were authorized to do what? The same kind of work and they have been doing it, gentlemen, under the authority of the statute of Section 21 says further, certificates of authority confer the legal right (certificates of authority are those certificates that they gave the public accountants) certificates of authority confer the legal right to practice as a public accountant but do not confer any added title or designation. Now may I respectfully ask if public accountants under the law were privileged to do the same kind of work--the same legal right to practice as CPA's--why this act should have been put through the legislature by a CPA organization to say that they shall have the same title as a CPA?

Since 1926 though they have been authorized by law to do the same kind of work licensed by the state to practice public accountancy, they have to practice under this inferior title-- 302 of these men.

I would like to read from the state of Florida whose act directly similar to that of the state of Michigan--it must have emanated from the same mind and been written by the same hand. Here is the official document of the state board of accountancy of the state of Florida whose act I say is identical with that of Michigan. I beg your indulgence while I read briefly from the foreword.

"No person shall practice in this state as a certified public accountant or as a public accountant unless such persons shall be the holder of a certificate as a certified public accountant or a public accountant issued by the state board of accountancy and then in full force and effect under the provisions of the law all certified public accountants and public accountants are required to register. All certified public accountants and public accountants are required to register annually under the state board of accountancy. Failure to register as required, subjects the holder of the certificate to the suspension of the privilege therein contained." The same rule obtains in Michigan.

Now listen. There is no legal distinction between the certified public accountant and the public accountant. Both are governed by the same laws at practice and practice under the same rules and regulations and standards of professional conduct and are subject to the same penalties of suspension and revocations of certificates.

The certified public accountant receives a certificate as a result of an examination or by waiver of such examination. The public accountant receives his certificate by furnishing satisfactory evidence that he was maintaining an office for the practice of public accountancy within the state of Florida in 1927 or was similarly employed at that time.

There you have it, gentlemen. There you have it. The state of Florida in its official directory state board of accountancy the same as Michigan states that there is no legal distinction. The Michigan directory does not state it as forcibly. In fact, they left that out. But the statute--the ruling--says that certificates of authority confer the same legal right to practice as a public accountant as is applied to a certified public accountant but does not confer any added title or designation. Why was that last phrase put into the statute? Does not confer any added title or designation.

I respectfully submit that since they are doing the same kind of work, regulated by the same statutes, controlled by the same regulations, subject to the same code of ethics, that they should have the same title. Is there anything unreasonable

or unfair in that? Now mark you these public accountants who have been practicing since 1926 under the law, under the law, and for years prior to that particular time practicing public accountancy these men have trained young men in their office who today are CPA's. These men have hired and are hiring men in their offices who are CPA's under their jurisdiction and control. These public accountants are in partnership with the CPA's of the state. What do you think of that? Today, in partnership with CPA's, working on the same books, representing the same clients, and there has been no objection by the board or by these CPA's because they know there can be no valid objection. Furthermore, there has been much said here by representatives of the CPA about the law and other professions. I am a lawyer. I have been practicing law in this state since 1924. I received my certificate as a practitioner by passing an examination and as a result I am licensed to practice law. In this very building on the Supreme Court Bench are illustrious men schooled in the practice of the law who did not take an examination and were not required to take an examination and why? Because when they received their certificates to practice law in the state of Michigan an examination was not required. It would be presumptuous on my part, I respectfully submit, for me to say before this body this morning that because of the fact that the illustrious members of the court--the most outstanding attorneys in the state of Michigan--did not take an examination and I did that they should be given an inferior title. Not only in the case of lawyers, but in the case of all the other professions the same situation exists. We have had here this morning several professors. I would like to inform these honorable gentlemen at both Wayne University and at the University of Michigan that not only in the profession of the law but likewise in the other professions, in the profession of engineering which I think is compatible as far as knowledge and skill is concerned with the profession of accountancy, I say this. That at the time that the act was passed relative to engineers, architects and professional engineers, that the law provided that any engineer who had been practicing for a period of twelve years prior to the passage of the act and who had acquired his knowledge and his skill in his profession by study and association with a trained engineer-- and any man I say who had under the act received twelve years of practical experience in the office of an engineer-- was entitled to a certificate under the act without an examination. Public Acts of 1927, Public Act No. 240. And the restrictions relative to examination and scholastic background is far higher under this act than it is under the accountancy act. Without going in the registration requirements as far as qualifications are concerned just let me read the grandfather clause.

"At any time within five years after this act becomes effective the board shall accept as conclusive evidence, conclusive

evidence, that an applicant is qualified for registration without examination--without examination." As an architect or as a professional engineer a specific record of at least twelve years of active practice previous to the effective date of the act.

And I could go on and discuss the pharmacy act where the same thing was done not once, but twice and where the experience over those years at the time that the grandfather's clause was enacted bracketed in these men, who through experience, personal study, and knowledge had acquired the fundamentals and skill essential in their respective professions.

There is so much more I could on and say in this discussion, but time is limited. I want to go on and briefly call members of the public accountants. Let me leave this one fact, gentlemen, with you.

The only ones whom this bill affects are those 104 public accountants now licensed under the laws of the state of Michigan and licensed since 1926, January 1, the date that the act went into effect. Only those. Wouldn't we be most foolish, we who are under the act; we who derive the benefits of the act even though we have to take a second-class title under it, wouldn't we be very foolish to break down the standards and restrictions since they apply to us and since the certificate hangs upon the wall of the public accountants and their clients recognize them as such, as public accountants, skilled in their profession.

I think that I have covered the subject as clearly as I possibly can. I wish that the member of the securities commission had consulted us as he surely must have consulted and been consulted by the members of the CPA. I think it comes in fourth race for a member of the state board to speak against men authorized by a state board to practice their profession. I think he should have enlightened himself upon that particular subject and I surely think too that the representative of the banking groups should have consulted us to ascertain whether or not we are qualified. He should have found out from us before he spoke this morning whether we are licensed to practice public accountancy in the state of Michigan. Perhaps now knowing that fact, opinions might change. I hope so.

I would like to call on briefly certain public accountants. The first one on whom I shall call will be Mr. Bussey. Mr. Bussey is a practicing public accountant and has been over thirty-years. He is associated in business with CPA's. He has outstanding accounts and is licensed to practice in the state of Michigan. Mr. Bussey, will you make a few brief remarks?

Senator Tripp

We have just about eighteen minutes before the Senate convenes.

Mr. Bussey

I am fifty-eight years old. I have been in public accounting since 1911. I started under A. W. Ermine, who later became the chairman of the Michigan state board. From 1911 to 1920 I worked with the firm of A. W. Ermine and Co. Security Trust Co. audit department under George Gibbs, certified public accountant. Beginning in 1930 I joined the E. C. Little Taxation Bureau and the E. C. Little Audit Company, a firm now known as Rolland, Morris, Bussey, Cane, Neff, and Simon. Four members of the firm are CPA's and two members of the firm are public accountants. For thirty-eight years I have maintained the standards of the profession, subscribed to the same code of ethics, hold a certificate of authority issued in 1926 by the state board, receive a registration card every year since 1926, have prepared statements and audit reports which are accepted by bankers for credit purposes during World War I and World War II, handled all phases of taxation--federal income taxation on corporations dealing with the excess profits tax, wage and salary stabilization controls during the war, re-negotiation of war contracts, OPA price controls. I also did the same kind of taxation work in World War I running from 1917 to 1921 on the war taxes.

This group of public accountants that I am one of has been interested as well as the CPA's in maintaining the high standards of the profession. We have subscribed to the same code of ethics, and as our representative has pointed out we are not interested in hauling down any of the standards. The academic standards of an examination are such that a public accountant who has practiced all this time and built up a clientele which requires all of their time throughout the year except possibly a short breather during the summer time would have to close up their offices and neglect their clientele to sit down and prepare for the academic requirements of this examination.

We believe that the many years of experience and satisfying our clientele has demonstrated our ability to do the same work along side of the CPA's. We ask that this legislation pass.

Mr. Newdeck

Mr. Lutz, please.

Mr. Lutz

I probably cannot add any more than what Mr. Bussey has already said. I have an accounting office in the City of Grand Rapids, and I have been in business since three years prior to 1925.

I have not had the opportunity to enter into the business with any other certified public accountant; however, I have worked with certified public accountants for the last twenty-five years.

I was approached very shortly upon entering into some type of association with a local certified man. If I would have had the space in which to do so, I probably would have been associated with this certified man at the present time. But, however, I might add this. I have been following the same code of ethics and trying to live up to the standards of the profession. I have been trying to keep out of any difficulty whatsoever. I have felt that after building up my business that I had to be responsible to my clients and responsible to my employees. For that reason I have worked hard and tried to maintain the ethics of the profession.

Mr. Newdeck

Mr. Lynch, please

Mr. Lynch

Gentlemen of the committee, we thank you for this opportunity of being here. We have been treated very wonderfully by the persons to whom we have spoken about this matter at the various stages and at the hearings we have had before. Most of us have been pretty well examined over the years. I, on my letterhead, say "Established 1914." It means quite a little to me in the way of experience, and I think experience is a pretty good teacher.

The fact that some people as lawyers, as doctors, as accountants, and as members of other professions are good and some are better exists of course in the accounting just the same as in other branches of work. And this is work. Some call it a profession, but I have found it a very hard job. Keeping up with all the changes that come about is hard. When we entered this arrangement with the state in 1926, I was called up to Mr. Ermine's office, examined, given a certificate, and listed in this book right along with all the rest. I thought there was no particular difference only that those who came in by written examination were called CPA's and those who came in by experience and establishment were called PA's. So, we went along; and things have gone along all right. We haven't been too much abused. We

haven't been too much distinguished up or down. But, we have noticed a growing distinction being drawn by certain groups and certain people to make it so that it was a little bit more difficult for the man who called himself a public accountant than the man who was a CPA.

I had the experience for several years of travelling nationally calling on CPA's, executives of some of the largest corporations in America about their accounting and their valuation problems--talking them over intimately. I found that very few men have any in business. But, some of them were pretty smart and knew their business by years of experience. There is salesmanship in accounting as well as the academic knowledge. There is the ability to mix and keep customers and to take care of their requirements. To represent them in all kinds of ways. We have been examined by banks, securities exchanges. I have been to Washington and have been pretty well grilled down there, and I have been grilled at the Revenue Department by agents on all kinds of matters in a good many different places. So that we feel qualified and we felt respectfully the privilege of asking. So, we went to the state board. We talked very nicely to them. They said we did. And, we heard nothing more about it. So, we came to the legislature and here we are.

Now we think that it would clear up a great deal of the confusion in the accounting field. We have been listed in this book kept under the same standards, required to do the same thing. We have tried or if we haven't tried hard enough, we haven't heard anything about it. There hasn't been very much complaint against us, and those who have survived are the survivors of a group who thought that there wasn't going to be any distinction but the distinction has been growing, has been promoted until today we ask for your efforts and consideration to correct that situation. Thank you.

Senator Trip

We are running very short of time, and I would like to call on Senator Vandenberg, chairman of the State Affairs Committee in the Senate, for just a few words. After that the hearing will continue. Mr. Storey will be here; however, we are convening in the Senate at 12:00. Senator Vandenberg.

Senator Vandenberg

Chairman Storey, Chairman Tripp, members of the two respective committees, ladies and gentlemen, I rather feel it a privilege if not an honor to appear before men of this caliber for just a few moments and a comment or two.

I thought when I first came in here that being a little late I might have missed some of the evidence and testimony so I brought along the material that I have received by wire and by letter in the last few days. I thought that if I did miss anything, I would be able to read it afterwards and get myself right up to date. I haven't been able to do so now.

I have been interested in one or two comments that have been made and particularly on the part of one of the CPA's and also on the part of one of the professors of one of our colleges. They referred to the public accounting business being one of the fastest-growing professions. I am impressed, gentlemen, that you must be--in view of that statement--that you are perhaps the direct beneficiaries of government in business. I don't think there is any question about that. We are hearing constantly now days from our economists that perhaps our economy is in danger.

I believe the profession which you gentlemen represent, may I say, is in the comfortable bracket. We men in the legislature wouldn't dare to brag about ourselves as you men have told us about yourselves this morning. The important part you play in business--I'll grant all of that. We people in the legislature if we would brag for a minute you know that we would be smacked down by the press. So you know we don't have a chance there. In going over the membership of the legislature, particularly the Senate with which I am more familiar, there isn't a solitary member of your profession represented in the Senate. There may be in the House; I do not know. You are dealing constantly with huge figures, and I am frank to say that I am unable to grasp what they all mean; but they are huge.

When our government is taking from 25 to 40% of our national income, by nature of your business you are having to do with those huge figures. It impressed me that perhaps you men who are dealing in figures all the while that you could make a real contribution to government if we one day could find one or two or a few of you in the legislature. May I tell you that we need men who can see figures. We are getting pretty bleary-eyed about it all.

I made that statement about no representation in government on the part of your business. I would have to make one exception to that and that is the part of John Morrison, and I am not to blame that John Morrison is not a part of state government any more. I was for him, and I wish we had him back either in the legislature or in some other capacity.

Now, as chairman of the Committee on State Affairs of the Senate I want you to know that this bill came into the State Affairs Committee, and a request for a hearing was made on the

part of the public accountants; and such a hearing was arranged for as is the practice of the State Affairs Committee--at least it has been as long as I have been its chairman.

When that hearing was held it was a rather one-sided affair. You were not there. I must confess to you and it still does surprise me when I think back at this whole situation. I am wondering where the lobbyist for the banking association was. He is here now. At least, their representatives are protesting this bill. Ordinarily when something comes along in the legislature which could be for or against the banking industry, I want you to know that they are right here all the time. And they do a good job. It seems to me that you, Gray, you might be helped along some. If you need any expansion of your job around the legislature, I think maybe these men need some representation. So that is about all I have to say.

I would like to throw out a challenge to you men that government needs men of your caliber today. We are perplexed. We are almost at a loss to know what to do next with the very figures or a small part of them that you men have to do with all the while, and I am sure you could make a real contribution to government. Now I would like to know who else would like to be heard.

Representative Storey

Our hearing will continue; and if you PA's have someone else who would like to speak on this, we will be glad to hear you. Time of course is elapsing, but we are going to extend to you the same courtesy as we did the other side. If you are willing to talk on an empty stomach, we are willing to hear you on an empty stomach. So you may continue.

Mr. Sher

Mr. Chairman, I have been in the accounting business for thirty-two years. I have operated under the Michigan act since 1926. I will attempt, in my own fashion, to answer Mr. Bailey, who was the first speaker. I have searched in the state of Michigan laws and various professions. There isn't two classes of doctors, there aren't two classes of lawyers, there aren't any two classes of dentists. Now, if the state of Michigan permits us to operate as an inferior group of men, they have defeated their own act. Because, the state permits us to operate and do damage to the public. If we are not so fitted, we shouldn't be in the field. That's number one.

Then, I think it is--is it Mr. Carey--Mr. Carey refers about statements. I think one of the largest agencies operating in

the United States today is Dun & Bradstreet. On the financial statements, forms, that are submitted by Dun & Bradstreet they have very clearly stated: are you certified, are you registered, are you licensed? We have to check that off. Now this is the purpose of Dun & Bradstreet--to show to the credit agencies or to the credit man, don't accept this statement. This man is a registered or this man is a licensed man. He is not a CPA. If that is the purpose then an injustice is done to the public accountant.

The next one is the banks. The representative of the banks stated that they accept statements only from Certified public accountants and they accept them as such. Now that isn't a fact at all. I issue hundreds of statements each year to the banks. To the National Bank of Detroit, Michigan, and so forth. They accept our statements at face value and if there is any question, they refer it to me and I certainly give them the information that they desire. The same thing is done by the certified public accountant.

The Michigan Securities Commission had a representative here that deals with stocks and bonds and so forth. But, I want to call to his attention that our office represents about sixty per cent of the building industry in the City of Detroit. I issue statements to the Michigan Securities Commission every day of the week, and they accept them as such.

Now as to the prestige. It has been remarked that this is the entire proposition--the prestige. I, myself, was called in by a Detroit attorney who represented a client to go over and see his client and advise them what per unit cost on a certain item. Now, gentlemen, this is a true fact that I have experienced myself. This is the story. I came in there, and I spoke to the president of the company. We operate here a business. We have a CPA, but we are not getting satisfaction out of him. What's the trouble? Well we would like to have the per unit cost. So I told him that I would like to meet with their CPA and discuss this matter. We did. And here was the result of it. The result was that after a discussion pro and con how this should be handled, the CPA got up and said to the president of the company for the same price that you are going to pay to Mr. Sher, who is a public accountant, you can get yourself a CPA. Now if that is the way we have to operate, we might as well not be in it. If the statute was created for the benefit of all, then let's have it for all. Thank you.

Mr. Newdeck

Mr. Chairman, the hour is five after twelve. I know that you have been held with this hearing since 10:30. It was arranged

that each side would present eight representatives. I don't care to hold the committee longer. I'll refrain from calling the balance of my eight and we will submit our case upon the facts as they have thus been presented by the members who have thus far spoken.

Mr. Hahn

I am here gentlemen, Senator Tripp and ladies and gentlemen, I'm here to find out information and I am very glad to know accountancy is growing. It's in its growing pains, I feel. A lot of us have come up since the war, unlicensed. It seems as though in time we will probably have a bill to present before this legislature. I hope we are not a thorn in somebody's side. We believe that we have a place in this business scheme where certified public accountants have not the staff or the personnel to take care of it as yet.

I think this accounting setup should be more like that of the army or the college. You should have grades of accountants. In college you have instructors, associate professors, and professors. The same is true in the army, you have different ranks. It seems that we are probably in the class of public bookkeeper and tax service. We are unlicensed, and we don't know exactly what course to take. Some of us could go to work for public accountants, but we are already established and can't afford the time. In the depression when we had the time, even the CPA's weren't fully occupied as to their time. I don't know just how this is going to sum up, but I think that in time we will have to have something to take care of the accountants who are working unlicensed and should know their demarcation. There is a good article in the "Journal of Accountancy" I think the last issue that brought out the fact that the "Journal of Accountancy" or the American Institute was not taking care of the accountants doing local work, the smaller accounts with sales under perhaps a million dollars a year. We have a number of them and we have been working on them. I think we have done a good job. Many other accountants or public bookkeepers, whichever you want to call them, are in this field and they largely outnumber the public accountants and the certified public accountants. We would cherish a position if you would move your public accountants up as public accountants, public bookkeepers. I think there should be a grading. I hope the Institute comes in here and helps make a model law in due time.

We can go just hundred miles into Ohio and set up our office and call ourselves public accountants which a lot of people are justly worthy of. But in Michigan we are unable to do that. I happen to have passed auditing theory of law three times in the Ohio CPA examination. The fact that I haven't passed my

problems is my own fault, I feel. It is just that I am not working at that level of material. I am still studying. I hope that the accountants will get together instead of fighting each other. Otherwise, it looks as though it will be a continued battle.

Representative Storey

Thank you very much. Before closing I might offer a suggestion between the two different factions the CPA and the PA in regard to this Senate Bill 132. A very brief explanation has been given to the amendments that were placed on this bill by the Senate. I would like to offer as a suggestion before our State Affairs Committee of the House considers this bill further, that you two people get together--representatives of your group Mr. Morrison and Mr. Newhouse--and see if you can't work out something that will make it a little bit more convenient and less embarrassing for the members of the State Affairs Committee of the House before we report that bill out. If it is agreeable I hope that you gentlemen can contact one another and iron out some of the differences in this matter. Otherwise, without any further remarks the meeting will be closed.

Representative Betz

I presume that when this law was passed in 1926 it included the grandfather clause. Now it's very evident from the testimony heard today that you are all following the same code of ethics. You are governed by the same examining board. Now I am wondering--I understand that there are 104, I don't know whether that is persons or concerns still acting as public accountants. If it is only 104 people, it's not a large number. It would seem to me that a better law would be if we in some way could arrange for an examination that would be held, I don't mean the same examination that is held out to the man who has just graduated from college, but an examination that would satisfy the committee as to the qualifications of these public accountants who might be entitled to the certificate to act as a certified public accountant. Take into consideration the kind of work that they have been doing for the last twenty-six years or twenty-three years as well as an examination. Now there may be out of this 104 some who are not entitled to practice. If they are not, they shouldn't be given a certificate, on the other hand, it does seem that if out of this group there are some who are perfectly capable and who will pass the kind of an examination that will be satisfactory to this board, that that would be the better way not to injure the fellow who is competent. And, at the same time, not lower the standards of the profession.

I don't want to see those standards lowered, and I don't think anyone does. But, at the same time, out of this group there

ought to be some a^c I say who could pass the kind of an examination together with their past activities that this examining board and the board who had it in hand could work something out that would be entirely satisfactory to all parties concerned.

As a member of the State Affairs Committee, I don't want to eliminate from a profession men who have been in it for years and who are good men and who need to earn a living. But, at the same time, I don't want to incorporate those who are not entitled to practice upon a high plane, and we don't want to lower the professions. I am wondering, Mr. Chairman, if these groups can't get together and work something out along that line.

Representative Storey

That is a very good suggestion Representative Betz. I also would like to extend to the two different groups here the composition of the State Affairs Committee. It is made up of good reliable men with past years of experience and in business at the present time. I know that we welcome something that is going to be a little bit more comprehensive so that we can determine the true facts and iron out the differences between these two groups.

It has been very pleasant indeed to have had you gentlemen with us this morning and if you care to appear before our State Affairs Committee before this bill is voted out, it certainly is my pleasure as chairman to extend to you either of the groups to appear before our committee.

If there is no further business to come before this hearing, we will consider ourselves adjourned.

....

THE AMERICAN INSTITUTE OF ACCOUNTANTS

This is a "background" statement on the role of the certified public accountant and the importance of maintaining high professional standards. It is designed primarily for presentation before a legislative committee, but it may also be adapted for public statements, speeches, radio broadcasts. It will be most helpful when the material is redrafted to include specific references to the local situation and to the legislation immediately in question. When so adapted, it may provide a general statement of position to be sent to members of the legislature as suggested in the form letters in the back of this kit. It was used successfully in this way in Virginia last year.

THE FUNCTION OF THE CERTIFIED PUBLIC ACCOUNTANT

And the Need for High Professional Standards

The practice of accountancy is a professional function, which intimately affects the public interest. Business management, stockholders, credit analysts, banks and other financial institutions, legislators, government bureaus -- all must depend on certified financial reports.

It is of the greatest importance, therefore, that the laws which govern the practice of public accountancy maintain the high professional standards which now prevail. The following statement is addressed to this question.

THE STORY OF ACCOUNTING

The story of the accounting profession in America is the story of America -- industrially, commercially, financially, and politically. It is the story behind the creation of the reliable financial record of public and private business in this country that has enabled us to lead the world in production, distribution and finance, and keep our public institutions and affairs abreast of the development of private enterprise as the handmaiden and teammate of what we call Democracy. It is the story of a segment of the nation's economic life whose members recognize that they have an immense obligation of public duty and are taking this duty seriously by making exertions for the common good at all levels -- national, state and local -- exertions that are not exceeded by the members of any group, business or professional, either individually or collectively.

BACKGROUND OF THE PROFESSION

It often is said that accounting is a new profession. This is true only when one is talking about the public practice of accounting, for accounting itself is at least as old as barter. The need for independent

Function of CPA - 3

review of accounts -- the essence of public accounting -- came with the growth of business organizations beyond the point where owners and operators could maintain close and intimate knowledge of the details of what was going on.

This need appeared at least a 100 years ago, and by 1896, when New York passed the first CPA law and thus recognized public accounting as a profession, it had already begun to reach substantial proportions.

Since then a variety of circumstances have brought a continuously increasing demand for the services of the independent (public) accountant: Wider use of the corporation as a medium for carrying on private business, continued growth in the size of business enterprises, wider distribution of stock ownership, statutory regulation of utilities and security issues and dealings, enactment and expansion of income, profits, gift and inheritance tax statutes, expansion of governmental services, development of the corporate device for the administration of public affairs, emergency (wartime) control of the nation's economy, and many others.

The Encyclopedia of the Social Sciences says:
"The profession of accounting has become established on a par with law, medicine and other learned professions. The varied accounting activities involve public interests and require assured ability, training and reliability."

By 1921, all of the 48 States had recognized the public importance of the profession in legislation authorizing examinations leading to official recognition and designation of qualified practitioners as "Certified Public Accountants."

In every state, the examination covers Accounting Theory and Practice, Auditing, and Commercial Law; and a successful candidate must have thorough training in these subjects. Most states also require practical experience in public accounting before the certificate is issued.

The CPA certificate is a mark of special competence.

The investor, or banker, or public official who notes that a financial statement carries the opinion of a certified public accountant has the assurance that it has been examined by a person whose qualifications have been attested by a state agency.

More CPAs are needed in almost every state to meet the demand for their services. The profession is making every effort to encourage young men and women to seek careers in accountancy, and is making no less effort to assist those who embrace public accounting as a career in the attainment of their aspirations. The details of these efforts will be stated later.

The supply of competent CPAs, however, cannot be increased by lowering the standards of admission to practice any more than the supply of competent doctors can be increased by reducing the requirements for an M.D. Public accountants do not set the standards of qualification that they must meet; these standards are set by the public accountants' clients. The profession could not change this even if it wanted to; nor can the state legislatures.

For the same reason, nothing is to be gained by setting up a permanent officially recognized class of non-certified public accountants. To protect constitutional rights, some states have provided that all public accountants in practice before regulatory legislation was enacted could be registered, but that no more would be registered thereafter. Only one state, New Mexico, allows continuing registration of non-certified public accountants. Most state legislatures have felt that the two-class system hurts those it is alleged to help, by stamping the non-certified accountant as inferior.

SIGNIFICANCE OF THE CPA CERTIFICATE

The CPA certificate indicates that the holder has passed a thorough test of his competence in both the theoretical and the practical phases of accounting.

Forty-six states and four territories use the uniform examinations prepared by the American Institute of Accountants; the other two states give examinations that are essentially similar; hence the standard for the certificate is uniformly high throughout the United States and its territories.

This uniformity of standards makes it possible for any state to recognize the certificates issued by another; most states do this as a matter of reciprocity. Any state that lowered its standards would almost certainly deprive its CPA of this privilege.

In terms of public interest, the most important thing about the CPA certificate is its significance in relation to the auditing of financial statements. If an auditor's opinion certifying that a financial statement fairly reflects the position of a company is signed by a CPA, it means:

- 1) That the statement has been examined by a person who is fully qualified to express an expert opinion.
- 2) That enough supporting evidence has been examined to justify the opinion.

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3) That the statement has been prepared in accordance with accepted accounting principles.

4) That the auditor stakes his reputation on the soundness of his opinion. (CPAs are governed by an established code of ethics, similar to the codes for other professions; and they are subject to discipline or revocation of their certificates by their State Boards of Accountancy if they are guilty of fraud or gross negligence.)

The opinion of the independent auditor is relied upon by banks, insurance companies and other credit grantors, by security holders and potential investors, by administrative, regulatory and tax agencies of the Government and many states, by investment counselors, statisticians, and others. It is of substantial value to all of these to know that the auditor is a "certified public accountant." This value would be lost if anything were done to lower the qualifications for the CPA certificate.

The Federal Government is perhaps the largest of all employers of certified public accountants. Most of the auditing of the wartime activities of the more than 2500 defense plants established by RFC was done by certified public accountants. The auditing of such great Government corporations as Reconstruction Finance Corporation and its affiliated and subsidiary corporations, and of Tennessee Valley Authority, Farm Credit Administration (51 separate corporations), Commodity Credit Corporation, Federal Public Housing Authority, Federal Deposit Insur-

ance Corporation, Panama Railroad Company, and others, also has been done by certified public accountants. All the great private corporations are regularly audited by certified public accountants.

Obviously, such tasks as these are not to be entrusted to any but those who have satisfied the highest standards that can be designed to test their qualifications for undertaking them. It is the duty of the states to set these standards and see that they are met by those who would assume the heavy obligations of modern public accounting practice.

An accountant who does not or cannot qualify as a CPA is still free to seek employment with a private firm, and in some states he may practice public accounting within the limits of his qualifications. But it is hard to see any justification for giving official state recognition to any public accountant -- other than the ones in practice when regulatory legislation is first enacted -- except those who can pass the CPA examination.

The establishment of two levels of qualification is likely to wind up as a cruelly practical demonstration of what should have been obvious at the outset, namely, that the public cannot be legislated into acceptance of the lesser of two standards of professional

services. Whenever a state adopts such legislation, the sympathy that inspired the legislation is misplaced, those whom the legislation was written to help are sure to be disillusioned, and the legislature fails to discharge its full duty to the public.

WHAT AN AUDIT MEANS

The preparation of a financial statement requires skilled judgment. There is room for considerable legitimate difference of opinion as to such important questions as the propriety of reserves, the valuation of inventories, the allocation of costs to specific periods of time, and many other factors that may in the aggregate mean the difference between a substantial apparent profit and a substantial apparent loss.

An auditor, therefore, has a much more responsible job than merely checking the accuracy of figures, the existence of cash and inventories. His certification of a statement means that the financial position of the company has been properly and reasonably described, in accordance with practices generally accepted as sound. It means especially that the figure for net profit or loss is not misleading -- that financial condition and operating results are as management represents them to be.

This expert judgment on the financial statement and the income figure is obviously of vital importance to business management. In most cases it also is accepted by the government for tax purposes. It likewise is this judgment of the auditor in which lenders and investors place reliance.

All of these groups have learned to have confidence in the opinion of the independent certified public accountant. That confidence has become essential to the pattern of business and financial relationships in the United States. Since banks and insurance companies rely upon the statements of CPA auditors in making loans and investments, the ability and integrity of the CPA are of concern to almost every citizen.

EDUCATIONAL REQUIREMENTS FOR CERTIFIED PUBLIC ACCOUNTANTS

All states require candidates for the CPA certificate to have at least a high school education, or the equivalent, and one -- New York -- has added a requirement of college training or the equivalent. California, New Jersey, Kansas, Virginia and Illinois also have educational requirements beyond the high school level.

So far as can be ascertained, the first college courses to include accounting in the United States were given at the Wharton School of Finance and Economy,

(now Finance and Commerce), established in the University of Pennsylvania in 1881. A course in commercial economy was proposed in 1869 to Washington College by General Robert E. Lee, then that college's president, but it was not instituted until a later date. Schools of Commerce were established in the University of Chicago and the University of California in 1898. A New York School of Accounts, set up in 1893 under the auspices of the American Association of Public Accountants, lasted only one year, but was the forerunner of the School of Commerce, Accounts and Finance of New York University, incorporated in 1900. Today, at least 100 schools or colleges are equipped to provide the academic requirement for CPA examination candidates.

Leading accounting firms show a decided preference for men with college training. Fifty-three of the largest firms were recently asked about the education of the junior staff assistants hired since the war. Eighteen firms said their juniors were all college graduates, and all but 9 said that at least 75 per cent were college graduates or GI's studying for college degrees.

From these facts it is evident that there is a natural and healthy tendency to raise rather than

lower the standards of the accounting profession. Incidentally, this has not decreased the number of eligibles for the profession, since there were 185,346 college graduates enumerated in the 1940 census, as compared with 43,731 high school graduates in 1890, and 94,883 high school graduates in 1900.

The accounting firms do not set these educational standards arbitrarily; they are set by the demands of the users of the profession's services, and by the colleges and universities whose requirements for degrees in accounting and business administration are constantly being raised.

ENCOURAGING ENTRANCE TO THE PROFESSION

Ever since the first examinations were conducted in New York in 1896, the demand for the services of certified public accountants has grown faster than the supply. CPAs, through their national organizations and state societies, have done everything they could to encourage entrance into the profession, and to assist in the development of educational facilities for accountants, as well as in the training of those who have adopted public practice as careers.

As already indicated, the American Association of Public Accountants, forerunner of the present American Institute of Accountants, established a school of accountancy in New York City in 1893. Although this did not last, it led to the foundation of the School of Commerce, Accounts and Finance of New York University in 1900. The Education Committee of the Association, later the Institute, has always been one of the most active, especially in cooperating with schools and colleges where accounting is taught.

Since World War II, the shortage of well qualified accountants has become more acute, and the American Institute of Accountants has correspondingly increased its efforts to attract able young men and women into the profession. 36,000 copies of a booklet called "Public Accounting as a Career," first printed in 1945, have been distributed to students and potential students of accounting.

In a further effort not only to attract students but to provide a means by which they can determine whether accounting would be a suitable career, the Institute has sponsored a project to develop standard tests for students and junior accountants. This was initiated in 1943. Under the immediate supervision of the Institute's

committee on selection of personnel and of Dr. Ben D. Wood of Columbia University, the project has resulted in a series of tests of aptitude, interest, and achievement at two different student levels, which has now been thoroughly verified and is being made generally available. The Institute has raised and expended over \$80,000 on this project alone.

Also, as a special service to veterans whose accounting studies or accounting careers were interrupted by the war, the Institute prepared and issued at a discount 7,225 copies of a refresher course under the title of "Contemporary Accounting."

All this that has been done by the Institute has been done also at the local and state levels. The record of the efforts made by the state societies, their local chapters and individual members to make the profession attractive to the best of the stream of young men and women who graduate into the business and professional life of the country each year, and to encourage and help to full professional stature those who have joined the profession, is one that would command the admiration and respect of the most skeptical.

One of the most noteworthy of these activities has been teaching. Since accounting is a relatively new

profession there never has been an adequate supply of experienced teachers. As a result, a large part of the profession is self-taught; there isn't a state whose practicing CPAs have not borne a large share of the responsibility for teaching many of those who now constitute the profession.

It simply is not true, therefore, when anyone says or implies that the CPAs are trying to run a closed shop. On the contrary, no individual, group of individuals, or organization has been nearly so conscious of the profession's needs, or done as much to satisfy these needs, as have the accountants themselves, individually and collectively through their professional organizations, by trying to induce qualified men and women to enter the profession and then helping those who have made this choice to attain full professional stature at the earliest possible moment.

THE CPA EXAMINATION

In support of the charge of "monopoly," critics have sometimes pointed to the relatively low percentage of candidates who are successful in passing the CPA examination. The real reason for the large number of failures, however, lies in the fact that most

states allow a high school graduate with inadequate experience to take the examination, and many of the candidates are poorly qualified. This situation contrasts sharply with the medical profession, for example, where an M. D. degree is required as a pre-requisite for the granting of permission to practice.

Incidentally, there are many "repeaters" in each examination; and in most states a candidate who passes some but not all sections of the examination receives credit for the subject or subjects he passes and may try again six months or a year later on the subject or subjects he failed. It should also be noted that many of those who appear in the statistics as failures are successful later; the fact that only 40 per cent of the candidates throughout the United States passed the section of the examination on Accounting Practice in May 1946 does not mean that 60 per cent of them will never become certified public accountants.

An impartial view of the CPA examination was expressed by Friedman and Kuznets in a survey called, "Income from Independent Professional Practice" published by the National Bureau of Economic Research in 1945:

"The absence of concerted effort to restrict entry on grounds of 'overcrowding' might conceivably be combined with, and explained by, the presence of highly successful restrictive measures. In fact, however, there seems to have been no deliberate restriction of entry. The very low proportion passing examinations for the certificate . . . is rather to be explained by the absence of high educational or training requirements for admission to the examination."

Certified public accountants feel, therefore, that the public interest would not be served by granting the certificate to anyone who fails to meet the standards. Candidates who fail to pass the CPA examination are not thereby deprived of the opportunity to earn a living as accountants. But all those who have passed and will pass in the future would suffer if the standards were lowered, or if those with lesser qualifications were given permanent official recognition that would impair the distinction and public confidence now given to the title of "certified public accountant."

GROWTH IN NUMBER OF CERTIFIED PUBLIC ACCOUNTANTS

The profession has actually grown rapidly, as the following tabulation of the number of the CPAs in the United States, made by the American Institute of Accountants, will show:

1910 - 1,600	1940 - 19,000
1920 - 4,900	1946 - 28,000
1930 - 13,500	1948 - 35,000

The number of certified public accountants increased 347 per cent from 1920 to 1940, as compared with an increase of 47 per cent in the number of lawyers, 26 per cent for dentists, 14 per cent for physicians and surgeons, 21 per cent for architects. The number in each of these professions in 1940 was as follows:

Lawyers and judges.....	180,483
Physicians and surgeons.....	165,629
Dentists.....	70,601
Architects.....	21,976
Certified public accountants	19,000

As indicated above, the number of certified public accountants is now about 35,000.

DEVELOPMENT OF THE ACCOUNTING PROFESSION

Like doctors, lawyers, scientists, and other professional men, accountants must keep up with their professional literature, and continue the process of education all their lives if they are to provide proper service to their clients. Accountancy is constantly developing and changing, just as other professions are.

Certified public accountants, through their national professional society, The American Institute of Accountants, publish the monthly Journal of Accountancy, containing both technical and general articles on accounting. The Journal goes to nearly 50,000 paid subscribers, including all members of the Institute, and many controllers, corporation tax executives, bankers, and other important figures in the business and financial world and in the field of public administration. It is the authoritative publication on new developments in accounting in the United States.

In addition, through its committee on auditing procedure and its committee on accounting procedure, the Institute has issued over a period of years 56 statements and bulletins outlining the concensus of leaders of the profession as to the best accounting practice in matters on which there has been a difference of opinion. These statements and bulletins constitute a major contribution toward the clarification and uniformity of financial statements and other phases of accounting.

The further development of accounting as a service to business, investors, credit grantors, government and public depends upon the maintenance of professional standards among certified public accountants. Lowering of standards in any state would constitute a handicap to the progress of accounting in all states.

American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

13 EAST 41ST STREET, NEW YORK 17, N. Y.

October 8, 1948

To Presidents of State Societies and Chapters

State Society and Chapter
Committees on Legislation
Chairmen, Committees on Public Information

Gentlemen:

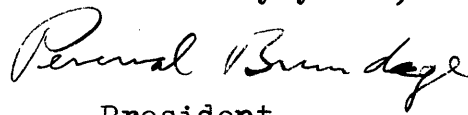
Most state legislatures will meet early in 1949. There can be no doubt that legislation affecting the interests of our profession will be introduced in a substantial number of states. In some cases, the state societies themselves may wish to sponsor legislation.

Naturally, each state will have its own problems. These individual, varying problems will have to be solved primarily by members of the state societies who are familiar with their local situations. At the same time, there are patterns which repeat themselves in state after state, and several tested approaches to legislative problems have proved to be effective.

The Institute staff has assembled the enclosed kit in the light of the experience of state societies, and other organizations which have had similar problems. It is put together in loosely assembled form so you may select the material which fits your needs, and modify it to suit the immediate occasion.

I urge every president of every state society -- and all others who are concerned with legislative questions -- to make specific plans now for an aggressive defense of our high standards. It is in the public interest as well as our own to do so.

Sincerely yours,



President

THE AMERICAN INSTITUTE OF ACCOUNTANTS

IF YOU HAVE A
LEGISLATIVE PROBLEM

There is no easy formula for handling legislative problems which arise in the states. Usually each one calls for individual treatment and special handling. Often some of the society members familiar with politics will know best what to do. The following, however, suggests a general pattern which may prove useful when and if trouble starts....

1. Notify the Institute.

The Institute is in touch with legislative problems all over the country. Often a problem in one state, or the approach to its solution, will closely resemble a problem in another state. Through the Institute, the state society may be able to tap the experience of other societies.

2. Take a stand promptly -- with the right people.

If a bill is pending before the state legislature, action must usually be taken through legislative channels. There is no point in making a statement

through the newspapers and assuming that this will do the job. It will not. It is essential, first of all, that the legislative committee considering the bill be informed directly and at once that the society objects, and wants to be heard.

3. See the people who can help.

A battle for the protection of professional standards cannot be fought at long range. Press announcements might help, and in some circumstances certainly would, but in the beginning it is often best to see what can be accomplished through negotiations -- perhaps without publicity at the start if that seems best. Representatives of the society should certainly see the bill's sponsor, the chairman of the committee considering it, members of that committee and other key legislators.

Depending on circumstances, it may also be helpful to talk with the Governor, with political leaders, and perhaps with leaders in the opposite legislative house who might get the bill for consideration.

4. Get a hearing.

If a bill is sufficiently controversial, it is usually customary for the committee to grant public hearings to opponents and proponents. Public hearings afford real opportunities to take a vigorous

stand, and to put that position on record.

5. Put the argument in writing.

When a situation is complex, it is seldom wise to carry on an argument orally. It will be best if the society puts its position down formally on paper, as a basic statement of policy. (A sample statement which might be used at a hearing, with necessary changes to fit local circumstances, is included in this kit.)

This written statement may have many uses -- in letters, speeches, press announcements and in many other ways. Just as a lawyer prepares a brief, so should the society prepare a statement of its case.

6. Let the society members know the facts.

Even if it does not seem wise to carry the case before the bar of public opinion, it will help if all the members of the society are informed, through letters or bulletins. When a situation affects the entire membership, it is not usually wise to have it worked out only by a few. Besides, an aroused membership will be absolutely essential if it becomes necessary to stage an open fight.

IF YOU NEED THE
SUPPORT OF PUBLIC OPINION

All the foregoing suggestions assume that it may be possible to "work the situation out" through legislative contacts and channels. Often this is the case. Sometimes, however, it is not.

And, should it be necessary to bring public opinion to bear on the question, here are some other steps that may prove useful....

1. Put the membership to work.

Political leaders are properly sensitive to opinion. If they receive a great many letters opposing a piece of legislation, they will give them weight. It is a simple matter to circularize the society members and get them to write letters to their legislators, or to legislators they know. This simple move is still one of the most effective -- and a thoroughly acceptable way of making your views felt. However, there are a few states where a letter campaign is not particularly effective, and it is wise to consult someone who is politically well-informed before undertaking it.

2. Marshall community support.

Many elements in the community will have reason to

Speak up on behalf of accountants. Bankers, business organizations, commercial organizations, outstanding community leaders who use the services of accountants -- all may have reason to take a stand on the legislation. If so, an organized campaign to get their public support -- through letters, resolutions and announcements -- will show results. This kind of support is particularly important, for it comes from sources not personally affected and therefore obviously less open to a charge of bias than the certified public accountants themselves.

3. Press announcements.

If it becomes necessary to do so, a variety of press announcements can be issued in connection with the battle. Every resolution passed, every decision taken by the society, every speech made, every new development, will lend itself to press treatment. It is at such times that good relations with the press and other media will prove themselves most useful and assure the society of getting its side of the story published fairly.

4. Other moves.

A great many other moves will suggest themselves as the situation unfolds. There may be opportu-

Legislative Problem - 6

nities for speeches, for the use of pictures taken at meetings, for radio talks, for debates or forums, for opinion surveys, and above all, for direct personal contacts.

THE AMERICAN INSTITUTE OF ACCOUNTANTS

THE POLITICAL ANGLE

The proper approach to legislative problems must depend to a considerable extent on the way the legislature operates in each particular state. In some states, the legislature is so tightly controlled by political bosses that letters and arguments addressed to individual members of the legislature have relatively slight effect.

However, political bosses are not insensitive to public opinion, and legitimate pressure on the individual legislators may have its effect on the bosses, as well as vice versa.

Public Opinion and Direct Contact

Public opinion can be marshalled much more effectively to kill a bad bill than to promote a good one. Most of the material in this kit is therefore designed to help in organizing effective opposition to bills which would be harmful to certified public accountants, rather than to explaining how to obtain the enact-

ment of a new bill which may be sponsored by a state society.

If a society wishes to strengthen or change its state's CPA law, direct contact with political experts is usually necessary, and the advice of political experts should guide the steps to be taken. Many of the devices suggested in this kit may prove useful, but they should be fitted into a well-planned campaign.

To kill a bad bill, efficient use of public opinion, letter-writing, and argument is often sufficient. But established contacts with political and legislative leaders are also important.

Lobbyists

Employment of professional lobbyists is expensive, and frequently a waste of money. More often than not, a professional lobbyist will do exactly what any individual could do, and then take the credit if the result is favorable, or insist that nothing could have been done if he fails. Nevertheless, if a society has failed to establish its own political and legislative contacts, there may be a few occasions when it will be worth while to engage a lawyer or someone else who does have ready access to key political figures.

In the long run, direct contacts, together with the support of influential business men and other groups, are likely to be more useful. These direct contacts should be developed well in advance of the time when they will be used.

Advance Planning

To have friends when you need them, cultivate them when you don't.

This rule applies with special force in politics. The professional politician beats the amateur nine times out of ten because the professional works with and for his constituents every year all the year round, while the amateur thinks of constituents only a few weeks before election day.

The same principle applies to every organization which has or is likely to have legislative problems. A reservoir of good will built up in advance is much more likely to bring about the enactment of a good bill or the defeat of a bad bill than a last-minute campaign.

That is why the President of the Institute suggested that state societies should put legislative problems high on the agenda of their meetings this year in preparation for next year. If trouble is expected in

1949, now is the time to prepare for it. Even if no trouble is anticipated, and no new legislation is desired, the development of healthy political contacts is good insurance.

Specific Steps to Take

Several simple steps can be taken very easily by state societies and chapters:

1. Compile a list of members who have good personal relations with members of Congress and of the state legislature. Urge them to discuss CPA standards and CPA legislative problems informally when there is no impending crisis.
2. Charge a committee with the responsibility of coordinating legislative contacts, developing new ones, and making sure that the membership responds promptly when they are asked to send letters, or have their clients send letters, to members of Congress or the legislature.
3. Discuss legislative problems and general cooperation with leaders of other organizations which may be expected to be sympathetic with the accountant's position.
4. Invite key legislators -- such as the chairmen of committees which would handle bills affecting ac-

countants -- to attend and perhaps to speak at appropriate meetings. See that they understand CPA problems; there is more danger in ignorance than in malice.

Election Year

Remember, too, that this is an election year. Members who have an interest in politics or in any particular candidate -- of either party -- can serve on campaign committees, or help in other ways. Offers to help in a political campaign are never turned down. This is, of course, a matter of individual choice. But personal contacts developed in this way can legitimately be used for the benefit of the profession.

Above everything else, the political influence of any organization depends upon the nature and extent of its reputation. That is one of the sound reasons for an active, continuing public relations program, not only in terms of publicity, but in community relations and community service.

THE AMERICAN INSTITUTE OF ACCOUNTANTS

HOW A BILL BECOMES A LAW

Preliminary procedures and rules vary slightly from one legislature to another. If you are concerned with promoting or preventing the passage of any particular bill, you should be familiar with the specific rules in your legislature. But, generally speaking, the steps in the passage of a bill are as follows:

1. The bill is introduced by an individual legislator and receives a number.
2. The bill is referred to an appropriate committee for consideration.
3. The bill may then be the subject of public hearings, before a sub-committee or the full committee.
4. The bill may be amended by the committee.
5. The bill is reported favorably by the committee to the house of the legislature in which it was introduced. (If a bill is not "reported out" by the committee, it usually remains dormant until the end of the session. It has then "died in committee." This is the fate of many bills.)
6. To receive consideration on the floor of the legis-

lature, a bill must be placed on the calendar, given a special "rule" or right of way, or be taken up by unanimous consent. In the latter case, of course, a single objection by a member of the legislature may be sufficient to delay the bill for a considerable length of time.

7. Depending upon the way in which it was brought to the floor, a bill may be subject to amendment proposed by any member of the house which is considering it. Amendments must be disposed of before the bill can be voted on.
8. Most bills are passed by voice vote, especially if they have the backing of the majority party. Record votes are usually taken only on bills which are highly controversial or when the vote is close.
9. If a bill is passed by one house of the legislature, it is sent to the other where it is again referred to the appropriate committee.
10. The full committee procedure is repeated.
11. The bill is voted on by the second house of the legislature.
12. If it passes the second house in a form identical with that passed by the first, it goes to the Governor for approval or veto.
13. If the bill is amended in the second house, it is

returned to the first for re-consideration and may again be referred to the committee which handled it in the first place.

14. If the committee of the house where the bill originated approves the amendments, the bill is sent to the floor with a recommendation for concurrence. In some cases, it may be voted on when it comes from the other house. If the amendment is disapproved, the bill usually goes to a special "conference committee" consisting of the ranking members of the appropriate committees of both houses. This procedure may be informal, as it is in New York State.
15. If the conference committee reaches agreement, the compromise bill usually goes directly to the floor of both houses for acceptance or rejection.
16. If the conference committee report is accepted by both houses, or if either house agrees to recede and accept the bill as passed by the other, it goes to the Governor for approval or veto.
17. If the bill is vetoed by the Governor while the legislature is still in session, it is automatically returned to the floor of both houses, and a two-thirds vote of both houses is required in

most states to enact the bill over the veto.

When it seems unlikely that you can muster sufficient strength to defeat a bad bill, the best strategy may be to eliminate the most undesirable features by amendment.

Especially toward the end of a session, it is frequently possible to persuade a legislative committee to accept substantial amendments to any bill, if a few members of the legislature strongly support them, in order to prevent a last-minute floor debate which might kill the bill entirely. (Remember, however, the dangers of compromise. This procedure should not be followed if a bad bill can be defeated in toto.)

When a state society has a vital interest in obtaining passage of a bill, the proposed measure should be carefully followed through each of the above steps, in order to prevent delays which might kill it. Conversely, when the society is opposed to a bill, advantage should be taken of the possibilities of legitimate delay and amendment at every stage of the bill's progress.

Letters from members, clients, and others who support the society's position, should be concentrated where they will do the most good at each stage of a bill's progress. When a bill is before a sub-committee, letters

should go to the members of that sub-committee, and later to the full committee. Letters to the whole membership of one house of the legislature will be most useful if they are sent immediately after a bill is reported from the committee. If it seems likely to pass the house where it is introduced, preliminary contacts should be developed and letters sent to members of the committee of the opposite house to which it will be referred. (Incidentally, if an effort is made to amend an undesirable bill, it is usually worth while to have counsel for the society prepare the exact wording of the amendment in proper form so that a friendly member of the legislature can introduce it without having to undertake a technical drafting job himself.

THE AMERICAN INSTITUTE OF ACCOUNTANTS

This is a "background" statement on the role of the certified public accountant and the importance of maintaining high professional standards. It is designed primarily for presentation before a legislative committee, but it may also be adapted for public statements, speeches, radio broadcasts. It will be most helpful when the material is redrafted to include specific references to the local situation and to the legislation immediately in question. When so adapted, it may provide a general statement of position to be sent to members of the legislature as suggested in the form letters in the back of this kit. It was used successfully in this way in Virginia last year.

THE FUNCTION OF THE CERTIFIED PUBLIC ACCOUNTANT

And the Need for High Professional Standards

The practice of accountancy is a professional function, which intimately affects the public interest. Business management, stockholders, credit analysts, banks and other financial institutions, legislators, government bureaus -- all must depend on certified financial reports.

It is of the greatest importance, therefore, that the laws which govern the practice of public accountancy maintain the high professional standards which now prevail. The following statement is addressed to this question.

THE STORY OF ACCOUNTING

The story of the accounting profession in America is the story of America -- industrially, commercially, financially, and politically. It is the story behind the creation of the reliable financial record of public and private business in this country that has enabled us to lead the world in production, distribution and finance, and keep our public institutions and affairs abreast of the development of private enterprise as the handmaiden and teammate of what we call Democracy. It is the story of a segment of the nation's economic life whose members recognize that they have an immense obligation of public duty and are taking this duty seriously by making exertions for the common good at all levels -- national, state and local -- exertions that are not exceeded by the members of any group, business or professional, either individually or collectively.

BACKGROUND OF THE PROFESSION

It often is said that accounting is a new profession. This is true only when one is talking about the public practice of accounting, for accounting itself is at least as old as barter. The need for independent

review of accounts -- the essence of public accounting -- came with the growth of business organizations beyond the point where owners and operators could maintain close and intimate knowledge of the details of what was going on.

This need appeared at least a 100 years ago, and by 1896, when New York passed the first CPA law and thus recognized public accounting as a profession, it had already begun to reach substantial proportions.

Since then a variety of circumstances have brought a continuously increasing demand for the services of the independent (public) accountant: Wider use of the corporation as a medium for carrying on private business, continued growth in the size of business enterprises, wider distribution of stock ownership, statutory regulation of utilities and security issues and dealings, enactment and expansion of income, profits, gift and inheritance tax statutes, expansion of governmental services, development of the corporate device for the administration of public affairs, emergency (wartime) control of the nation's economy, and many others.

The Encyclopedia of the Social Sciences says:
"The profession of accounting has become established on a par with law, medicine and other learned professions. The varied accounting activities involve public interests and require assured ability, training and reliability."

By 1921, all of the 48 States had recognized the public importance of the profession in legislation authorizing examinations leading to official recognition and designation of qualified practitioners as "Certified Public Accountants."

In every state, the examination covers Accounting Theory and Practice, Auditing, and Commercial Law; and a successful candidate must have thorough training in these subjects. Most states also require practical experience in public accounting before the certificate is issued.

The CPA certificate is a mark of special competence.

The investor, or banker, or public official who notes that a financial statement carries the opinion of a certified public accountant has the assurance that it has been examined by a person whose qualifications have been attested by a state agency.

More CPAs are needed in almost every state to meet the demand for their services. The profession is making every effort to encourage young men and women to seek careers in accountancy, and is making no less effort to assist those who embrace public accounting as a career in the attainment of their aspirations. The details of these efforts will be stated later.

The supply of competent CPAs, however, cannot be increased by lowering the standards of admission to practice any more than the supply of competent doctors can be increased by reducing the requirements for an M.D. Public accountants do not set the standards of qualification that they must meet; these standards are set by the public accountants' clients. The profession could not change this even if it wanted to; nor can the state legislatures.

For the same reason, nothing is to be gained by setting up a permanent officially recognized class of non-certified public accountants. To protect constitutional rights, some states have provided that all public accountants in practice before regulatory legislation was enacted could be registered, but that no more would be registered thereafter. Only one state, New Mexico, allows continuing registration of non-certified public accountants. Most state legislatures have felt that the two-class system hurts those it is alleged to help, by stamping the non-certified accountant as inferior.

SIGNIFICANCE OF THE CPA CERTIFICATE

The CPA certificate indicates that the holder has passed a thorough test of his competence in both the theoretical and the practical phases of accounting.

Forty-six states and four territories use the uniform examinations prepared by the American Institute of Accountants; the other two states give examinations that are essentially similar; hence the standard for the certificate is uniformly high throughout the United States and its territories.

This uniformity of standards makes it possible for any state to recognize the certificates issued by another; most states do this as a matter of reciprocity. Any state that lowered its standards would almost certainly deprive its CPA of this privilege.

In terms of public interest, the most important thing about the CPA certificate is its significance in relation to the auditing of financial statements. If an auditor's opinion certifying that a financial statement fairly reflects the position of a company is signed by a CPA, it means:

- 1) That the statement has been examined by a person who is fully qualified to express an expert opinion.
- 2) That enough supporting evidence has been examined to justify the opinion.

3) That the statement has been prepared in accordance with accepted accounting principles.

4) That the auditor stakes his reputation on the soundness of his opinion. (CPAs are governed by an established code of ethics, similar to the codes for other professions; and they are subject to discipline or revocation of their certificates by their State Boards of Accountancy if they are guilty of fraud or gross negligence.)

The opinion of the independent auditor is relied upon by banks, insurance companies and other credit grantors, by security holders and potential investors, by administrative, regulatory and tax agencies of the Government and many states, by investment counselors, statisticians, and others. It is of substantial value to all of these to know that the auditor is a "certified public accountant." This value would be lost if anything were done to lower the qualifications for the CPA certificate.

The Federal Government is perhaps the largest of all employers of certified public accountants. Most of the auditing of the wartime activities of the more than 2500 defense plants established by RFC was done by certified public accountants. The auditing of such great Government corporations as Reconstruction Finance Corporation and its affiliated and subsidiary corporations, and of Tennessee Valley Authority, Farm Credit Administration (51 separate corporations), Commodity Credit Corporation, Federal Public Housing Authority, Federal Deposit Insur-

ance Corporation, Panama Railroad Company, and others, also has been done by certified public accountants. All the great private corporations are regularly audited by certified public accountants.

Obviously, such tasks as these are not to be entrusted to any but those who have satisfied the highest standards that can be designed to test their qualifications for undertaking them. It is the duty of the states to set these standards and see that they are met by those who would assume the heavy obligations of modern public accounting practice.

An accountant who does not or cannot qualify as a CPA is still free to seek employment with a private firm, and in some states he may practice public accounting within the limits of his qualifications. But it is hard to see any justification for giving official state recognition to any public accountant -- other than the ones in practice when regulatory legislation is first enacted -- except those who can pass the CPA examination.

The establishment of two levels of qualification is likely to wind up as a cruelly practical demonstration of what should have been obvious at the outset, namely, that the public cannot be legislated into acceptance of the lesser of two standards of professional

services. Whenever a state adopts such legislation, the sympathy that inspired the legislation is misplaced, those whom the legislation was written to help are sure to be disillusioned, and the legislature fails to discharge its full duty to the public.

WHAT AN AUDIT MEANS

The preparation of a financial statement requires skilled judgment. There is room for considerable legitimate difference of opinion as to such important questions as the propriety of reserves, the valuation of inventories, the allocation of costs to specific periods of time, and many other factors that may in the aggregate mean the difference between a substantial apparent profit and a substantial apparent loss.

An auditor, therefore, has a much more responsible job than merely checking the accuracy of figures, the existence of cash and inventories. His certification of a statement means that the financial position of the company has been properly and reasonably described, in accordance with practices generally accepted as sound. It means especially that the figure for net profit or loss is not misleading -- that financial condition and operating results are as management represents them to be.

This expert judgment on the financial statement and the income figure is obviously of vital importance to business management. In most cases it also is accepted by the government for tax purposes. It likewise is this judgment of the auditor in which lenders and investors place reliance.

All of these groups have learned to have confidence in the opinion of the independent certified public accountant. That confidence has become essential to the pattern of business and financial relationships in the United States. Since banks and insurance companies rely upon the statements of CPA auditors in making loans and investments, the ability and integrity of the CPA are of concern to almost every citizen.

EDUCATIONAL REQUIREMENTS FOR CERTIFIED PUBLIC ACCOUNTANTS

All states require candidates for the CPA certificate to have at least a high school education, or the equivalent, and one -- New York -- has added a requirement of college training or the equivalent. California, New Jersey, Kansas, Virginia and Illinois also have educational requirements beyond the high school level.

So far as can be ascertained, the first college courses to include accounting in the United States were given at the Wharton School of Finance and Economy,

(now Finance and Commerce), established in the University of Pennsylvania in 1881. A course in commercial economy was proposed in 1869 to Washington College by General Robert E. Lee, then that college's president, but it was not instituted until a later date. Schools of Commerce were established in the University of Chicago and the University of California in 1898. A New York School of Accounts, set up in 1893 under the auspices of the American Association of Public Accountants, lasted only one year, but was the forerunner of the School of Commerce, Accounts and Finance of New York University, incorporated in 1900. Today, at least 100 schools or colleges are equipped to provide the academic requirement for CPA examination candidates.

Leading accounting firms show a decided preference for men with college training. Fifty-three of the largest firms were recently asked about the education of the junior staff assistants hired since the war. Eighteen firms said their juniors were all college graduates, and all but 9 said that at least 75 per cent were college graduates or GI's studying for college degrees.

From these facts it is evident that there is a natural and healthy tendency to raise rather than

lower the standards of the accounting profession. Incidentally, this has not decreased the number of eligibles for the profession, since there were 185,346 college graduates enumerated in the 1940 census, as compared with 43,731 high school graduates in 1890, and 94,883 high school graduates in 1900.

The accounting firms do not set these educational standards arbitrarily; they are set by the demands of the users of the profession's services, and by the colleges and universities whose requirements for degrees in accounting and business administration are constantly being raised.

ENCOURAGING ENTRANCE TO THE PROFESSION

Ever since the first examinations were conducted in New York in 1896, the demand for the services of certified public accountants has grown faster than the supply. CPAs, through their national organizations and state societies, have done everything they could to encourage entrance into the profession, and to assist in the development of educational facilities for accountants, as well as in the training of those who have adopted public practice as careers.

As already indicated, the American Association of Public Accountants, forerunner of the present American Institute of Accountants, established a school of accountancy in New York City in 1893. Although this did not last, it led to the foundation of the School of Commerce, Accounts and Finance of New York University in 1900. The Education Committee of the Association, later the Institute, has always been one of the most active, especially in cooperating with schools and colleges where accounting is taught.

Since World War II, the shortage of well qualified accountants has become more acute, and the American Institute of Accountants has correspondingly increased its efforts to attract able young men and women into the profession. 36,000 copies of a booklet called "Public Accounting as a Career," first printed in 1945, have been distributed to students and potential students of accounting.

In a further effort not only to attract students but to provide a means by which they can determine whether accounting would be a suitable career, the Institute has sponsored a project to develop standard tests for students and junior accountants. This was initiated in 1943. Under the immediate supervision of the Institute's

committee on selection of personnel and of Dr. Ben D. Wood of Columbia University, the project has resulted in a series of tests of aptitude, interest, and achievement at two different student levels, which has now been thoroughly verified and is being made generally available. The Institute has raised and expended over \$80,000 on this project alone.

Also, as a special service to veterans whose accounting studies or accounting careers were interrupted by the war, the Institute prepared and issued at a discount 7,225 copies of a refresher course under the title of "Contemporary Accounting."

All this that has been done by the Institute has been done also at the local and state levels. The record of the efforts made by the state societies, their local chapters and individual members to make the profession attractive to the best of the stream of young men and women who graduate into the business and professional life of the country each year, and to encourage and help to full professional stature those who have joined the profession, is one that would command the admiration and respect of the most skeptical.

One of the most noteworthy of these activities has been teaching. Since accounting is a relatively new

profession there never has been an adequate supply of experienced teachers. As a result, a large part of the profession is self-taught; there isn't a state whose practicing CPAs have not borne a large share of the responsibility for teaching many of those who now constitute the profession.

It simply is not true, therefore, when anyone says or implies that the CPAs are trying to run a closed shop. On the contrary, no individual, group of individuals, or organization has been nearly so conscious of the profession's needs, or done as much to satisfy these needs, as have the accountants themselves, individually and collectively through their professional organizations, by trying to induce qualified men and women to enter the profession and then helping those who have made this choice to attain full professional stature at the earliest possible moment.

THE CPA EXAMINATION

In support of the charge of "monopoly," critics have sometimes pointed to the relatively low percentage of candidates who are successful in passing the CPA examination. The real reason for the large number of failures, however, lies in the fact that most

states allow a high school graduate with inadequate experience to take the examination, and many of the candidates are poorly qualified. This situation contrasts sharply with the medical profession, for example, where an M. D. degree is required as a pre-requisite for the granting of permission to practice.

Incidentally, there are many "repeaters" in each examination; and in most states a candidate who passes some but not all sections of the examination receives credit for the subject or subjects he passes and may try again six months or a year later on the subject or subjects he failed. It should also be noted that many of those who appear in the statistics as failures are successful later; the fact that only 40 per cent of the candidates throughout the United States passed the section of the examination on Accounting Practice in May 1946 does not mean that 60 per cent of them will never become certified public accountants.

An impartial view of the CPA examination was expressed by Friedman and Kuznets in a survey called, "Income from Independent Professional Practice" published by the National Bureau of Economic Research in 1945:

"The absence of concerted effort to restrict entry on grounds of 'overcrowding' might conceivably be combined with, and explained by, the presence of highly successful restrictive measures. In fact, however, there seems to have been no deliberate restriction of entry. The very low proportion passing examinations for the certificate . . . is rather to be explained by the absence of high educational or training requirements for admission to the examination."

Certified public accountants feel, therefore, that the public interest would not be served by granting the certificate to anyone who fails to meet the standards. Candidates who fail to pass the CPA examination are not thereby deprived of the opportunity to earn a living as accountants. But all those who have passed and will pass in the future would suffer if the standards were lowered, or if those with lesser qualifications were given permanent official recognition that would impair the distinction and public confidence now given to the title of "certified public accountant."

GROWTH IN NUMBER OF CERTIFIED PUBLIC ACCOUNTANTS

The profession has actually grown rapidly, as the following tabulation of the number of the CPAs in the United States, made by the American Institute of Accountants, will show:

1910 - 1,600	1940 - 19,000
1920 - 4,900	1946 - 28,000
1930 - 13,500	1948 - 35,000

The number of certified public accountants increased 347 per cent from 1920 to 1940, as compared with an increase of 47 per cent in the number of lawyers, 26 per cent for dentists, 14 per cent for physicians and surgeons, 21 per cent for architects. The number in each of these professions in 1940 was as follows:

Lawyers and judges.....	180,483
Physicians and surgeons.....	165,629
Dentists.....	70,601
Architects.....	21,976
Certified public accountants	19,000

As indicated above, the number of certified public accountants is now about 35,000.

DEVELOPMENT OF THE ACCOUNTING PROFESSION

Like doctors, lawyers, scientists, and other professional men, accountants must keep up with their professional literature, and continue the process of education all their lives if they are to provide proper service to their clients. Accountancy is constantly developing and changing, just as other professions are.

Certified public accountants, through their national professional society, The American Institute of Accountants, publish the monthly Journal of Accountancy, containing both technical and general articles on accounting. The Journal goes to nearly 50,000 paid subscribers, including all members of the Institute, and many controllers, corporation tax executives, bankers, and other important figures in the business and financial world and in the field of public administration. It is the authoritative publication on new developments in accounting in the United States.

In addition, through its committee on auditing procedure and its committee on accounting procedure, the Institute has issued over a period of years 56 statements and bulletins outlining the concensus of leaders of the profession as to the best accounting practice in matters on which there has been a difference of opinion. These statements and bulletins constitute a major contribution toward the clarification and uniformity of financial statements and other phases of accounting.

The further development of accounting as a service to business, investors, credit grantors, government and public depends upon the maintenance of professional standards among certified public accountants. Lowering of standards in any state would constitute a handicap to the progress of accounting in all states.

THE AMERICAN INSTITUTE OF ACCOUNTANTS

How About A Resolution?

As indicated elsewhere in this material, action taken by a state society to get its views before the public or before a legislative group is always useful. A formal resolution is still one of the best ways to assure it. The following sample resolution assumes that a bill has been introduced in the legislature to grant CPA certificates without examination. This is, of course, simply for purposes of illustration, and the form can be adapted to suit any situation which may arise in your state.

R E S O L U T I O N

WHEREAS, a bill has been submitted to the legislature by (name of sponsor), which would grant CPA certificates without the usual examination, and

WHEREAS, such a measure if enacted would dilute the significance of the CPA certificate and impair the public confidence now enjoyed by financial statements bearing the name of a certified public accountant, and

WHEREAS, this would be contrary to the best interests of management, stockholders, labor, banks and other credit grantors, and to other groups which depend on the formal opinion of the certified public accountant, Now, Therefore,

BE IT RESOLVED: That the (name of state) Society of Certified Public Accountants hereby expresses its opposition to the said bill, and instructs its officers to take appropriate action to bring the matter to the attention of the members of the legislature and the public generally.

Signed: _____
President

date: _____

THE AMERICAN INSTITUTE OF ACCOUNTANTS

A NOTE ON THE USE OF PRESS RELEASES

PRESS RELEASES

The sample press release included in this kit is only one of many that could be issued. Usually press announcements have to be geared closely to actual developments. Ordinarily any action taken, any resolution passed, any letters sent can be used as the basis for a press announcement. The sample given, therefore, is primarily to indicate the form that should be used.

A complete discussion of publicity techniques will be found in the booklet called "How to Have Good Public Relations," prepared by the American Institute of Accountants. If your society does not have one of these booklets, you may obtain one from the Institute.

A SAMPLE PRESS RELEASE TO BE ISSUED BY THE STATE SOCIETY

OURSTATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

For release in
morning and afternoon
papers, (date), 1948

Office Address
Phone Number
Member to Contact

CPAs OPPOSE _____ BILL

John Smith, president of the Ourstate Society of Certified Public Accountants, announced last night that the members of the Society are vigorously opposed to the provisions of the _____ Bill, introduced into the Legislature on _____, which would (indicate purpose of bill)_____.

Commenting on the proposed legislation, Mr. Smith said the Society's opposition is based on the belief that the bill is not only contrary to the interests of the accounting profession but also contrary to the public interests.

Smith gave the following reasons for opposition:

1. (Here list succinctly
2. the principal reasons for
3. opposing the legislation.)

In a letter sent to Senator _____, sponsor of the bill, Mr. Smith said:

(Quote text of letter here)

THE AMERICAN INSTITUTE OF ACCOUNTANTS

S A M P L E L E T T E R S

One of the simplest and still one of the most effective ways of forcefully getting your views before the right people is by writing letters to legislators and state officials.

This part of the legislative kit contains sample letters -- in "pattern form" -- which may be useful as a general guide for the preparation of letters dealing with specific state problems.

To illustrate the use of such letters, the first letter is given in pattern form and the second shows how that particular pattern might be adapted to a specific piece of legislation. The other letters, however, remain in general form and require re-writing to meet particular problems.

It should be remembered, however, that personal contact is always better than a letter, and sometimes an organized letter-writing campaign using form letters, which are practically identical, arouses indignation and may even do more harm than good. When asking people to write to members of the legislature, it is well to suggest a general line of approach, but ask them to write the letters in their own words.

SUGGESTED LETTER FROM STATE SOCIETY TO SPONSOR OF LEGISLATION

(pattern form)

date: _____

Senator Robert Jones

Dear Senator Jones:

Members of the Ourstate Society of Certified Public Accountants are deeply concerned over the legislation (HR-1234) which you have introduced, designed to (state purpose of bill here)_____. We should like to tell you why we oppose this legislation.

It is our belief that this measure, should it become law, would tend to break down the present high professional standards of the accounting profession in (name of state.) It is, therefore, not only contrary to the interests of the profession itself, but contrary to the public interest as well.

More specifically, _____(give specific local arguments here)_____

You are undoubtedly familiar with the great strides the accounting profession has made during the last fifty years in providing essential services for management, stockholders, banks and other financial institutions, labor, government and public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines would be reversed by the legislation you propose.

We know that you would like to have all the facts at our disposal. We are, therefore, enclosing herewith a general statement of our position. We hope you will find the evidence convincing, and that you will seriously consider the advisability of the measure you propose.

Sincerely yours,

A. B. Cee, President

SUGGESTED LETTER FROM STATE SOCIETY TO SPONSOR OF LEGISLATION
(As it might be adapted)

Date: _____

Senator Robert Jones

Dear Senator Jones:

Members of the Vermont Society of Certified Public Accountants are deeply concerned over the legislation (HR-1234) which you have introduced, designed to grant CPA certificates to accountants who have not passed the regular CPA examination. We would like to tell you why we oppose this legislation.

If it is our belief that this measure, should it become law, would tend to break down the present high professional standards in Vermont. It is, therefore, not only contrary to the interests of the profession itself, but contrary to the public interest as well.

The present standards for the CPA certificate have been established by law in Vermont since 1912. Granting certificates to those who are unable or unwilling to meet the requirements of the CPA examination would be unfair to the..... certified public accountants in the state who have met the requirements. What is even more serious, it would remove the protection to the public which is now provided by the standards set for all certified public accountants.

You are undoubtedly familiar with the great strides the accounting profession has made during the last fifty years of providing essential services for management, stockholders, bank and other financial institutions, labor, government and public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines in Vermont would be reversed by the legislation you propose.

We know that you would like to have all the facts at your disposal. We are, therefore, enclosing herewith a general statement of our position. We hope you will find the evidence convincing, and that you will seriously reconsider the advisability of the measure you propose.

Sincerely yours,

A. B. Cee, President

(Note: The underlined material shows the kind of "localized" argument which should be inserted into these pattern letters to make them more effective)

SUGGESTED LETTER TO LEGISLATIVE COMMITTEE CHAIRMAN AND MEMBERS
(pattern form)

Date: _____

Senator John Smith

Dear Senator Smith:

The _____ Bill (HR-1234) which your committee now has under consideration has caused great concern among the members of the Ourstate Society of Certified Public Accountants. We have already written to Senator _____, the bill's sponsor, and wish to take this opportunity to acquaint you also with our views and the reasons why we feel as we do.

It is our belief that this bill, should it become law, would tend to break down the present high professional standards of the accounting profession in this state. It is, therefore, not only contrary to the interests of the profession itself, but contrary to the public interest as well.

You are undoubtedly familiar with the great strides the accounting profession has made during the past fifty years in providing essential services for management, stockholders, banks and other financial institutions, labor, government and other public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines would be reversed by the legislation now pending before your committee.

A general statement of the certified public accountants' position is enclosed. We hope you will find the evidence convincing, and that you and the other members of your committee will not approve the proposed legislation. Naturally we stand ready to appear before your committee to present our views in more detail, and we earnestly request an opportunity to do so if the bill is to be seriously considered.

We would very much appreciate it if you would let us know your views on the matter.

Sincerely yours,

A. B. Cee, President

enclosure

SUGGESTED TYPE OF LETTER FOR SOCIETY MEMBERS TO SEND LEGISLATORS
(pattern form)

Date: _____

Senator Henry Robinson

Dear Senator Robinson:

I want to call your attention to the _____ Bill (HR-1234), now pending in the legislature. The members of the Ourstate Society of Certified Public Accountants are greatly concerned over the effect this legislation would have if the bill were to become law. I am taking this way of telling you of our views.

It is our belief that this bill would tend to break down the present high professional standards of the accounting profession in this state. It is, therefore, not only contrary to the interests of the profession itself, but also contrary to the public interest.

You are undoubtedly familiar with the great strides which the accounting profession has made during the past fifty years in providing essential services for management, stockholders, banks and other financial institutions, labor, government and other public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines would be reversed by the legislation now pending.

We would very much appreciate it if you would let me know how you feel about the matter.

Sincerely yours

X. Y. Zee, C.P.A.

(NOTE: As stated before, legislators do not like to receive dozens of "form" letters. The suggestion above, therefore, will be more effective if each individual member re-writes it in his own words.)

SAMPLE LETTER FROM A BUSINESS MAN TO MEMBERS OF LEGISLATURE
(pattern form)

Date: _____

Senator Thomas Brown

Dear Senator Brown:

While I am not a certified public accountant, my firm uses the services of certified public accountants constantly, and all of us here are concerned over the _____ Bill (HR-1234) which has been introduced into the legislature and referred to the _____ Committee for consideration.

Certified public accountants, as you undoubtedly know, provide an essential service for business in many ways. Our relations with our stockholders, our employees, with financial institutions, with government bureaus and agencies -- all these essential relationships are affected by the credibility of our certified financial reports.

We would certainly consider it a backward step, therefore, if this proposed legislation were enacted into law, for it would tend to create doubt as to the validity of public financial reports. Any such doubt, accompanied by public confusion, would seriously handicap the conduct of our business.

I wish, therefore, to join with others who may have written to you and ask you to oppose this legislation. I will appreciate your letting me hear from you.

Sincerely yours,

John Jones, President

The XYZ Company

Note: As in the case of letters from individual CPAs, this should be re-written and put into the business man's own words.

LETTER FROM CIVIC ORGANIZATION TO LEGISLATORS OR COMMITTEE
(pattern form)

Date: _____

Senator Robert Harrison

Dear Senator Harrison:

At a recent meeting of the (name of organization), the _____ Bill (HR-1234) was discussed and the following resolution adopted:

Whereas, the _____ Bill (HR-1234) now pending before the legislature is contrary to the public interest, in that it would tend to affect the high standards of the accounting profession in this state, and

Whereas, it is essential that such high professional standards be maintained,

Now, Therefore, Be it Resolved, that the (name of organization) express its opposition to this proposed measure, communicate its views to the appropriate members of the legislature, and ask that they take steps to see that the bill is defeated.

We hope that you and your fellow members of the legislature will give weight to our position in considering this legislation.

Sincerely yours,

John Watson, Secretary

A POSSIBLE LETTER FROM THE SOCIETY TO THE GOVERNOR OF THE STATE
(pattern form)

Date: _____

The Honorable Henry Brown
The Governor of Ourstate

My Dear Governor:

The members of the Ourstate Society of Certified Public Accountants are deeply concerned over the _____ Bill (HR-1234) which has been passed by the legislature and sent to you for your approval. It is our earnest hope that you will not approve the measure, and we take this opportunity to tell you of our reasons for feeling as we do.

Other members of the Society may already have written you, as individuals, but I have been instructed to write to you officially as President of the Society.

It is our belief that this bill, if made into law, would tend to break down the present high professional standards of the accounting profession in this state. It is, therefore, contrary to the interests of the profession and contrary to the public interest as well.

You are undoubtedly familiar with the great strides which the accounting profession has made during the past fifty years in providing essential services for management, stockholders, banks and other financial institutions, labor, government, and other public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines would be reversed by the legislation now awaiting your action.

A statement of our views is enclosed. We hope that you will find the evidence convincing, and that you will veto this measure promptly. Should you require additional data, the members of our committee on legislation would appreciate an opportunity to confer with you.

Sincerely yours,

A. B. Cee, President

enclosure (NOTE: In some cases it may be helpful to write to the Governor before a bill is passed.)

A POSSIBLE LETTER FROM THE SOCIETY TO THE GOVERNOR OF THE STATE
(pattern form)

Date: _____

The Honorable Henry Brown
The Governor of Ourstate

My Dear Governor:

The members of the Ourstate Society of Certified Public Accountants are deeply concerned over the _____ Bill (HR-1234) which has been passed by the legislature and sent to you for your approval. It is our earnest hope that you will not approve the measure, and we take this opportunity to tell you of our reasons for feeling as we do.

Other members of the Society may already have written you, as individuals, but I have been instructed to write to you officially as President of the Society.

It is our belief that this bill, if made into law, would tend to break down the present high professional standards of the accounting profession in this state. It is, therefore, contrary to the interests of the profession and contrary to the public interest as well.

You are undoubtedly familiar with the great strides which the accounting profession has made during the past fifty years in providing essential services for management, stockholders, banks and other financial institutions, labor, government, and other public groups which must depend on the integrity of independent financial reports. The progress which has been made along these lines would be reversed by the legislation now awaiting your action.

A statement of our views is enclosed. We hope that you will find the evidence convincing, and that you will veto this measure promptly. Should you require additional data, the members of our committee on legislation would appreciate an opportunity to confer with you.

Sincerely yours,

A. B. Cee, President

enclosure (NOTE: In some cases it may be helpful to write to the Governor before a bill is passed.)

WHY
CPA
STANDARDS
ARE
IMPORTANT
TO
YOU

This leaflet answers some of the questions most frequently asked about Certified Public Accountants, their professional standards, and why State laws setting qualifications for the CPA certificate are desirable.

Prepared by

THE AMERICAN INSTITUTE OF
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The National Professional Society of
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Q. Why do all States require certified public accountants to pass professional examinations, like doctors and lawyers?

A. The CPA certificate is a mark of professional competence relied upon by businessmen, banks, government agencies, and others who are concerned with financial reports.

Q. Why is the integrity of the certified public accountant important to anyone except those who employ his services?

A. The investments of every savings bank depositor, life insurance policy holder, and corporation stockholder are protected, directly or indirectly, by audits made by independent certified public accountants.

The enormous expansion of our economy in the last fifty years, with wide distribution of ownership of business, many new and complex taxes, and increased public responsibility on the part of business management—all these influences have added to the demand for an independent review of accounts, and the necessity for means of distinguishing those who are qualified to express an opinion on the financial position and income of business concerns.

Stuart Chase, the economist, said recently that the auditor's certificate, signed by a CPA, "is something like the sterling mark on silver."

Q. What justification is there for the statement that accounting is a profession?

A. The professional character of the work performed by certified public accountants is attested in many ways. CPAs have a code of ethics embodying their integrity, independence and public responsibility. A profession is a

calling marked by such a code of ethics, by a high degree of training, skill and discipline, the subordination of financial gain to the rendering of essential services, and the licensing or regulation of membership. The certified public accountant, in the creative application of his skills to business and economic problems, meets all of these professional standards and requirements.

The Encyclopedia of the Social Sciences says: "The profession of accounting has become established on a par with law, medicine and other learned professions."

The first State law setting professional standards for certified public accountants was passed over fifty years ago.

Q. What does a certified public accountant's opinion on a financial statement mean?

A. It means at least three things: (1) that the statement has been examined by a person qualified to express an expert opinion; (2) that the CPA has satisfied himself that supporting evidence really justifies his opinion; (3) that the auditor stakes his professional reputation on the opinion that the financial statement actually does fairly present the financial position and results of operations of the given company for the period covered—or the opinion will indicate the respects in which it does not.

Q. Isn't accounting simply a matter of book-keeping?

A. By no means. Bookkeeping is a mechanical and relatively routine function, while accounting is constructive and interpretive. In view of the complexity of business and financial affairs today, the preparation, review and evaluation of a financial statement requires special skills and knowledge. There is room for considerable difference of opinion on matters concerning

inventories, depreciation, allocations of cost and revenue, and many other factors which affect a company's financial position and net income. A wrong opinion on such matters can make enormous differences to management, to stockholders, and to the public.

Q. How does one become a CPA?

A. After proper education, training and experience, the candidate must pass an extensive examination covering both the theoretical and practical phases of accounting. Forty-six States and four territories use uniform examinations prepared by the American Institute of Accountants, and the other two States use comparable tests. All States require CPA candidates to have at least a high school education or the equivalent, and six States have educational requirements beyond the high school level.

Q. Do CPAs constitute a monopoly?

A. The contrary is true. CPAs are always trying to attract more qualified young men and women to the ranks of the profession. For example, more than 36,000 copies of a booklet called "Public Accounting as a Career" have been distributed to students by the American Institute of Accountants and State societies of certified public accountants. In 1943 the Institute began sponsoring a continuing study to develop aptitude and achievement tests—which are now in use—to help accounting firms find talented prospects, and to help prospective CPAs evaluate their own qualifications for this special field. More than \$80,000 has been expended so far on this testing program alone.

Q. Are CPA examinations too difficult?

A. The standards of performance for the CPA are really set by clients and public needs. The

examination, therefore, reflects the qualifications which those who use financial statements want in the accounting profession. No legislation can change this demand. The examination leading to the CPA certificate is thorough, because the public interest requires the maintenance of high standards.

There is considerable misunderstanding about the number of failures in the examination. Many candidates who fail to pass all sections of the examination on their first attempt receive credit for those they do pass, and are successful in the others later.

Q. But if more CPAs are needed, wouldn't it be a good idea to make the tests simpler?

A. That would not be a solution. We need more doctors, but no one seriously suggests that we lower standards in the medical schools and hospitals. For parallel reasons, it would be hazardous to give official CPA standing to men or women without CPA qualifications.

Q. When a man fails to pass the CPA examination, what happens to him?

A. Such failure does not by any means prevent him from earning a livelihood in accounting. He is still perfectly free to accept employment as an accountant, either on the staff of a public accounting firm, or with a private firm, as many thousands do every year.

Q. How many certified public accountants are there?

A. About 35,000. The rate of growth in the number of certified public accountants is much faster than in any other profession; about six thousand candidates have received certificates in the last two years. There are more accounting students in schools and colleges today than ever before.

Q. Why should you be concerned about the maintenance of professional standards for certified public accountants?

A. Special interest groups have tried from time to time to lower the standards of the CPA examination, or to obtain CPA certificates for candidates who were not properly qualified. Such attempts might be successful unless businessmen, legislators, and others who are concerned with financial reporting recognize the importance of supporting the integrity of the certificate.