

1984

# Major issues for the CPA profession and the AICPA: a report

AICPA Future Issues Committee

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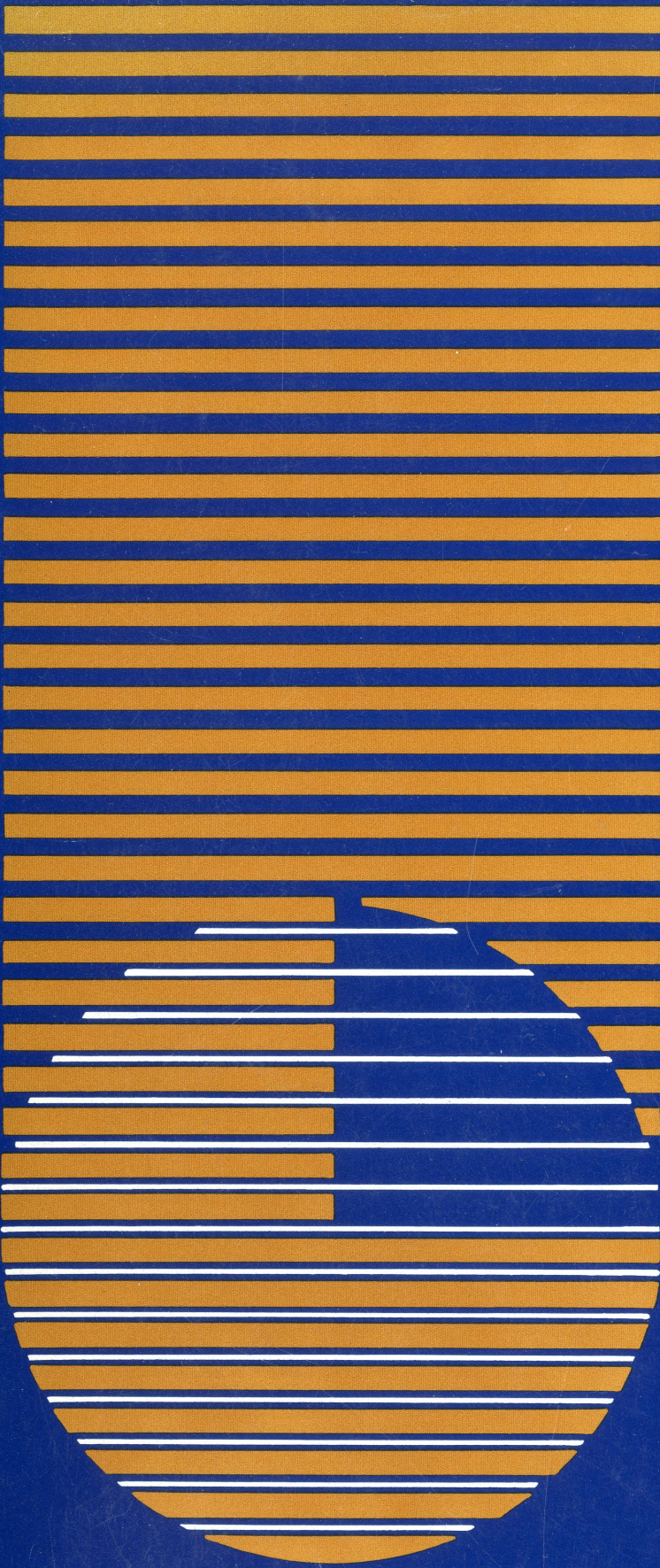
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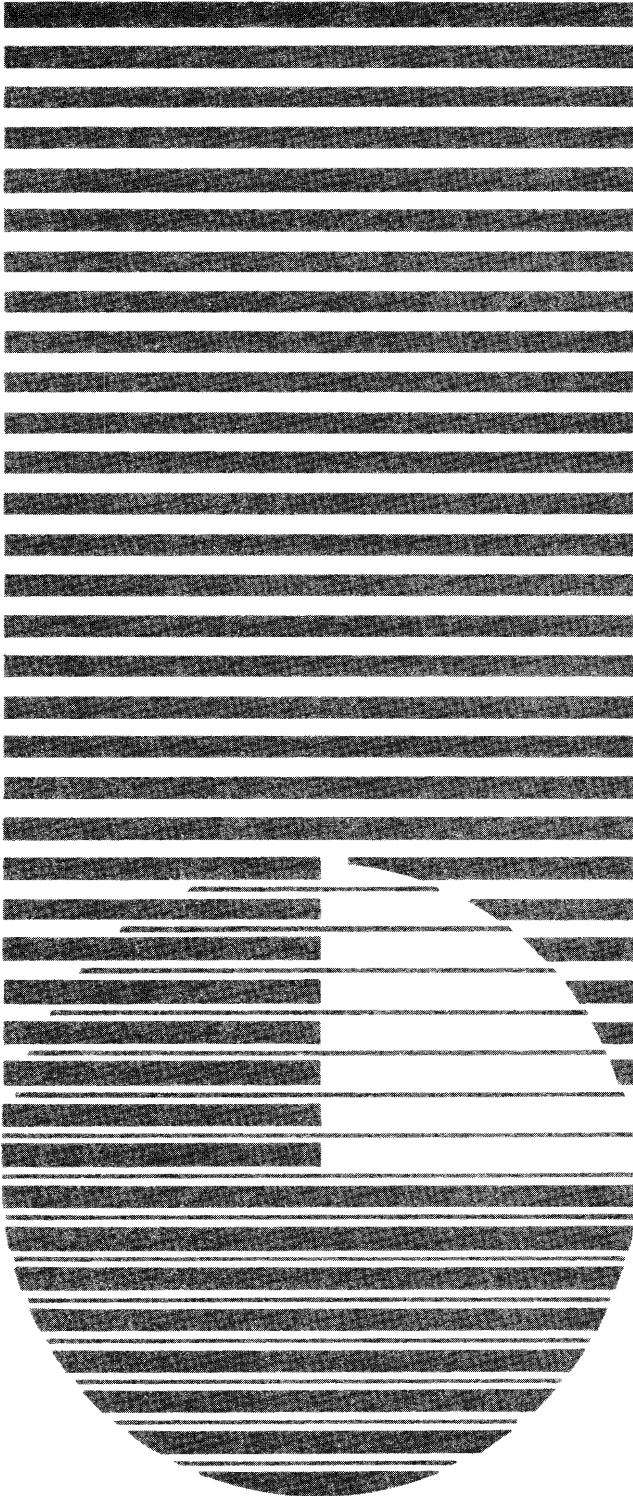
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**MAJOR  
ISSUES  
FOR THE  
CPA  
PROFESSION  
AND THE  
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**A Report  
by the AICPA  
Future Issues  
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**AICPA**  
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American Institute of  
Certified Public Accountants

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# Notice to Readers

The Institute's Board of Directors received this report of the Future Issues Committee on the major issues for the CPA profession and the AICPA in April 1984 and authorized its publication as well as presentation to Council, the Institute's governing body. The report is one of many steps in the Institute's effort to become more proactive in identifying and acting on issues affecting the accounting profession. The board has taken steps to address the major issues presented in the report and to implement its recommendations.

One of the issues identified pertained to the mission of the Institute. Prior to the issuance of this report, the board had addressed this issue by forming the Mission Committee, a special committee to study and update the Institute's mission, goals, and objectives. That Committee is also being asked to address the issue of changes in the composition of Institute membership and potential membership.

The board has authorized the formation of a special committee to undertake a study of upward mobility of women and is considering formation of another committee to conduct a special study encompassing the role of self-regulation, quality of practice by CPAs, and diversity in CPA qualification and performance requirements.

The board has referred seven other issues to existing committees as follows:

- The Special Committee on Standards of Professional Conduct for CPAs, formed in 1983 to conduct a comprehensive study of the relevance and effectiveness of ethical standards, has been asked to consider three issues as part of their charge: expansion of services and products, changes in the nature and extent of competition, and independence and objectivity.
- Widespread computerization and automation of business operations has been referred to the EDP Technology Research subcommittee of the Institute's Management Advisory Services (MAS) Division.
- Accounting standards overload is being addressed by the Accounting Standards Overload Task Force, a board task force previously established to monitor that issue.
- Major reform of the federal income tax system has been referred to the Federal Taxation Executive Committee, a senior standing committee with authority to speak for the Institute on tax matters.

Further action to address the issue of litigation and legal liability has been deferred pending the outcome of current Institute initiatives supporting amendments to the Federal Racketeer Influenced and Corrupt Organization (RICO) Statute. In addition, the board will continue to monitor developments relating to the issue of increased specialization of accountants to assess the need for additional action.

The board has approved, in concept, the recommendations to establish a formal strategic planning process and to develop a trend-monitoring process. Steps are being taken to implement those recommendations. The board also confirmed the continuing role of the Future Issues Committee and has evidenced an overall commitment for the Institute to become more future-oriented.

We believe that this report will prove to be a watershed in the history of the Institute and that it signals the beginning of interrelated processes to position the Institute to deal with issues confronting the profession in a systematic and timely manner. We commend the Future Issues Committee for its work and the able leadership of Richard S. Hickok. We encourage it to continue its efforts to identify future problems and opportunities facing the Institute and the accounting profession.

Bernard Z. Lee, CPA  
Chairman of the Board

Philip B. Chenok, CPA  
President

# Foreword

**D**uring the past few decades the accounting profession, consisting of the more than two hundred thousand certified public accountants (CPAs) in the United States, and the national professional body of CPAs, the American Institute of Certified Public Accountants (Institute), have experienced and reacted to numerous changes in both their external and internal environments. Those changes have played a major role in restructuring and refocusing the profession. They include a shift in the organizational structure for setting accounting standards, a new and novel program of self-regulation for CPA firms, expansion in the scope and mix of services offered by those in public practice, a virtual revolution in information technology, the development of sophisticated new business practices, and the emergence of a highly competitive environment for those in public practice. The profession and the Institute have generally reacted successfully to those challenges.

The profession and the Institute recognize the need to take the initiative—to anticipate change and confront issues with sufficient lead time to help shape the future. Early in 1982, the Institute formed the Future Issues Committee to identify issues that the profession and the Institute can expect to confront within the next five to twenty years and to suggest responses to those issues. The Future Issues Committee is a permanent committee that reports directly to the Institute's Board of Directors. It is charged with the responsibility of conducting research to develop a systematic process for identifying future issues. Its purpose is to improve the profession's understanding of changes in the environment and of the implications of those changes for the accounting profession and the Institute. The committee's status as a permanent committee allows it to consider, on a continuous basis, the past actions of the profession, its present environment, and expected changes in its environment as a basis for formulating issues and exploring their implications.

In this, the initial report of this committee, we describe our activities to date, identify issues that we now see as the most important future issues, and set forth our recommendations and the bases for them.

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# Contents

	<i>Page</i>
FOREWORD .....	v
CHAPTER 1: SUMMARY OF THE REPORT .....	1
Major Issues .....	1
Recommendations .....	3
Analyses .....	3
Strategic Planning .....	3
A Trend-Monitoring System .....	3
The Role of the Future Issues Committee .....	4
Overall Commitment .....	4
CHAPTER 2: BACKGROUND OF THE REPORT .....	5
The Work of the Committee .....	5
Scope of the Inquiry .....	6
CHAPTER 3: ANALYSES OF ISSUES .....	7
Expansion of Services and Products .....	7
Importance .....	8
Driving Forces .....	8
Current Initiatives .....	8
Options .....	9
Changes in the Nature and Extent of	
Competition in the Profession .....	9
Importance .....	9
Driving Forces .....	10
Current Initiatives .....	10
Options .....	10
Widespread Computerization and Automation	
of Business Operations .....	10
Importance .....	10
Driving Forces .....	11
Current Initiatives .....	11
Options .....	12
Litigation and Legal Liability .....	12
Importance .....	12
Driving Forces .....	12
Current Initiatives .....	12
Options .....	13
Increased Specialization of Accountants .....	13
Importance .....	13
Driving Forces .....	13
Current Initiatives .....	14
Options .....	14
Accounting Standards Overload .....	14
Importance .....	15
Driving Forces .....	15
Current Initiatives .....	15
Options .....	16
The Role of Self-Regulation .....	16
Importance .....	16
Driving Forces .....	17
Current Initiatives .....	17
Options .....	17



Upward Mobility of Women .....	17
Importance .....	18
Driving Forces .....	18
Current Initiatives .....	18
Options .....	18
Improving the Quality of Practice by CPAs .....	19
Importance .....	19
Driving Forces .....	19
Current Initiatives .....	20
Options .....	20
Major Reform of the Federal Income Tax System .....	21
Importance .....	21
Driving Forces .....	21
Current Initiatives .....	21
Options .....	21
Changes in the Composition of Institute Membership and Potential Membership .....	22
Importance .....	22
Driving Forces .....	22
Current Initiatives .....	22
Options .....	22
Independence and Objectivity .....	23
Importance .....	23
Driving Forces .....	24
Current Initiatives .....	24
Options .....	24
Diversity in CPA Qualification and Performance Requirements .....	24
Importance .....	25
Driving Forces .....	25
Current Initiatives .....	25
Options .....	26
<b>CHAPTER 4: BASES FOR RECOMMENDATIONS .....</b>	<b>27</b>
The Need for Further Analysis .....	27
The Need for Strategic Planning .....	28
A Trend-Monitoring System .....	28
The Continuing Role of the Committee .....	30
Overall Commitment to Future Orientation .....	30
<b>APPENDIX: ISSUES IDENTIFIED BY THE FUTURE     ISSUES COMMITTEE .....</b>	<b>31</b>

# Summary of the Report

**W**e present for consideration and action by the Institute's Board of Directors what we have identified as the major issues confronting the profession today and our recommendations to establish a strategic planning function and a trend-monitoring system. We also summarize our recommendations about the continuing role of our committee.

The accelerating pace of change in the environment indicates that the profession and the Institute should become more future oriented and give appropriate attention to the issues presented, because those issues could play a significant role in shaping the future of the profession.

## MAJOR ISSUES

The issues presented affect the accounting profession, broadly defined to include all CPAs, whether engaged in public accounting or in other activities. The issues consist of matters of sufficient concern to the profession to require attention and resolution. They are issues—

- That will be heavily influenced by the future environment in which accounting will be practiced in the next two decades.
- Whose outcomes will have significant implications for the accounting profession and the Institute.
- Whose implications are not yet completely understood or widely recognized.
- For which few effective actions have thus far been taken.
- For which the cost of being unprepared, or failing to act, can be substantial.

The issues are expected to significantly affect one or more of the groups that have an interest in the profession (the profession's constituencies). They are derived from or related to critical developments that could occur in the future environment. The most appropriate time horizon is the next five to twenty years. As of now, however, the issues presented in this report represent what we view as the most significant ones regardless of the time frame.

In our study we considered numerous suggested issues (see the appendix to this report). From those, we selected fourteen that in our opinion are the most important. For thirteen of those issues, we present later in this report a separate analysis of each issue that defines it, discusses its significance and the driving forces shaping

it, and suggests possible options for dealing with it. We are not presenting such an analysis for one of the issues identified, which relates to the Institute's mission, because the Institute has already established a special committee (the Mission Committee) to make a comprehensive study of that topic.

The fourteen issues that we found to be most important overall are as follows:

1. *Expansion of Services and Products.* The issue is how should the profession adapt its practices and standards so that firms can take maximum advantage of opportunities to expand services and products in a manner appropriate to the professionalism and integrity of CPAs (pages 7–9).\*
2. *Changes in the Nature and Extent of Competition in the Profession.* The issue is whether steps can be taken to develop and implement strategies to maintain the viability and growth of practice units in an increasingly competitive environment, to adapt standards to make them more suitable to the new environment, and to alter the Institute's organizational structure and services to best meet the needs of its members in the changing environment (pages 9–10).
3. *Widespread Computerization and Automation of Business Operations.* The issue is whether the profession can adapt to take advantage of the widespread computerization and automation of business, including the widespread use of personal computers, and whether the Institute can provide leadership in those areas while also developing technical performance standards and new services in those areas for the benefit of its members (pages 10–12).
4. *Litigation and Legal Liability.* The issue is how can the accountants' exposure to liability arising from both audit and nonaudit work be limited in a manner consistent with the public interest (pages 12–13).
5. *Increased Specialization of Accountants.* The issue is whether the profession should establish a formal system for the recognition and accreditation of specialists beyond the CPA designation (pages 13–14).
6. *Accounting Standards Overload.* The issue is whether the profession can find the means, acceptable to all parties and consistent with the objectives of financial reporting, to alleviate accounting standards overload (pages 14–16).
7. *The Role of Self-Regulation.* The issue is what should be the appropriate role of the Institute in self-regulation (pages 16–17).
8. *Upward Mobility of Women.* The issue is how can the profession strengthen the upward mobility of women in public accounting (pages 17–19).
9. *Improving the Quality of Practice by CPAs.* The issue is how can general compliance with quality control standards be maintained in all areas of practice at a level sufficiently high to serve public needs adequately (pages 19–20).
10. *Major Reform of the Federal Income Tax System.* The issue is to determine what role the Institute should play in tax reform and what strategies the profession should adopt to prepare for a major reform (page 21).
11. *Changes in the Composition of Institute Membership and Potential Membership.* The issue is whether the Institute can effectively serve the needs of its diverse membership and of non-CPA professionals, who are becoming an increasingly significant element in public accounting (pages 22–23).
12. *Independence and Objectivity.* The issue is can independence and objectivity be maintained as the cornerstones of the practicing professional or should broader concepts be emphasized (pages 23–24).
13. *Diversity in CPA Qualifications and Performance Requirements.* The issue is whether more effective initiatives can be taken to achieve greater uniformity in the qualifications and performance requirements affecting CPAs (pages 24–26).

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\*Page references are to the analysis of the issue in this report.

14. *Mission, Goals, and Objectives of the Institute.* The issue is whether the stated mission, goals, and objectives of the Institute relate appropriately to all its members—in public practice, industry, government, or education—considering, among other matters, if the traditional focus on public practitioners continues to be appropriate. (An analysis of this issue is not presented because the Institute has established the Mission Committee to study it.)

These issues are an important starting point for the accounting profession to become more future oriented. From the perspective of the profession, the major issues center on changes in the content of the work of CPAs and the conditions under which CPAs work. For example, widespread computerization and intense competition are expected to increase the range of services offered by CPAs and thus cause more specialization. From the Institute's perspective, that development will raise issues concerning how to serve diverse needs and at the same time retain a coherent professional voice and image.

## RECOMMENDATIONS

In the issues identification process, we considered other related actions that we believe will make the process more effective. We recommend that the Institute—

- Undertake a comprehensive analysis of each issue presented.
- Establish a formal strategic planning process.
- Develop and implement a trend-monitoring system.
- Confirm the role of the Future Issues Committee as described in this report.
- Adopt an overall commitment to become future oriented.

### Analyses

The Institute should undertake a comprehensive analysis of each issue presented in this report. The analysis should consider the current status of the issue, alternatives for addressing it, and the probable outcome if no early efforts are made to deal with it.

### Strategic Planning

The Institute should establish a formal strategic planning process to increase its future orientation, to guide its policymaking, and to develop strategies to achieve its goals and objectives, taking into account the traditional participatory role of its membership. A strategic planning committee should be formed from some combination of existing Institute policy and management-level groups that now deal informally with strategic planning and policy matters. It should be supported by a small staff. Its first objective should be to establish a strategic plan for the Institute, taking into account the mission, goals, and objectives of the Institute as they are updated by the Missions Committee, recently established for that purpose.

### A Trend-Monitoring System

Our work to date suggests the need for a system that can monitor a variety of developments to provide early indications of trends and future issues and that can help in the analysis and interpretation of current and emerging issues affecting the accounting profession. We therefore recommend that the Institute establish and maintain a trend-monitoring system. Since there are many variables involved in the design of such a system, we are soliciting design proposals from several organizations and, after we have evaluated those proposals, will recommend an approach to the Institute's Board of Directors.

## **The Role of the Future Issues Committee**

We believe a description of the continuing role of the Future Issues Committee is needed to provide a framework for the committee's future activities and its relationship to the strategic planning process. We recommend that the future role of the committee encompass—

- Identifying new issues or the changing priorities of the issues already identified.
- Using a trend-monitoring system to assist in identifying new issues and to monitor issues previously identified.
- Considering periodic reports from Institute staff on actions taken to address issues identified.
- Validating and expanding issues presented in this report.
- Preparing issues papers on selected issues for consideration by the Board of Directors.
- Reviewing analyses of issues prepared by other groups.
- Providing input to the strategic planning group, whose establishment we recommend in this report.
- Reporting periodically to the Institute's Board of Directors.

To validate and expand the issues presented, we propose that the Institute commission a broad-based survey to be conducted under our supervision.

## **Overall Commitment**

We have taken the first steps to explore the long-range concerns of the accounting profession and the Institute. Further progress will depend on an overall commitment by the Institute. With major changes affecting the accounting profession from all directions and with the relatively long lead time it takes for a voluntary organization to obtain consensus on a plan of action, we believe that specific plans to become more proactive would provide additional lead time and would prove to be valuable.

# Background of the Report

## THE WORK OF THE COMMITTEE

We have been in existence for nearly two years. Following our initial one-day meeting in July 1982, we have met and deliberated quarterly for a total of fifteen days. At the outset, we considered information on issues affecting the profession and on methods of identifying future issues. We reviewed the work of the Institute's committee on long-range objectives, which was in existence during the 1960s, and interviewed John L. Carey, who worked with that group and published *The Accounting Profession—Where Is It Headed?* and *The CPA Plans for the Future* based on its work.\*

We established a task force to review the mission of the Institute and a task force to identify sources of information useful in developing environmental assumptions. We received regular briefings from the Institute's chairman and president on current Institute developments, including policy matters presented to the Institute's Board, and we received a briefing from the Institute's vice-president for government relations. We considered the U.S. comptroller general's views on future issues.

We reviewed numerous publications and research studies for information relevant to our work. The review of research studies and reports on long-range planning issued by foreign accounting organizations, state societies, and CPA firms provided useful insights. Presentations to the committee by futures research organizations, including Infinity Ltd., the Naisbett Group, the Center for Futures Research, and the Trend Analysis Program, helped us to decide on techniques for exploring the future. Through our task force on environmental assumptions, we consulted several companies with issues management functions to determine how they carry out that process. We engaged Professor Burt Nanus as a consultant to help us explore the long-range environment.

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\*John L. Carey, ed., *The Accounting Profession — Where Is It Headed?* (New York: AICPA, 1962) and John L. Carey, *The CPA Plans for the Future* (New York: AICPA, 1965).

## SCOPE OF THE INQUIRY

The central focus of our inquiry was the identification of issues likely to significantly affect the accounting profession. The process required agreement on the time frame, the scope of accounting, what constitutes an issue, the groups with significant interests, and the factors that those groups use to evaluate the performance of the profession. We chose the next five to twenty years as the most appropriate time frame.

We agreed that an issue is a matter of concern important enough to the profession to require some resolution, and it may have current and future implications. An issue, for our purposes, need not be an entirely new matter of concern, but it should be a matter of concern with significant long-term effects.

We considered all groups or constituencies with an interest in the accounting profession and decided that the most important are (1) CPAs, (2) practice units, (3) clients, (4) government, especially federal regulatory bodies, and (5) investor or creditor users of financial statements. The factors we viewed as the six most important that those groups apply to the profession are—

1. Quality of services provided.
2. Scope and mix of services.
3. Relevance and usefulness of information.
4. Degree and effectiveness of self-regulation.
5. Independence and objectivity of CPAs.
6. Economic viability.

The rapidly changing environment—political-regulatory, social-demographic, and economic—and rapidly changing business and accounting practices are the primary sources of issues for the profession. In the process of identifying and assigning priorities for the fourteen issues presented in this report, we considered numerous suggested issues. The appendix to this report contains a list of all the issues suggested and considered.

We have not taken steps to validate our identification of the major issues, although we propose to do so (see “The Role of the Future Issues Committee” on page 4).

# Analyses of Issues

**I**n this chapter we present our analyses of thirteen of the fourteen issues identified. The analyses were prepared by selected members of the committee and reviewed and approved by the full committee. The analysis of each issue contains a statement of the issue, a discussion of its importance and of the driving forces shaping it, an identification of what we see as the current initiatives addressing aspects of the issue, and possible options to deal with the issue. The analyses are preliminary; we recommend in this report that the Institute undertake a comprehensive analysis of each issue.

## **EXPANSION OF SERVICES AND PRODUCTS**

***ISSUE: How should the profession adapt its practices and standards so that firms can take maximum advantage of opportunities to expand services and products in a manner appropriate to the professionalism and integrity of CPAs?***

The expansion of services and products is an issue of current significance. It does not appear to be an issue that can be put aside or resolved by proclamation, because it relates to a development that provides new opportunities to both CPAs and their clients.

In today's environment, CPA firms are offering their clients and others a wide range of nontraditional services and products, including computer software and hardware, actuarial and appraisal services, educational programs, and service bureaus for various forms of record keeping. In seeking to significantly expand the range of services and products provided, CPA firms may expand in other nontraditional ways, which may possibly include establishing retail stores for the sale of computer hardware and software, offering insurance (including insuring the financial stability of companies), offering telecommunication consulting and installations, operating subsidiary companies, developing venture capital and investment banking divisions, and perhaps entering into commercial banking activities.



## **Importance**

- Requirements for CPA firms to hire staff with a broader variety of skills and to provide new career paths for people with new skills
- Changes in the public image of CPA firms
- Improved client services
- Changes in the educational needs of firm members
- Changes in the organizational structure of firms
- Increased marketing by CPA firms
- Greater quality controls within firms and increasing difficulty in establishing quality controls over some of the expanded work and activities of firms and their members
- Increasing competition from outside the profession to provide both traditional and nontraditional services and products
- Increasing exposure to liability and an increasing amount of litigation
- Increasing pressure on the profession and the Institute to take the lead in expanding the services and products of CPAs
- Increasing demands for specialization and accreditation of specialists
- Increasing difficulty within firms in evaluating the performance of personnel
- Questions concerning CPAs' independence and objectivity
- Increasing demand for standards in more areas and for more standard-setting bodies
- Changes in the profitability of CPA firms
- Increasing need for a greater investment in research and development by CPA firms
- Requirements for more capital within CPA firms, perhaps acquired through public ownership
- Increasing competition among CPA firms of all sizes

## **Driving Forces**

- Decrease in the growth rate of the attest function of historical financial statements and its effects on firm profitability
- Pressures in CPA firms to increase profitability above current or anticipated levels
- Competition as discussed under that issue
- Increasing client demand for new services and products
- Significant new opportunities for CPAs to serve their clients and the public
- Increasing pace of technological change and the shift to an information based economy

## **Current Initiatives**

- The Institute has established a special committee on standards of professional conduct for CPAs (the Anderson Committee), which is evaluating the relevancy of current standards of ethics to professionalism, integrity, and commitment in light of the changing practice environment.
- The Institute's Management Advisory Services (MAS) Executive Committee is considering the CPA's role as a product vendor, for example, in the sale of computer hardware and software, and will provide the Anderson Committee with information on that topic.
- The Institute's Auditing Standards Division actively considers nontraditional areas of practice in which standards or guidelines can be developed and currently has projects on prospective financial statements and reporting on com-

puter software. The Auditing Standards Board and the MAS Executive Committee are seeking clarification of their authority to issue external reporting standards (other than standards for reporting on financial statements) for the benefit of third parties.

- The Institute's Examinations Division has prepared a practice analysis report describing the work activities, knowledge, skills, and abilities now required of practicing CPAs.

### **Options**

- The Institute could establish a task force, building on the work of the Anderson Committee, to identify the critical implications of the issue, such as determining what changes could be made in professional rules to allow firms to expand their products and services, and, if certain professional requirements are found to be incompatible with certain aspects of the expansion, to identify and specifically address the areas of incompatibility.
- CPAs and CPA firms could help lead in dealing with this issue. They are heavily involved in identifying and bringing to the marketplace new services and products.

## **CHANGES IN THE NATURE AND EXTENT OF COMPETITION IN THE PROFESSION**

***ISSUE: Can steps be taken to develop and implement strategies to maintain the viability and growth of practice units in an increasingly competitive environment, to adapt standards to make them more suitable to the new environment, and to alter the Institute's organizational structure and services to best meet the needs of its members in the changing environment?***

The increased competitiveness in the practice of public accounting, which is expected to become more intense in the future, is one of the major changes in the practicing environment.

Over the past ten years, competition in the accounting profession has increased substantially and is now accelerating. The profession is also confronted with rapidly increasing external competition, especially in the new, nontraditional areas of practice, from organizations such as financial institutions and the new financial services conglomerates. Those organizations are expected to expand their services into the traditional areas of the CPA's practice.

### **Importance**

Increasing competition will significantly affect the profession's major constituencies, including (1) CPAs, (2) practice units, (3) clients, (4) government bodies, and (5) users of financial statements. Moreover, it could significantly affect the following:

- Quality of services provided by CPA firms
- Independence and objectivity of CPAs
- Economics of practice, including the income of CPAs and practice units and fees paid by clients

### **Driving Forces**

- Pressures on practice units to maintain a suitable level of growth in a mature market
- Decline, for various reasons, in the amount of fees that CPAs can charge for their services
- Internal competition among practice units and external competition from other businesses
- Relaxation of the constraints imposed by the code of professional ethics because of changes in government attitudes toward regulation of professions
- Expansion of the scope of services provided by CPA firms

### **Current Initiatives**

- The Institute has established a special committee (the Mission Committee) to study its mission.
- The recently appointed Anderson Committee is conducting a broad philosophical study of the Code of Professional Ethics.
- The SEC Practice Section of the Institute's Division for CPA Firms has established a task force to consider initiatives to enhance professionalism in the competitive practice environment.

### **Options**

- The Institute could study the implications of increased competition and the needs of CPAs, practice units, and other constituencies in a highly competitive environment. It could consider all implications of competition and develop programs and services to enable CPAs to function effectively and to meet their responsibilities.
- CPAs and CPA firms could develop and implement innovative strategies for maintaining their viability and growth.

## **WIDESPREAD COMPUTERIZATION AND AUTOMATION OF BUSINESS OPERATIONS**

***ISSUE: Can the profession adapt to take advantage of the widespread computerization and automation of business, including the widespread use of personal computers, and whether the Institute can provide leadership in those areas while also developing technical and performance standards and new services in those areas for the benefit of its members?***

The widespread use of computers is changing the traditional client-CPA relationship, expanding the scope of services, fostering competition, and creating changes in the operating structure of CPA firms and businesses generally. Within the next two decades, the increasingly rapid growth in computer and information technology is expected to revolutionize business practice in all areas and to create a host of new products and services.

### **Importance**

The issue significantly affects most of the groups interested in the accounting profession.

*CPAs and CPA firms.* Advances in the audit process resulting from the increased use of computers may allow firms to improve audit efficiency and to audit on a continuous basis, but such advances may also allow others to take over some of the audit function. The changes in audit practice may go hand in hand with the loss of some traditional business of CPAs to non-CPAs.

The computer will increase opportunities for new lines of business and provide firms with improved tools for financial modeling and decision making. Increased specialization of staff will be required, which will necessitate establishing new staff recruiting and training policies and developing different compensation packages and management levels. Moreover, nonpracticing CPAs will have to develop computer skills to maintain competency in their jobs and to interact with other computer users and providers of computer-based services.

*Educators.* Students preparing for careers in the profession will need to attain computer proficiency, and educators will have to broaden their curriculums to meet that need.

*Businesses.* The proliferation of computers has several implications for businesses beyond those related to information overload, control, and security. While there is a variety of experts on computers, none has yet emerged as preeminent.

*Standard-setting and regulatory bodies.* Standard-setting and regulatory bodies will have to develop new computer audit techniques for both networks and stand-alone terminals. New standards for security will be a growing need.

## **Driving Forces**

Changes in technology have created user-friendly computer systems resulting in the growing use of computers. Rapidly declining hardware costs have increased the focus on software, which is growing in volume and technology at an exponential rate. CPA firms are confronted with an increasing number of competitors that use computers to offer a wide range of services to the clients of CPAs. Those developments and their effects on profitability of the CPA's traditional services are forcing CPA firms to use the computer to expand into nontraditional practice areas.

## **Current Initiatives**

- The Institute's Information Services Division provides members with a technical reference service for computer questions and is gearing up to provide hardware and software product reviews.
- The Institute's MAS Division is preparing several MAS technical practice aids in the areas of computerization and automation, and it monitors developments in those areas.
- The Institute's Continuing Professional Education (CPE) Division is reviewing its computer course offerings and studying the feasibility of offering more hands-on computer courses.
- The *Journal of Accountancy* is adding a department on CPAs and EDP to help CPAs evaluate computer software and hardware.
- The Institute's Auditing Standards Division has several projects dealing with the effects of computers on audits and on accounting systems.
- The Institute has published a series of Computer Services Guidelines designed to provide information about various aspects of EDP and to assist members in the use of computers within a CPA practice. It has issued several audit and accounting guides that deal with EDP and its impact on the audit process. A revised edi-

tion of *Auditing & EDP* was issued in 1983. The Institute has held annual computer conferences for over fifteen years.

### **Options**

- Lead the way by encouraging the development of standards, the development of necessary training programs, and the establishment of specialization and by joining with other organizations to promote the expertise of CPAs in this area.
- Develop software for use by practitioners and nonpractitioners.
- Develop programs to increase the competence and expertise of CPAs in this area.

## **LITIGATION AND LEGAL LIABILITY**

***ISSUE: How can accountants' exposure to liability arising from both audit and nonaudit work be limited in a manner consistent with the public interest?***

Noted persons, including law school deans, recognized members of the judiciary, economists, and others, have commented on the development of excessive litigation and what they have characterized as our "litigious society." Such litigation has particularly affected the accounting profession in terms of the number of lawsuits and magnitude of liability.

### **Importance**

Disproportionate and excessive liability will lead to increased premiums or termination of insurance coverage for accountants, increased audit fees for clients, and an unwarranted loss of user confidence in audited financial statements. A continuation of this development may adversely affect the capital formation process. In addition, excessive litigation results in adverse publicity, which sows the seeds for the unjustified call for federal regulation of the profession.

### **Driving Forces**

Complex business transactions, adverse economic conditions, the significant increase in the number of bankruptcies, implied rights of action under the federal securities laws (without statutory provisions dealing with the extent of liability, statutes of limitation, and procedural requirements), the system of contingent fees for lawyers, class actions, and the view of CPA firms as the only remaining "deep pockets" when there is an audit "failure" have all contributed to excessive litigation involving accountants and disproportionate liability. Furthermore, such exposure has been exacerbated by the potential liability for treble damages and plaintiffs' attorneys' fees under the federal Racketeer Influenced and Corrupt Organization (RICO) Statute.

### **Current Initiatives**

The Institute's Federal Government Relations Executive Committee has been considering the issue of limitation on auditors' liabilities for some time. The Institute is establishing an informal group to explore the feasibility of legislation to amend the federal RICO statute to revise its treble damages provision.

## Options

Users of financial statements, judges, members of federal regulatory agencies, legislators, and the press could be further educated on the role of the accountant in reporting on a company's financial statements and the nature of the audit process. More specifically, those groups of persons could, through education, come to understand that auditors are not guarantors and that the audit process cannot detect every kind of fraud or prevent every kind of "failure." While continued education is important, as well as *amicus* briefs when issues arise, the immediate and long-term response to the issue should be legislative. Specifically, amendments to the federal securities laws and to RICO could be proposed.

## INCREASED SPECIALIZATION OF ACCOUNTANTS

***ISSUE: Should the profession establish a formal system for the recognition and accreditation of specialists beyond the CPA designation?***

The accounting profession has grown in size and complexity in direct response to the expanding needs for professional accounting services in the economic system of the United States. Demand for various types of professional expertise is increasing at an ever quickening pace. As a consequence, individual CPAs and CPA firms have adopted de facto specialization to meet the demand just as all other professions that work with rapidly expanding bodies of knowledge are forced to specialize in order to competently provide the services demanded of them.

The rapidly expanding body of knowledge needed by CPAs in all areas of practice — accounting and auditing, taxes, and MAS — requires CPAs to have more specialized knowledge and experience to keep current and to maintain an adequate level of competence. Faced with the prospect of a broadening scope and mix of services, increasing competition, an accelerated pace of change in technology, and more numerous and complex standards, specialization in the accounting profession is likely to accelerate with broad implications for CPAs and their professional organizations.

### Importance

- Increasing entry level and CPE requirements
- Shifts in the relative competitive advantages or disadvantages of various sizes of CPA firms
- Increasing demands for specialist accreditation
- Increasing competition for the Institute from organizations established to meet the unique needs of specific areas of specialization
- Increasing specialization by CPA firms, including the establishment of highly specialized, boutique types of practices
- Changes in the economics of accounting practice and in the structure of CPA firms because of factors such as higher salaries and less leverage
- Changes in the regulatory perspective and emphasis

### Driving Forces

Many forces drive this issue and shape its direction. Market demands have been a significant factor in existing de facto specialization, a condition that fuels the issue, and will continue to be the predominant driving force. Other forces include the following:

- Increasing complexity of the economic and social environment

- Expanding body of required knowledge
- Intense level of competition in the profession
- Broadened scope and mix of services
- Desire of the accounting profession to perform high quality services in a complex society
- Increasing demands to admit non-CPA specialists as members of the Institute

### **Current Initiatives**

- The Institute recently approved guidelines for membership divisions based on areas of interest and authorized the formation of a division for members interested in taxes.
- The Institute is surveying its membership to gain a better understanding of its membership's interests and composition.
- The CPE Division is increasing the number of advanced courses offered and expects to design more specialized courses.
- The Colorado Society of CPAs recently requested that the Institute initiate a formal program for accreditation of specialists. In response to that request, the Board of Directors of the Institute added the report of the Colorado Society of CPAs to the 1984 regional council meeting agenda as a discussion item. Based on a membership survey, the Mission and Future Issues Task Force of the Ohio Society of CPAs (OSCPA) recommended in its January 1984 report that the OSCPAs encourage the Institute to take prompt action on the issue of recognizing specialists.
- The Mission Committee is studying the mission, goals, and objectives of the Institute with the objective of updating them in light of the current environment.

### **Options**

Many options for dealing with the issue are available to the Institute. The Institute could —

- Set up a system for the recognition and accreditation of specialists to ensure minimum practice standards.
- Cooperate with other organizations to jointly sponsor accreditation processes.
- Establish a structure for specialization designation without a program of accreditation, in effect formalizing the present system of self-designation (de facto specialization).
- Establish through its CPE Division a program to provide training in various specialty areas.
- Establish some form of membership for non-CPA professionals in CPA firms.
- Decide to be an organization that represents only the broad-based interests of CPAs, which would in effect encourage CPAs with specialized interests to look to other organizations for satisfaction of those interests.

## **ACCOUNTING STANDARDS OVERLOAD**

***ISSUE: Can the profession find the means, acceptable to all parties and consistent with the objectives of financial reporting, to alleviate accounting standards overload?***

The burden, or perceived burden, imposed on accountants and others by the increasing volume, specificity, and complexity of accounting standards and the resul-

tant levels of dissatisfaction and frustration have come to be described as accounting standards overload.

This issue has both short-term and long-term implications. The Institute's special committee that studied the issue identified its causes as (1) too many standards, (2) standards that are too detailed, (3) an inability to be selective in the application of standards, (4) failure to sufficiently provide for differences between public and nonpublic entities, annual and interim financial statements, and large and small enterprises, and (5) requirements for excessive disclosures and complex measurements.

### **Importance**

Accounting standards overload affects the Institute, practicing CPAs and their clients, and users of financial statements. Its effects on small nonpublic companies and the CPAs that serve them were particularly noted by the report of the Special Committee on Accounting Standards Overload. Significant effects on the major constituencies include the following:

- Increased cost to, and higher fees by, CPA firms
- Concentration of traditional accounting and audit work in a smaller number of firms, a development that eventually could significantly affect both the Institute and the profession
- Pressures on the educational system to provide more education and training for CPAs, increasing demands for more extensive CPE, and increasing competition for the delivery of educational services
- Increased educational facilities to prepare the public to better understand the presentation of accounting information
- Improved accounting information for users of financial statements and greater credibility for the accounting profession
- Potential for standard work by practicing CPAs, which could lead to more lawsuits, increased litigation, increased violations of the ethics codes of professional bodies, and increased problems with licensing jurisdictions
- Increased dissatisfaction among practicing CPAs in both large and small CPA firms, which may create problems for the standard-setting bodies, including both the FASB and the Institute

### **Driving Forces**

- Complex and innovative business transactions
- The level of concern about the FASB
- The needs of users of financial statements, including investors, lenders, management, and regulatory bodies
- The FASB's mandate and responsibility to narrow alternatives and to develop a conceptual framework
- The SEC's statutory authority to protect the public interest in financial reporting
- The increasing burden (costs) on practicing CPAs and owners and managers of small private companies

### **Current Initiatives**

- The Institute's Special Committee on Accounting Standards Overload issued a report early in 1983 with a recommended program of action to provide relief.
- The FASB has responded to the report of the Special Committee on Accounting Standards Overload by indicating the actions that it has taken or proposes to take in dealing with the problem.
- The FASB has an active agenda project on financial reporting for private and small public companies and is actively considering several aspects of the problem of accounting standards overload.



- The Institute's Board of Directors has a task force to monitor the actions of the Institute and the FASB in dealing with the problem.
- The Institute's Accounting Standards Executive Committee has established a task force to review its role and its relations with the FASB.
- The Institute's Technical Information Division has an ongoing project to help firms cope with standards overload.
- The PCPS Technical Issues Committee of the Institute's Division for CPA Firms monitors the activities of standard-setting bodies in the interest of practitioners serving private companies, and it provides those bodies with comments to help them determine whether a proposed standard is relevant and cost effective for private companies.

### **Options**

1. Programs or approaches designed to provide relief from accounting standards overload could be developed. Alternatives include the following:
  - Simplifying generally accepted accounting principles (GAAP) for all financial reporting
  - Relying more heavily on differential GAAP disclosures
  - Providing for differential measurement standards
  - Adopting two sets of GAAP (big GAAP, little GAAP)
  - Adopting alternative non-GAAP bases of reporting
  - Encouraging more specialization by CPAs
  - Restructuring the standard-setting process
2. Programs to achieve a better understanding and a greater acceptance of the standard-setting process could be established.

## **THE ROLE OF SELF-REGULATION**

***ISSUE: What should be the appropriate role of the Institute in self-regulation?***

The proper role of self-regulation in the profession has become a controversial issue. Is the profession able to maintain and increase the effectiveness of its program to regulate itself? Should the profession continue to aim to do so? Can it effectively provide disciplinary programs to assure compliance with those standards? The issue is both a current and future one. It is a current issue because of widespread public misunderstanding of the scope and limitations of self-regulation. It is made more compelling by increased competition within the profession, more unregulated competitors outside the profession, and expansion of the scope of practice to include offering more unregulated, nontraditional types of services and products.

### **Importance**

The issue affects virtually all constituencies of the profession, including the following:

- Individual CPAs and their firms
- Federal and state governments, including Congress and the regulatory agencies
- The Institute, state societies, and state boards of accountancy
- Bankers, investors, and other users of financial information

### **Driving Forces**

- Public perceptions about whether the profession is capable of self-regulation, which could lead to possible impairment of the profession's attest function
- Pressures from government for more regulation, possibly leading to (1) standard setting and accreditation (certification) by the federal government, (2) more legislative control at the state level, or, conversely, (3) total elimination of regulation at the state level
- Increased demands for regulation within the profession
- Increased demands for specialization and accreditation of specialists
- Increased emphasis by the profession and the Institute on the prevention of performance failures
- Increased exposure to litigation and the related adverse consequences, including higher liability insurance premiums
- Increasing competition within the profession and its possible effects on quality control standards
- Increasing competition from outside the profession, particularly from unregulated competitors

### **Current Initiatives**

- The Mission Committee is studying the mission, goals, and objectives of the Institute and will probably consider the Institute's role in self-regulation.
- The Institute has established two special committees to review the two sections of the Division for CPA Firms and to evaluate the effectiveness of the profession's program for the regulation of CPA firms.
- The Anderson Committee is studying the concepts of professional ethics and the philosophical foundation of the Institute's Code of Professional Ethics. It is evaluating in light of changing economic and social conditions, the relevancy of the code to professionalism and integrity and the profession's commitment to both quality service and the public interest.

### **Options**

- Continuing to strengthen all aspects of self-regulation
- Placing greater reliance on the legal system to enforce compliance with performance standards.
- Making a major effort to secure greater authority at the national or state level or at both levels for professional organizations to establish and enforce compliance with standards
- Completely dropping, or drastically reducing, self-regulation as it now exists and relying instead on free-market, quasi-government, or government regulation.

## **UPWARD MOBILITY OF WOMEN**

### ***ISSUE: How can the profession strengthen the upward mobility of women in public accounting?***

Approximately 50 percent of the persons newly hired by public accounting firms are women. Over the long run, more and more women will rise to senior levels in a variety of professions and organizations. Many accountants believe that upward mobility, particularly admission to partnership, is more difficult for women than for men.

## **Importance**

The long-range economic justification and status of accounting firms will be heavily affected by the quality of their work. The key to quality is recruiting and retaining the best and brightest potential entrants to the profession, regardless of their sex. The profession will then be better able to attract and keep high-quality personnel.

## **Driving Forces**

Women have risen to various levels in accounting firms, but relatively few have been admitted to partnership. Within the past two decades, the number of women entering the profession has increased and, as a consequence, the supply of qualified women now nearly equals the supply of qualified men. The next several years will bring an increasing proportion of women into the potential partner pool. There is a high probability that women will constitute more than half the accounting profession within the next twenty years.

Admission to partnership is affected by many considerations, notably technical, management, client relationship, and practice development abilities. There is no question about women's technical ability. But traditional beliefs and attitudes regarding other abilities raise questions. For example, are women at a competitive disadvantage in comparison to men in obtaining new audit clients and maintaining existing ones? Is there a woman's "network"? Moreover, some partners may believe that men are generally more dedicated to a professional career than women are.

The employee turnover rate in CPA firms is greater for women than for men, perhaps attributable in part to personal frustration. One reason why professional women find advancement difficult may be society's pressure on women to be the center of family units, including the role of childbearer and child raiser. If a woman is to fulfill both professional and family responsibilities at the same time, she may need flexibility in her professional work, for example, flexible hours, flexible workdays, or flexible locations.

The attitudes toward professional women deserve deliberation. Are males as willing and cooperative when their manager is female? What are men's attitudes toward their professional women colleagues?

Some practitioners think that the issue does not exist, that it has already been solved; that is, women will become partners just as easily as men if their qualifications are similar. On the other hand, others believe that such an attitude is part of the problem, indeed, that it is the central problem.

## **Current Initiatives**

The Institute is making efforts to increase the participation of women on its committees. The Institute's Management of an Accounting Practice (MAP) Committee discussed the role of women in CPA firms at its 1983 MAP conference, and *The Practicing CPA* has published articles on the subject.

## **Options**

- The Institute could obtain the opinions and suggestions of men and women in the profession who have had extensive experience in hiring, promoting, and admitting candidates to partnership. Some of those individuals could be consti-

- tuted as a committee charged with formulating specific plans for assisting firms and the Institute in developing short-range and long-range initiatives in the area.
- The Institute could solicit more information about success stories from firms that have made unusual progress in promoting women to the partnership level. What personnel practices help or hurt?
  - Top management of the Institute could use a management-by-objectives approach to bring more women in to work on committees, programs, and similar activities. It could encourage and assist state societies in developing similar programs.
  - The Institute could spur wide discussion of the issue by including the subject in programs and in committee activities.
  - The Institute could seek cooperation of the American Woman's Society of CPAs (AWSCPA) in formulating a program that would enhance the upward mobility of women.
  - The Institute could consider developing counseling seminars for professional women of CPA firms to assist them in dealing with the problems they encounter.

## **IMPROVING THE QUALITY OF PRACTICE BY CPAS**

***ISSUE: How can general compliance with quality control standards be maintained in all areas of practice at a level sufficiently high to serve public needs adequately?***

Over the last ten years, Congress, regulatory bodies, and clients, as well as investors, creditors, and other third-party users of financial statements have become concerned about and more litigious over a perceived lack of adherence to generally accepted standards by CPAs in the financial reporting process. The incidence of allegations is of concern because it may seriously affect the public's perception of the profession's credibility.

### **Importance**

All of the accounting profession's major constituencies are affected by the quality of services provided by CPAs. A satisfactory level of quality must be provided to maintain their confidence. The challenge is to enhance the public's perception of the quality of services provided by CPAs. Unless that can be done, a serious question about the credibility of CPAs may arise and it could bring about a decline in the use of and reliance on their services.

### **Driving Forces**

- Recent legal actions that have questioned the adequacy of disclosures in financial statements with which CPAs were associated
- Refusal by some government agencies to accept some CPA audit reports because they alleged that the audits were not performed in accordance with generally accepted auditing standards

- Allegations by federal agencies of substandard audit work in reports submitted to those agencies
- The possibility that regulatory bodies might issue materiality standards for financial reporting, which could lead to the government's exercising authority to set all financial reporting standards and eventually to audits by governmental bodies
- Increasing number of lawsuits by users of financial statements alleging audit failures because of failure to comply with standards
- Attribution to CPAs of some responsibility for business failures and for detecting fraud and its effects on the accounting profession

Changes in the CPA's environment have heightened expectations of the public, which now seems to view audits as almost guarantees of the integrity of financial statements and of the viability and soundness of businesses. Changes in information technology make more information feasible but seem to have whetted users' appetites and expectations that audited financial statements provide them with more information than such statements can provide. In addition, some government bodies are beginning to expect auditors to play more of a watchdog role and report to those bodies damaging information concerning their clients.

An erosion of confidence in CPAs could result in less demand for the auditing services of CPAs. If there is an erosion in the public's perception of the CPA as independent and objective in his work, it could affect the CPA's ability to provide services in other areas.

### **Current Initiatives**

- The Institute's office in Washington, D.C., provides a liaison with Congress and federal regulatory agencies.
- The Institute has established standards for and promoted mandatory CPE programs.
- The Institute's Professional Ethics Division promotes active enforcement of ethics standards in cooperation with state societies through a revised Joint Ethics Enforcement Program (JEEP).
- The Institute's Division for CPA Firms has established programs to improve and maintain the quality of practice. An independent Public Oversight Board, which monitors the activities of the SEC Practice Section of the division, suggests in its annual reports that the members of the division are successful in achieving those objectives. The division has a program underway to publicize the need for quality control and the importance of peer review, with the objective of increasing membership in the division.
- The Institute's Auditing Standards Division is advised of findings in peer reviews that may relate to auditing standards. It has also initiated a new series of Auditing Procedures Studies intended to help practitioners by suggesting techniques for achieving compliance with standards.

### **Options**

- Strengthening the enforcement of the Institute's Code of Professional Ethics and those of state societies and creating stronger ties with state boards in order to act more forcefully on infractions
- Requiring mandatory membership in the Institute's Division for CPA Firms
- Making peer review mandatory for all firms
- Making CPE requirements mandatory for all CPAs
- Establishing formal accreditation provisions for special areas of practice
- Requiring periodic relicensing and reexamination of CPAs
- Promoting positive enforcement and peer review programs at the state level to check the competency of practitioners

## **MAJOR REFORM OF THE FEDERAL INCOME TAX SYSTEM**

***ISSUE: What role should the Institute play in tax reform and what strategies should the profession adopt to prepare for a major reform?***

A major reform of federal income taxation could result from legislation adopting a flat tax rate on gross income, adopting a value added tax (VAT), or substantially revising or simplifying the Internal Revenue Code. It could lead to a substantial reduction in the complexity of federal tax laws and regulations, a less costly system of compliance and collection, and, possibly, changes in the distribution of the tax burden among the various segments of society.

### **Importance**

All of the profession's major constituencies would be affected by a major tax reform, including CPAs, CPA firms, clients and potential clients, businesses generally, educators, and accounting students. The possible effects include the following:

- Changes in the nature and extent of demand for professional tax services causing changes in the nature and relative significance of tax practice for CPAs
- Changes in the level and intensity of competition in the practicing profession
- Changes in the demand for CPAs in industry and government
- Changes in the scope and content of the accounting curriculums of colleges and universities
- Reduction in the extent and complexity of rules and regulations with which individuals and businesses must comply
- Reduction in the cost of compliance for individuals and businesses

### **Driving Forces**

The forces driving the issue are primarily social, political, and economic. The general public seems to believe that the existing tax laws are overly complex and favor the rich at the expense of the poor. Tax planning, preparation, and compliance are costly under the current system. The public's discontent with the complexity of, and perceived inequities in, the system has caused members of Congress to be pressured by their constituents to enact legislation substantially simplifying the federal income tax system.

### **Current Initiatives**

The Institute recently established a separate membership division for members interested in taxes. The Institute's Federal Taxation Division closely follows developments in the tax area and provides input to Congress and government agencies on tax matters.

### **Options**

- Continue to monitor the tax reform movement through its tax division and keep its members informed about the prospects for change.
- Mobilize the expertise in the profession to assist legislative planners in designing an effective and equitable system and in phasing in a major tax reform in an orderly manner.
- Establish a process to consider the implications for public accounting practice that could result from a major tax reform and to prepare the profession for an orderly adjustment to such a change.

## **CHANGES IN THE COMPOSITION OF INSTITUTE MEMBERSHIP AND POTENTIAL MEMBERSHIP**

***ISSUE: Can the Institute effectively serve the needs of its diverse membership and of non-CPA professionals who are becoming an increasingly significant element in public accounting?***

The Institute's ability to equitably serve the needs of its diverse membership has become a matter of concern for many in the profession. The issue confronts the Institute with many problems and opportunities stemming from its present and projected composition and the structure and composition of the accounting profession. It encompasses questions such as the following:

- Should the Institute be restructured to better serve the needs of nonpracticing members and to give those members a greater voice in its affairs?
- Would broadening the Institute's traditional focus impair its effectiveness?
- Does the Institute meet the diverse needs of young people, women, and minorities in the profession?
- Should Institute membership be expanded to include non-CPA professionals in CPA firms?

### **Importance**

- An enhanced ability of the Institute to serve the needs of nonpracticing members
- A greater involvement in professional activities by various elements of the membership and recognition of the contribution of non-CPA professionals to the profession
- Technical and ethical standards for nonpracticing members
- Expanded educational requirements for certification
- Decreased competition from other professional accreditation bodies

### **Driving Forces**

- A substantial proportion of Institute members are not in public practice. The percentage of nonpracticing members has increased from 40 percent in 1974 to 47 percent in 1983.
- The percentage of new CPAs remaining in the public practice of accounting and the percentage joining the Institute are decreasing.
- Non-CPA professionals in CPA firms are increasing.
- The relative significance of the audit or attest function in the practice of public accounting, as it applies to historical financial statements, is decreasing.

### **Current Initiatives**

- The Institute's Industry Committee has prepared and presented to the Board a position paper on how the Institute should interact with its nonpracticing members.
- The Mission Committee is studying the Institute's mission, goals, and objectives, with particular emphasis on its ability to serve a diverse membership.
- The Institute is surveying its membership to gain a better understanding of its membership's interests and composition.

### **Options**

- Restructuring the Institute to better serve the needs of its diverse membership

- Granting membership to non-CPA professionals in CPA firms
- Encouraging nonpracticing CPAs to join and remain in the Institute and state societies by expanding the services provided for them
- Establishing a separate Institute division to serve the needs of members who are not in public practice

## **INDEPENDENCE AND OBJECTIVITY**

***ISSUE: Can independence and objectivity be maintained as the cornerstones of the practicing professional or should broader concepts be emphasized?***

The attributes of independence and objectivity have long been the cornerstones of professionalism in public accounting. In the changing practice environment, questions have been raised concerning whether the profession should emphasize broader concepts as the cornerstones of professionalism.

The trend of changes in the Code of Professional Ethics for practicing CPAs has placed a greater burden on the standards of professional behavior that have helped to maintain independence and objectivity as the cornerstones of professionalism. Likewise, the scope of professional practice has gradually been extended into many areas that do not involve the attest function, the area of practice in which those attributes have traditionally been viewed as essential. As practicing professionals have expanded the scope of their services, the notions of independence and objectivity have become, in the view of some, less sharply defined in situations in which a firm audits a client's financial statements and, at the same time, provides other non-attest services. Furthermore, in the present practice environment, many practitioners limit the types of services they provide and often do little or no attest work.

What can be done in the changing practice environment to maintain and strengthen independence and objectivity as attributes of the practicing professional? Or would the practicing professional be better served if the broader concepts of competence and integrity were emphasized as the cornerstones of the practicing professional?

### **Importance**

How the profession deals with the issue will significantly affect all of its major constituencies, including CPAs, CPA firms, clients, preparers, and users. Most of the profession's constituencies are aware that practicing CPAs have historically placed great importance on the attributes of independence and objectivity. Therefore, most, if not all, user groups likely view practicing CPAs, particularly in relation to the attest function, as independent and objective in contrast to other professionals, such as attorneys, consultants, and investment bankers, who are generally viewed as having an advocacy role in relation to their clients. Vigorous efforts to reaffirm and maintain independence and objectivity as the cornerstones of the practicing professional could enhance the image of the profession and strengthen its preeminent role in providing the public with acceptable assurances on the assertions of others, particularly as such assurances relate to the public use of financial statements and other financial information. On the other hand, the principal effect of a change in emphasis may be largely a change in the perception that the profession's major constituencies have of the practicing professional. In addition, such a shift might diminish existing concerns about the effects on practicing professionals of the extension of the scope of services to varied nonattest areas.



### **Driving Forces**

- Trends to modify the Code of Professional Ethics to eliminate constraints on professional behavior
- Extension of the scope of practice into areas in which independence and objectivity are relatively less important
- Pressures of commercialism on professionalism
- The inability of professional bodies to impose ethical constraints
- The perceived increase among clients in “shopping” based on application of accounting principles

### **Current Initiatives**

- The Institute’s Professional Ethics Division recently completed a study of the Institute’s ethics code to determine what revisions may be needed in light of changes in the practice environment.
- The Anderson Committee, recently appointed by the Institute, is studying the philosophical foundations of the Institute’s ethics code and is evaluating its relevance in light of changing economic and social conditions.
- The Mission Committee, recently appointed by the Institute, is reviewing the mission, goals, and objectives of the Institute for the purpose of updating them in light of current conditions.
- The SEC is sponsoring a research study on the concept of independence.

### **Options**

- Reaffirming the importance of independence and objectivity
- Specifically acknowledging that independence and objectivity need be observed only in attest services
- Restricting the scope of services to reduce or possibly eliminate pressures on independence and objectivity
- Considering a change in the Code of Professional Ethics to emphasize the broader concepts of competence and integrity, which encompass independence and objectivity as they apply to the entire range of services provided by CPAs

## **DIVERSITY IN CPA QUALIFICATIONS AND PERFORMANCE REQUIREMENTS**

***ISSUE: Can more effective initiatives be taken to achieve greater uniformity in the qualifications and performance requirements affecting CPAs?***

As a voluntary national professional organization, the Institute establishes ethics and performance standards for its members only. Legally enforceable qualifications, and ethical and performance requirements for CPAs are independently established and enforced by legislation and regulation in the fifty states and four other jurisdictions in the United States, and they are usually administered by boards of accountancy in those jurisdictions. The requirements in the fifty-four separate jurisdictions differ significantly.

The education and experience required to take the CPA examination in the fifty-four jurisdictions differ in several ways, including level of education, specific course content of required education programs, and length and quality of experience. The CPE requirements in the fifty-four jurisdictions are not uniform, varying from none in some jurisdictions to a great deal in others. The ethics and perform-

ance standards and the enforcement philosophy and procedures also differ in the fifty-four jurisdictions.

### **Importance**

The issue affects most groups with an interest in the accounting profession.

- CPAs, CPA firms, and professional bodies are directly affected by the sometimes conflicting requirements among the jurisdictions.
- The quality of services provided by CPA firms may be impaired, and the effectiveness of self-regulation by professional bodies may be made more difficult, by differences in standards and in enforcement philosophies and procedures among the jurisdictions.
- Government regulatory bodies, primarily boards of accountancy and their coordinating body, the National Association of State Boards of Accountancy (NASBA), are confronted with difficult liaison and reciprocity issues.
- Institutions of higher education and their accreditation bodies must cope with conflicting requirements in developing the content of their educational programs.
- Students and CPA candidates are confronted with a confusing array of requirements that causes inequities among those seeking to enter the profession from the various jurisdictions.

### **Driving Forces**

- Differences in the amount of resources assigned to administer and enforce qualifications and ethics and performance standards in each jurisdiction
- Differences in regulatory philosophies among the various jurisdictions
- The policy of deemphasizing regulation at the national level, a factor that affects local jurisdictions in different ways
- The increasing incidence of umbrella licensing agencies that regulate all professions and licensed occupations within a jurisdiction
- Restrictive measures in some jurisdictions, applied notwithstanding the interstate commerce provisions that apply to the practice of accountancy, to serve the political needs within the jurisdiction
- The tendency in some jurisdictions to tailor the education accreditation process to serve the political needs within the jurisdiction

### **Current Initiatives**

- The Institute and NASBA maintain continuing contact and cooperate with the objective of standardizing state requirements. Those organizations recently approved and issued for exposure a joint model accountancy bill designed to encourage uniformity in statutes governing the practice of accountancy. They have also established a joint venture corporation, Uniform CPA Examination Services Corporation (ESCORP), to administer the CPA examination on a contract basis for states seeking such services.
- The Institute and state societies are working together to promote legislative action to establish uniform standards. Efforts are underway to strengthen the Joint Ethics Enforcement Program, which helps to promote uniformity among the various jurisdictions.
- The Institute's Industry Committee is continuing to address issues relating to the applicability of ethics and performance standards in the various jurisdictions to CPAs in industry.
- The Institute and the American Assembly of Collegiate Schools of Business are working together to develop and strengthen national accreditation standards for accounting programs in institutions of higher education.

## **Options**

- Continuing the present cooperative efforts with the affected organizations
- Seeking authorization and approval to establish a national CPA certificate issued by the Institute or in cooperation with a federal agency or the fifty-four jurisdictions and to establish related standards for ethics, qualifications, and performance

# Bases for Recommendations

The recommendations presented that relate to strategic planning, trend monitoring, the role of the Future Issues Committee, and the overall commitment of the Institute are designed to assist the Institute in sharpening its focus on future trends and issues. Issue analysis, trend monitoring, futures research, strategic planning, and issues management are different but closely interrelated elements of a commitment to become future oriented. Each of those elements needs to be in place and functioning to obtain the maximum benefits from each. In addition, the overall process should be driven by a formal and accepted statement of the organization's mission, goals, and objectives.

## THE NEED FOR FURTHER ANALYSIS

We have identified the major issues and made preliminary analyses of them, but we believe there is a need for further analysis of each issue, beyond what is appropriate to our committee's role. We therefore recommend that the Institute undertake a comprehensive analysis of the issues presented, which should encompass consideration of the current status of each issue, suggested options for dealing with the issue, and the probable outcome if no efforts are made to shape the issue in order to achieve a desired result.

We believe that the profession and the Institute need to develop more data on the current status of each issue, including data on factors such as the extent to which the issue is already affecting the profession, the history and trends in its development, forces that tend to enhance or inhibit its resolution, actions taken to date to address the issue, and current perceptions about its long-range effects. Information is needed on the options available to the profession, the Institute, and other constituencies to help achieve a desirable outcome, including information on the costs and timing of the available options and the expected outcome. Beyond that there is a need for information on how the issue is likely to develop if no actions are taken in advance to address it and on what the consequences for the major constituencies are likely to be in those circumstances.

## **THE NEED FOR STRATEGIC PLANNING**

In our study and deliberations, we considered the need for a formal strategic planning function at the Institute and how our role should interrelate with the planning function. Strategic planning is a part of the management process of an organization. It is concerned with goal setting and resource allocation, with choosing ends and means to achieve both the short-term and long-term objectives of an organization. Futures research and issues identification differ from strategic planning. To be most effective, strategic planning in an organization should be complemented by and closely interrelated with futures research and future issues identification. Futures research should be the front end of strategic planning. Since an organization operates in and on its environment, those who do the strategic planning for an organization need to understand the environment and the consequences for the organization of changes in the environment. Futures research can help to provide that understanding.

As a management process, strategic planning must involve those who not only lead and shape the policy of an organization, but also those who manage it on a day-to-day basis. To be effective, it should be a formal process that operates systematically.

The Institute's planning function is now carried out informally, primarily in meetings of policy and management-level groups that meet regularly for other purposes. Those meetings include —

- Regular meetings of the Planning and Finance Committee of the Board of Directors.
- Periodic meetings of the Institute's chairman and senior executive staff.
- Weekly meetings of the Institute's senior executive staff whenever possible.
- Quarterly meetings of the Institute's senior staff with the director-level management staff of the Institute.

We believe that the Institute's senior executive staff and its voluntary leadership — its chairman, vice-chairman, and Board of Directors — should be involved in the strategic planning process. A strategic planning committee should be formed to manage and guide the strategic planning process. It could be composed of the chairman, vice-chairman, president, vice-presidents, and representatives of the Board of Directors. The group should not exceed ten people. We believe that to provide direction, the group should first develop a strategic plan for the Institute, taking into account the mission, goals, and objectives statement of the Institute as updated by the Mission Committee. We believe, however, that the formal strategic planning process should be initiated without waiting for the Mission Committee to complete its work.

The strategic planning committee should be supported by a small staff that should work with major policy level groups in the profession and should serve as a staff resource for our committee in its continuing effort to identify issues. Considerable effort may be required by the staff executives and directors in the Institute to evaluate strategic options. The evaluation of such options by line managers, not the strategic planning staff, is essential to assure the relevance of the options to the activities of the organization.

## **A TREND-MONITORING SYSTEM**

Trend monitoring is an important part of futures research, and we believe that the Institute should establish and maintain some form of trend-monitoring system for the accounting profession.

In the course of our study and deliberations, we considered several approaches to trend monitoring that are available. One approach, for example, is the Trend Analysis Program (TAP) of the American Council of Life Insurance. The TAP program is basically a process of monitoring publications to identify trends. It is operated by volunteer monitors, most of whom are executives with life insurance companies, who review over one hundred periodicals and prepare extracts on articles that deal with an idea or event that is indicative of either a trend or shift in the environment. The abstracts are analyzed and classified by the TAP program's staff and are reviewed periodically by an abstract analysis committee, consisting of staff members from the American Council of Life Insurance. A steering committee, composed of senior officers of life insurance companies, meets periodically to review the results of the abstract analysis committee and to select topics for discussion in trend analysis reports, which are published and distributed to the industry.

A similar trend analysis program could be useful to the Institute and the profession in identifying and preparing to deal with future issues. Such a program would —

- Scan, on a continuous basis, the external environment to identify trends and emerging issues of interest to the accounting profession.
- Assist the Institute in interpreting the issues and trends identified so that appropriate actions can be planned.
- Keep track of and monitor environmental changes and provide analysis and interpretation of the environmental information produced.
- Identify and monitor information that measures the effects of CPAs' performance on major interest groups.
- Facilitate participation in the trend analysis process by selected members of the profession, which could include training selected members of the profession in trend gathering and interpretation techniques.
- Provide information that is accessible to a variety of users, such as the Institute's Board of Directors, the Future Issues Committee, and the general membership of the Institute.

Such a system could also be capable of generating —

- Reports to the Future Issues Committee on emerging issues indicated by trends.
- Periodic publications of analyses and interpretations of significant trends and their implications.
- Analyses of particular issues on request.

The benefits of such a program could make it an invaluable resource to the profession. The use of volunteers would have several advantages: It would create a means for broad-based participation by individuals in the profession, and it would help to achieve a greater awareness of future issues affecting the profession and of the Institute generally.

Such a system would be established and administered by existing Institute staff at a relatively low cost and could ultimately generate some revenue. The data gathered by the system would assist us in identifying and refining future issues. The Institute could use the output from the system in other ways that would make the results widely available within the profession, such as the publication of interpretations and analyses of the data.

Many variables are involved in the design of such a program, and many alternative ways to achieve similar results are available. For those reasons we are soliciting proposals from several organizations for the design of a system specifically adapted to the accounting profession. After evaluating those proposals, we will recommend a specific system to the Board.

## **THE CONTINUING ROLE OF THE COMMITTEE**

As a diverse, balanced group brought together to perform the function of identifying future issues for the profession and the Institute, we have periodically discussed what the nature of that role should be. We are particularly concerned that with our initial report to the Board of Directors, some may think that our job is done. For that reason we state what we believe our continuing role should be, because it will provide a framework for our future activities. We believe that the future activities of our committee should include —

- Identifying new issues or the changing priorities of the issues already identified.
- Validating and expanding issues presented in this report.
- Preparing issues papers on selected issues for consideration by the Board of Directors.
- Using a trend-monitoring system to assist in identifying new issues and to monitor issues previously identified.
- Reviewing analyses of issues prepared by other groups.
- Providing input to the strategic planning group whose establishment we recommend in this report.
- Considering periodic reports from Institute staff on actions taken to address issues identified.
- Reporting periodically to the Institute's Board of Directors.

We view the validation and expansion of the issues presented in this report as one aspect of our continuing role. For that purpose we propose that the Institute commission a survey, to be conducted under our supervision, of representatives of the major groups with an interest in the accounting profession, including CPAs in practice, industry, and government; clients of CPA firms; government regulators; users of financial statements; and educators. We believe that the groups surveyed should include both Institute members and nonmembers. The study that we propose would seek to further clarify the issues already identified and to identify additional issues. Depending on the size of the sample, the mode of inquiry, and the extent of analysis deemed desirable, we believe that the study could be completed within six to twelve months.

## **OVERALL COMMITMENT TO FUTURE ORIENTATION**

Having the Future Issues Committee, a trend-monitoring system, and a formal strategic planning process in place would provide the Institute with the organizational structures to become more future oriented. Further progress would depend on a commitment throughout the Institute and the profession. Without such a commitment, the organizational structures cannot be made effective. Such a commitment would involve —

- Broad policy-level support communicated throughout the organization.
- Involvement of all levels of Institute management in the total process.
- Establishment of formal procedures to assure appropriate consideration of the information produced by the formal processes at all levels of the Institute.
- Informing the membership of the commitment and involving it, as appropriate, in the process.

The major changes affecting the accounting profession from all directions and the relatively long lead time it takes for a voluntary organization to obtain consensus on a plan of action make such actions desirable.

## Issues Identified by the Future Issues Committee

**I**n the process of identifying, selecting, and assigning priorities to the fourteen issues presented in this report, the Future Issues Committee considered over one hundred issues suggested by its members. This appendix lists all of the issues considered in that process as an inventory of items for further consideration by the committee.

1. Changes in the composition of the Institute's membership
2. Increased specialization of accountants
3. Interstate-international expansion of the scope of practice
4. Improvement in the quality of practice by CPA firms
5. Expansion of nonaccounting and nonaudit services
6. Changes in the nature and extent of competition in the profession
7. Increase in the level of external competition
8. Replacement of accounting measures as the standard of corporate performance
9. Widespread computerization and automation of business operations
10. Need to adapt to the diverse disciplines used in the profession
11. Role of the Institute in defining the scope of and regulating the profession
12. Ability of the profession to increase its adaptability and to be in the forefront of change
13. Internationalization of auditing standards
14. Accounting standards overload
15. Non-CPAs in CPA firms
16. Possibility of broadening the scope of the attest function to include, for example, attestation on matters concerning product reliability and management efficiency
17. Fragmentation in the professional authority to regulate and set standards, among bodies such as state boards, NAA, FASB, and the Institute.
18. Development of an effective measurement basis for financial reporting, for example, current value accounting versus historical cost accounting
19. Consideration of measures of social performance
20. Upward mobility of women



21. Possible simplification or elimination of income taxes
22. Ability of the Institute to form membership groups to serve the needs of segments of its membership specializing in particular areas
23. Maintenance of the CPA's preeminence in the tax field
24. Effects of changing human and social values on the accounting profession
25. Increase in the number of non-CPAs in CPA firms
26. Increase in the magnitude and significance of litigation against accounting firms
27. Increase in the concentration of audit practices
28. Maintenance of the usefulness and relevance of CPA firms' work
29. Maintenance of CPA firms' independence and objectivity
30. Maintenance of the economic viability of practice units
31. Decline in the relative importance of CPA firms of the function of attesting to financial statements
32. Identification of clients' needs for new products and services
33. Role of women in CPA partnerships—two-career families, number of hours, client relations, business development
34. Role of minorities in CPA partnerships—increasing their numbers, and opening up opportunities, business development, and client relations
35. Attacks on the independence of CPA firms and the need to define independence
36. Possible unionization of CPA firms' professional staffs
37. Increased competition among CPA firms
38. Conflicts between professionalism and commercialism in CPA firms
39. Management and control of non-CPA disciplines performed in CPA firms
40. Possible limitation of scope of service because of regulatory or legal constraints or because of rules established by professional associations
41. Pressures on CPA firms to perform a watchdog role, and contravening pressures from client expectations
42. Social responsibility of CPA firms
43. Ability of CPA firms to provide a variety of career paths and working conditions
44. Role of self-regulation
45. Mandatory membership of CPA firms in an organization concerned with self-regulation
46. Changing attitudes of CPA firms toward education
47. Adequacy of the supply of qualified entry-level accountants
48. Changing personnel mix toward relatively more senior people in CPA firms
49. Absorption of CPA firms into mega-financial organizations
50. International regulation of accounting and auditing
51. Effects of the proliferation of computerized tax packages on CPA firms
52. Effects of higher fees on the use of accounting services
53. Possibility of public accounting firms "going public"
54. Increase in the number of nonpracticing Institute members
55. Increase in the number of internal auditors and their efforts to attain professional designation
56. Continuing relevance of the CPA designation as a qualification for financial executives in industry
57. Effects on nonpracticing CPAs of the large number of agencies and bodies setting rules for accountants

58. Compliance of nonpracticing CPAs with ethical standards requiring independence
59. Identification of nonpracticing CPAs with the CPA profession
60. Identification of nonpracticing CPAs with professional associations other than the Institute
61. The Institute's identification of the needs of non-CPAs in CPA firms
62. Lack of standards in some nontraditional accounting areas, for example, forecasting and social accounting
63. Effects on the profession of the growing number of professional certifications other than the CPA designation
64. Possibility that financial statements of companies may be certified by their internal accountants
65. Increase in the prominence of management accounting
66. Availability of accounting services from unlicensed practitioners
67. Relationships of the client's financial management and internal auditors with the outside public accountant in an audit engagement
68. Status of nonpracticing CPAs in the profession
69. Diversity of interest among nonpracticing CPAs
70. Relations between the Institute and state societies
71. Need for more training and trainers because of the expanding body of knowledge required by the profession
72. Number and status of minorities in the profession
73. Assuring the availability of adequate qualified personnel for the profession
74. CPAs' income potential relative to the income potential in other fields
75. Decline in the quality of general education and its effects on the profession
76. Diverse sources of accounting education
77. Professional development of non-CPA professionals in CPA firms
78. Possibility of broadening the scope of the CPA examination to include skills beyond theory, practice, auditing, and business law
79. Lags and leads between technology in practice and the contents of accounting education programs in colleges and universities
80. Shortage of doctoral candidates and accounting faculty
81. Comparative advantages of training in colleges and universities versus training in CPA firms
82. Diversity in CPA qualifications and performance requirements among jurisdictions
83. Specialist accreditation
84. Implications of a system of national certification for CPAs
85. International and national reciprocity in licensing CPAs
86. Development of licensing and training programs for reentry into public accounting
87. CPAs' need for training in human relations skills, for example, communication skills
88. Need to adopt the five-year education program as the minimum requirement for entry into the profession
89. Relevance of an experience requirement as a prerequisite for licensing
90. Accreditation of accounting programs
91. Possibility of retesting and relicensing to prevent professional obsolescence
92. Viability of CPE requirements
93. Possibility of broadening the scope of education for accountants to include, for example, international accounting and business practices

94. Competition for the Institute in the testing area from other testing bodies, for example, Educational Testing Service (ETS)
95. Effects of the high cost of general education on the supply of qualified entrants to the profession
96. Authority and effectiveness of state boards
97. Prospects of the public accounting profession being nationalized
98. Retention of standard setting in the private sector — survival of the FASB
99. Prospects of the replacement of the private audit function by government audits or the elimination of SEC's requirement for public companies to have audits
100. Viability of the AICPA division for CPA firms
101. Pressures on CPAs to accept responsibility for the discovery of fraud and illegal acts in audits of financial statements
102. Improvement in the public's understanding of CPAs' function of attesting to financial statements
103. Differences in the level of emphasis on regulating the profession in the fifty-four licensing jurisdictions
104. Regulation overload and overlap
105. Level of congressional interest in the effectiveness of self-regulation
106. Advantages and disadvantages of active self-regulation versus free market (caveat emptor) regulation
107. Level of public understanding of the CPAs' work
108. Level of public recognition of the role and effectiveness of self-regulation in the profession
109. Effects on the profession of public pressures for greater corporate accountability
110. Implications of an enforceable versus an unenforceable code of ethics
111. Responsiveness of the code of ethics to the changing environment
112. Effects of government deregulation on the code of ethics
113. Extent of compliance with the code of ethics
114. Pressures for changes in the code of ethics
115. The profession's level of concern for the public interest
116. Effectiveness of the Institute's public relations program
117. Clarification of the Institute's mission, goals, and objectives
118. Decline in Institute membership relative to the total number of CPAs
119. Diversity of needs among the Institute's membership
120. Competition for the Institute from other organizations seeking to attract CPAs as members
121. Need to establish a long-range planning function within the Institute
122. Competition for the Institute's CPE division from other organizations that provide training programs for CPAs
123. Effects of special-interest organizations of CPAs on the Institute and the profession
124. Interactions of the Institute with government and regulatory authorities
125. Effects of other standard-setting bodies on the Institute
126. Level of Institute members' participation in its activities
127. Associate memberships in the Institute for non-CPAs in CPA firms
128. Implications for the profession of the increasing number of retired partners of CPA firms
129. Implications of interstate banking for the profession
130. Possible effects of an international financial crisis on accounting practice

131. Increase in demand for accounting as a result of changes in state and local financing practices
132. Possible increase in demand for audit services that would result from the adoption of a requirement that all local government entities be audited by CPAs
133. Control problems resulting from the increasing use of computer terminals in homes and offices to initiate and record business transactions
134. Ability of CPAs to take advantage of changing technology in providing services to clients

**To Readers of the Future Issues Committee's Report on Major Issues for the CPA Profession and the AICPA**

The Future Issues Committee would like your help in identifying additional issues that readers view as of major significance for the accounting profession or the AICPA. Please send your comments to

Thomas W. McRae, CPA  
Director-Planning  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

1. What additional issues or trends do you view as being at least as significant for the accounting profession or the AICPA as the fourteen major issues presented in this report?

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2. Why do you see these issues or trends as being critical?

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3. Do you expect that these issues or trends will become more or less important in the future? Why?

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4. Please indicate your present professional classification:

Public Practice    Industry    Government  
 Education    Other (Specify) \_\_\_\_\_

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