1990

Report of the Special Committee on Governance and Structure

American Institute of Certified Public Accountants. Special Committee on Governance and Structure

REPORT OF THE SPECIAL COMMITTEE ON GOVERNANCE AND STRUCTURE

AICPA

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American Institute of Certified Public Accountants

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Foreword

The Report of the Special Committee on Governance and Structure is part of an ongoing effort to position the American Institute of Certified Public Accountants and the profession for the future. The committee was asked to recommend appropriate changes in the governance and structure of the Institute and the profession to meet the needs and expectations of our members and the public.

Forty-four recommendations have been made concerning practically every element of the Institute's governance and structure. Some of these can be implemented by the Board of Directors, some would require action of the governing Council, and some would require fundamental changes to the bylaws by the membership.

An implementation committee has been formed to arrange for appropriate distribution of the report and to seek views of involved members and groups. Comments and suggestions received will be of great assistance to the committee as it develops a plan of action that is responsive to the report's recommendations.

CHARLES KAISER, JR.
Chairman of the Board

PHILIP B. CHENOK
President

June 1990

Preface

The AICPA is a large, complex organization with a committee structure and governance process that have evolved over its 100-year history. The Special Committee on Governance and Structure was appointed to study the existing structure and governance process and recommend how they could more effectively meet the needs of members and the public—now and in the future.

The committee was carefully chosen to include representatives of the widest possible cross section of the Institute's membership. The committee members came from industry, education, and government, and from small, medium, and large CPA firms. Many of the members have served on Council and the Board of Directors. Virtually all have been active in their state societies, and one member is a state society executive director. This report reflects those diverse backgrounds and the varied viewpoints they engendered.

The committee also benefited from the valuable assistance and insights of four *ex officio* members who served as chairmen of the Board of Directors during the committee's tenure: J. Michael Cook, A. Marvin Strait, Robert L. May, and Charles Kaiser, Jr. In addition, several AICPA officers and staff directors participated actively in the committee's work and deliberations: Philip B. Chenok, President; Donald J. Schneeman, General Counsel and Secretary; Christopher W. Seidel, Vice President—Member Services; and Jay L. Rothberg, Executive Assistant to the President—State Society Relations.

Although many of the issues the committee addressed are controversial and there were, not surprisingly, divergent points of view expressed during the committee's extensive deliberations, a substantial majority of the committee members concurred with every recommendation.

The committee hopes that the members of the AICPA will find this report to be a valuable guide to understanding the workings of the Institute and its recommendations to be thoughtful and incisive in their intent to make the AICPA more effective at meeting members' and the public's needs.

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Pennsylvania Institute of CPAs

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Drexel University

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CHAPTER 1

Introduction and Executive Summary

INTRODUCTION

Committee Purpose and Procedures

The AICPA's Board of Directors created the Special Committee on Governance and Structure (the "Governance and Structure Committee") in 1987. The committee's charge, which was intentionally broad, was to recommend changes in the governance and structure of the AICPA and the profession to meet the needs and expectations of its members and the public.

The committee broke its charge down into four specific goals: (1) to enhance the Institute's ability to lead the profession[1] in a rapidly changing professional environment, (2) to ensure that all segments of an increasingly diverse profession are represented fairly within the Institute, (3) to improve the effectiveness of the AICPA's self-regulatory activities, and (4) to ensure the Institute has a cost-effective organizational structure.

In developing its recommendations, the committee identified the major functions the Institute performs, the profession's needs, how other organizations might be fulfilling those needs, and how those organizations function compared with the AICPA. Additionally, the committee studied the Institute's existing governance and structure and the profession's self-regulatory process, including how individuals are licensed as CPAs. The committee's deliberations were based on information gained from these studies, as well as information gathered by *ad hoc* task forces composed of committee members and other knowledgeable individuals. These task forces received input from numerous groups and individuals from both inside and outside the Institute.

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1. The Governance and Structure Committee defined *the profession* as CPAs in all types of employment as well as non-CPA professionals working for CPA firms in accounting, auditing, taxation, and consulting.

Criteria for Recommendations

The Governance and Structure Committee adopted two criteria for judging whether a recommendation was warranted:

1. The recommendation should enhance the Institute's ability to carry out its Mission "to act on behalf of its members and provide necessary support to assure that CPAs serve the public interest in performing quality professional services."[2]
2. The recommendation should be practical and able to be implemented within a reasonable time.

The committee decided that its charge did not limit the scope of its recommendations to correcting deficiencies in the Institute's present structure. (The committee's research found the Institute is generally functioning effectively.) Rather, the committee believed it should also recommend ways to create a better structure to carry out the Institute's Mission more effectively while conserving resources, even if the present structure is not obviously deficient.

EXECUTIVE SUMMARY

Our profession has changed dramatically in recent years and will undoubtedly change just as quickly and significantly in the years ahead. A key point to remember is that the profession will change—regardless of whether the Institute responds and adapts to change. The challenge is to ensure that the Institute is structured to respond appropriately and quickly. The recommendations in this report are intended to meet that challenge.

Chapter 2 discusses how to create a more proactive form of governance and presents the committee's conclusions about the role and responsibilities of the membership, Council, and Board of Directors. It also addresses the size and composition of Council and the Board, as well as how Council and Board members are nominated. The recommendations include—

- Changing Council's composition and increasing its size. This will strengthen the link between the AICPA and the state societies, improve continuity, and increase the opportunity for all segments of the membership to serve on Council.

2. AICPA, *Professional Standards*, vol. 2, BL sec. 911, "Mission Statement of the American Institute of Certified Public Accountants."

- Having all elected Board members serve three-year terms and increasing the Board's size from twenty-one members to twenty-three. The goal: to help the Board meet its expanded oversight responsibilities.
- Creating a Board of Directors' Committee on Committee Operations. This committee would move quickly to assess the purpose and effectiveness of all Institute committees in meeting the objectives of the Mission Statement and the strategic plan. It would then monitor each committee's activities on an ongoing basis.

Chapters 3 through 7 set forth the Governance and Structure Committee's recommendations on the Institute's overall committee structure. These recommendations clarify the Institute's activities by organizing them into four broad categories—technical divisions, membership groups, self-regulatory bodies, and other professional and member services—to (1) expand the Institute's programs where appropriate and ensure the efficient and effective use of Institute resources in carrying out its programs, (2) make members more aware of the opportunities open to them for participating in Institute activities, (3) provide opportunities for more coordinated staffing, and (4) enhance the Board of Directors' ability to oversee and monitor the Institute's activities. The recommendations include—

- Creating a Management Accounting Division to assist CPAs in industry, as well as CPAs in public practice who consult on a broad range of management issues.
- Formalizing and restructuring membership groups to represent the interests of members in public practice and industry. The resources of the Private Companies Practice Section (PCPS) Executive Committee should be strengthened, it should have expanded responsibilities to represent all medium-sized and small firms, and its name should be changed to the Public Practice Executive Committee (PPEC). The Management of an Accounting Practice (MAP) Committee would continue to function for the benefit of all medium-sized and small firms. It would report to PPEC. PCPS should continue as a member-firm organization, with its name changed to the Section for Firms, and would be administered by PPEC. The charge of the present Members in Industry Executive Committee would be

expanded to meet the needs, and represent the views, of members in industry more proactively.

- Enhancing the efficiency and effectiveness of the Institute's self-regulatory function by increasing the SEC Practice Section (SECPS) Executive Committee's responsibilities. The PCPS peer review program and the Quality Review Program should also be combined at a time to be determined by the Board of Directors.

The Governance and Structure Committee also examined the structural implications of three areas the committee believes call for increased Institute activity. Chapter 8 recommends ways for the profession to develop, attract, and retain qualified professionals. Chapter 9 suggests ways to encourage the uniform licensing of CPAs and better coordinate the practice-monitoring activities of the Institute and state boards of accountancy. Chapter 10 suggests ways of improving the working relationship between the Institute and the state societies.

CHAPTER 2
Governance

OBJECTIVE: ***Create a more proactive system of governance***

THE ROLES AND RESPONSIBILITIES OF MEMBERS, COUNCIL, AND THE BOARD OF DIRECTORS

Faced with increasingly complex and rapidly changing professional, regulatory, and economic environments, the Institute has changed constantly to keep pace with a changing world. Rather than simply react to external pressures, however, the Institute must set an agenda that identifies future issues and quickly and effectively addresses any challenge. To take this proactive stance, the Institute must be governed by individuals and groups who know precisely what their responsibilities are. They must also be willing to take action to meet them.

The Governance and Structure Committee considered the three bodies that govern the Institute—the membership, Council, and the Board of Directors—and the division of responsibilities among them to find ways to make the Institute's present system of governance more effective.

To understand the committee's recommendations, the present system of governance should first be examined. Under the current AICPA Bylaws, the membership has the ultimate decision-making authority. Thus, the members must vote to amend both the Bylaws and the Code of Professional Conduct.

Council is the Institute's governing body. It sets policy, reports to the membership, and elects the Board of Directors. Council also acts as a consensus builder among the membership to gain support for important votes, a very significant role. The Board of Directors acts as Council's executive committee, in addition to overseeing the Institute's daily management between Council meetings.

The Chairman of the Board and the President are the Institute's chief spokespersons. The Chairman presides at meetings of the membership, Council, and the Board of Directors. He or she appoints the committees of the Board of Directors and of the Institute, in some cases with the Board's approval. The President is the Institute's chief of staff. He or she reports to the Board of Directors and is responsible for executing the Institute's policies and programs as the Board directs. This includes organizing the Institute's staff and ensuring its effectiveness. Both the Chairman and the President attend regional Council meetings and meet with the state society leadership and other AICPA members to encourage members to accept or bring about changes in Institute policies and activities.

Over the years, these roles and activities have changed to meet the changing needs of the Institute, its members, and the public. As a result, an operating structure has evolved that is more informal than the one the Bylaws describe. For example, the Board frequently seeks Council's advice before taking an action for which it has authority. Although this flexibility remains key to a successful structure, the duties and responsibilities of the Institute's governing bodies should be precisely defined to permit each to operate and govern the Institute with greater confidence and effectiveness.

The Governance and Structure Committee concludes that Council should continue as the Institute's governing body. The committee believes that the membership's role should not be changed. The committee believes, however, that the Board should proactively conduct the Institute's affairs by using fully its vested powers. More precisely, the Board should coordinate and monitor the actions of all Institute components by assuming increased oversight responsibilities as well as implicit powers.

The Governance and Structure Committee also concludes that the size and composition of Council and the Board should change, as well as their members' terms of office. The committee also recommends changing the Nominations Committee's composition and term.

THE MEMBERSHIP

Recommendation: ***To change the Bylaws or the Code of Professional Conduct, the AICPA should continue to require a two-thirds affirmative vote of members voting.***

The Governance and Structure Committee considered proposals to change the membership's role in governing the Institute. Under one proposal, members would vote only on proposed Bylaws or Code changes that would affect their particular membership segment. For example, only members in the affected segment would vote on continuing professional education (CPE) requirements for nonpractitioners or on quality review requirements for practitioners. Another proposal would reduce the two-thirds requirement for amending the Bylaws or the Code of Professional Conduct.

The Governance and Structure Committee did not agree with these proposals and therefore does not recommend any change in the membership's role in governing the Institute.[1] The committee believes the membership's right to alter the organization should not be infringed on in any way. The committee therefore recommends that a broad consensus drawn from all of its members should continue to be necessary to amend the Bylaws or the Code of Professional Conduct. This consensus represents a considerable asset to the AICPA—the membership's collective wisdom—and, at the very least, will prevent arbitrary or unrepresentative actions by Council.

COUNCIL

The Governing Body

RECOMMENDATION: ***Council should retain overall governance authority and continue to serve as a consensus-building body.***

Council represents the professional interests of the Institute's large and diverse membership. To carry out this role, Council's responsibilities include[2]—

- Overall governance, including (1) authorizing mail ballots to propose changes to the Bylaws or the Code of Professional Conduct, (2) overruling any Board action if necessary, (3) deciding the Board of Directors' composition, and (4) calling special Institute and Council meetings.
- Specifying certain Bylaw requirements for membership (for example, establishing specific CPE requirements) and conditions for accepting member resignations.
- The power to elect the Chairman of the Board, the Vice Chairman, the President, the Secretary, at-large Council

1. Appendix A describes the membership's present authority in detail.
2. Appendix A describes the Council's present authority in detail.

members, the Nominations Committee, the Joint Trial Board, and the Quality Review Executive Committee.
- Overall fiscal control, consisting of establishing dues, approving the budget, and electing auditors.

The committee believes that Council should continue as the Institute's governing body and retain the responsibilities just described (with the exception of the responsibility to elect the Quality Review Executive Committee).[3]

Size, Composition, and Term of Office

RECOMMENDATION: ***One Council seat should be reserved exclusively for the president and one exclusively for the president-elect of every state society. Each would serve on Council for one year during their terms of office. Each state should have at least one additional Council seat with a three-year term. The seats allocated to the states[4] based on the number of AICPA members living there should increase from 85 to 102. The number of at-large Council seats should increase from 21 to 30. As a result, the number of fixed Council seats would increase from 235 members to 317. The total seats would increase from 260 to 342.***

The Governance and Structure Committee believes its recommendation on Council's size and composition and Council members' terms of office accomplishes the following:

- It strengthens the link between the AICPA and the state societies.
- It enhances continuity by assuring that the state society leaders will serve on Council for two years.
- Without materially changing the states' proportional representation, it assures each state a minimum of three Council seats.
- It gives members in industry, education, and government a better opportunity to serve on Council.

Council is currently composed of 260 members, 139 of whom are nominated by state societies and directly elected by Institute members in their states for three-year terms. The 139 members include

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3. As chapter 6 discusses, the Governance and Structure Committee recommends that the Chairman of the Board, subject to the approval of the Board of Directors and the concurrence of the members of the existing committee, appoint the Quality Review Executive Committee.
4. As used in this report, the word *states* includes territories and the District of Columbia.

one representative from each state (54) in addition to 85 seats that are allocated among the states based on their number of AICPA members. Another 54 members are designated for one-year terms by the state societies by any process they choose. This ensures that each state has at least two representatives. Additionally, there are 21 members-at-large elected for three-year terms and 21 members of the Board of Directors, including Institute officers. This totals 235 fixed seats. There are presently also 25 past presidents and chairmen who are *ex officio* members and serve on Council for life.

One year as a Council member is not enough time for a person to acquire the necessary level of understanding of the issues Council must deal with, either as a policymaker or as a consensus builder. The Governance and Structure Committee believes Council would become more effective by changing the 54 one-year Council terms to two-year terms. The committee also considered lengthening those terms to three years, but decided that doing so would not allow the committee to make other changes that it believes would make Council more effective.

The committee also believes that state society leadership should be involved in Council to the greatest extent possible. Currently, state society presidents and presidents-elect are not required to serve on Council, although many state societies do select them for Council seats, either as a one-year designated representative or as a three-year elected member. The committee believes Council would benefit greatly if these state officers were required to serve on Council (absent any unusual circumstances) for two consecutive one-year terms.

This requirement would strengthen Council and the Institute's relationship with the state societies: Council would be more representative of the views of state society leadership, and the state society leadership would better understand the issues the Institute faces. Additionally, this requirement would formalize the important and growing relationships between the Institute and the state societies. The requirement recognizes the AICPA's increasing dependence on the state societies in administering self-regulatory programs, and it brings the state society officials into the difficult process of responsible decision making for the entire profession.

The Governance and Structure committee therefore recommends that two Council seats be reserved for the president and president-elect of each state society. If either of them cannot serve, these seats would remain vacant.

State societies can currently nominate any Institute member for Council seats. The states with larger delegations have greater flexibility to select members who may not be part of state society leadership than do the states with only two Council representatives. The committee believes that every state should have three seats. This would enable each to designate a three-year Council member, who would serve along with its president and president-elect.

Currently, Council annually elects seven at-large members for three-year terms, for a total of twenty-one at-large Council members. These at-large seats enable the Institute to nominate individuals who might not otherwise be nominated but who would contribute greatly to Council and the Institute. The Governance and Structure Committee recommends that the number of at-large seats be increased from 21 to 30. This increase would modestly change the present proportion of at-large Council seats.

As AICPA membership continues to grow, a larger Council will be better able to act as a consensus builder. The committee also believes a Council of this size would still be able to govern efficiently and effectively. These additional seats could also be used to increase the Council representation of members in industry, education, and government.

Council presently allocates 85 seats among the states based on the number of Institute members in each state. The committee recommends increasing this number to 102. This would yield the size and composition indicated in the table beginning on the opposite page. When compared with the relative voting strengths under the current structure, this allocation changes the relative voting strengths of each state's delegation in only minor ways.

In summary, the recommendation on Council's size, composition, and terms of office will—

- Increase the minimum number of Council members from each state from two to three.
- Increase the minimum term of an elected Council member from one to two years.
- Keep the proportional representation of the various states about the same.

THE BOARD OF DIRECTORS

Responsibility and Authority

The Bylaws give the Board of Directors broad powers to oversee the Institute's management.[5] Included in these powers are the explicit

5. Appendix A describes the Board of Directors' present authority in detail.

TABLE

SIZE AND COMPOSITION OF COUNCIL

Council Seats by State
(includes all seats nominated or designated by state societies)

	Existing 1989–90 Council*		
	Using 1985 Census	Using 1988 Census	Proposed Changes Using 1988 Census†
Alabama	2	2	4
Alaska	2	2	3
Arizona	3	3	4
Arkansas	2	2	3
California	13	14	16
Colorado	4	4	5
Connecticut	4	4	5
Delaware	2	2	3
District of Columbia	2	2	3
Florida	7	8	10
Georgia	4	4	5
Guam	2	2	3
Hawaii	2	2	3
Idaho	2	2	3
Illinois	9	9	11
Indiana	3	3	4
Iowa	2	2	3
Kansas	2	2	4
Kentucky	2	2	3
Louisiana	3	3	4
Maine	2	2	3
Maryland	4	4	6
Massachusetts	4	4	6
Michigan	5	5	7
Minnesota	4	4	5
Mississippi	2	2	3
Missouri	3	3	5
Montana	2	2	3
Nebraska	2	2	3
Nevada	2	2	3
New Hampshire	2	2	3
New Jersey	7	7	9
New Mexico	2	2	3

*Each state now has at least 2 seats; 85 seats are allocated based on AICPA member population.
†Each state would have at least 3 seats; 102 seats are allocated based on AICPA member population.

SIZE AND COMPOSITION OF COUNCIL *(cont'd)*

Council Seats by State
(includes all seats nominated or designated by state societies)

	*Existing 1989–90 Council**		
	Using 1985 Census	*Using 1988 Census*	*Proposed Changes Using 1988 Census†*
New York	12	11	14
North Carolina	4	4	5
North Dakota	2	2	3
Ohio	6	6	7
Oklahoma	3	3	4
Oregon	3	2	4
Pennsylvania	7	7	8
Puerto Rico	2	2	3
Rhode Island	2	2	3
South Carolina	2	2	3
South Dakota	2	2	3
Tennessee	3	3	4
Texas	12	12	15
Utah	2	2	3
Vermont	2	2	3
Virginia	4	4	6
Virgin Islands	2	2	3
Washington	3	3	5
West Virginia	2	2	3
Wisconsin	3	3	4
Wyoming	2	2	3
Total seats nominated or designated by state societies	193	193	264
Members at large	21	21	30
Board of Directors	21	21	23
Total fixed seats	235	235	317
Past presidents and chairmen presently on Council	25	25	25
TOTAL SIZE OF COUNCIL	260	260	342

*Each state now has at least 2 seats; 85 seats are allocated based on AICPA member population.
†Each state would have at least 3 seats; 102 seats are allocated based on AICPA member population.

rights to determine how the Institute is organized, approve the appointment of senior committee members, and recommend the President and Secretary for Council election. Implicit powers include overseeing Institute committees and evaluating the President, Secretary, and senior Institute staff.

Several of the Governance and Structure Committee's recommendations focus on a greater role for the Board of Directors. The committee believes that for the Institute to direct and shape change in the economic, professional, and regulatory environments more proactively, the Board must be in a position to offer more guidance. It meets more frequently than Council and so is better informed on specific issues. Moreover, because the Board is smaller than Council, it can both reach a consensus and take action more quickly. Consequently, the Board should assume its full authority to act on all matters except those specifically reserved for the membership or Council.

Committees of the Board

RECOMMENDATION: ***Reorganize the Board's committee structure by creating a Compensation Committee and making the Investments Committee a subcommittee of the Board's Finance Committee. The other Board committees should be the Audit Committee, the Government Affairs Committee, and a Committee on Committee Operations.***

The Governance and Structure Committee proposes to change the Board of Directors' committee structure so that it can direct the Institute's affairs more proactively.

Four Board committees currently exist: the Audit Committee, the Finance Committee, the Government Affairs Committee,[6] and the Investments Committee. The Board's committees should be restructured to include the Audit Committee, the Finance Committee, the Government Affairs Committee, a Compensation Committee, and a Committee on Committee Operations.

The Governance and Structure Committee recommends that the Audit Committee's responsibilities remain essentially unchanged. The Finance Committee should have overall responsibility for reviewing financial strategy, plans, and budgets. The Investments Committee should become a subcommittee that reports to the Finance Committee. Membership on the Investments Subcommittee would not be limited to the Board of Directors.

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6. Chapter 7 discusses the Government Affairs Committee, including recommendations to enhance it.

The Finance Committee sets staff officers' compensation and compensation ranges for exempt staff. Given the Board's expanded responsibilities in this area, together with the appropriate skills and background needed to meet those responsibilities, a separate Compensation Committee should be formed to report directly to the Board. The Finance Committee chairman would also be a member of this committee.

The Compensation Committee would recommend salary increases for top-level executive staff after receiving the President's recommendations. Additionally, the Institute Chairman and Vice Chairman would annually report their evaluation of the Institute President to this committee. The President would likewise report his or her evaluation of top-level staff officers. The committee would review all evaluations and report its findings to the Board.

Subject to the Board's approval, the Compensation Committee would also set broad compensation policies for Institute staff and monitor compliance with those policies. Those policies would include overall compensation levels, employee benefit programs, and retirement programs. This means that the new committee would assume the responsibilities of the present Staff Pension Plan Committee.

Committee Monitoring and Oversight

RECOMMENDATION: ***The Board should monitor more actively the activities and processes of all Institute committees. To do this, it should create a Board committee to be known as the Committee on Committee Operations. This committee should recommend to the Board whether new committees should be created and whether existing ones should be terminated or merged. As one of its first activities, the committee should assess, within a relatively short time, each Institute committee's purpose and effectiveness in meeting the objectives of the Mission Statement and the strategic plan. It should then monitor each committee on an ongoing basis.***

The Board guides Institute activities in pursuit of the Institute's Mission. Chief among the expanded Board responsibilities should be formal oversight, monitoring, and coordinating of the Institute's committees and activities, which, to avoid overlap, should include periodic reviews of each committee's purpose and responsibilities. This responsibility should include all of the Institute's volunteer components, including standards-setting committees and boards. The Governance and Structure Committee is not suggesting, however, that the Board's involvement should extend to the content of pronouncements issued by committees designated to promulgate technical standards.

The Board is responsible for all Institute committees, but the Board has always been particularly careful to respect the independence of the self-regulatory bodies and the technical and ethical standards-setting bodies. The Institute's staff informs the Board of committee activity through written and oral reports, and on occasion, the Board considers both procedural and substantive aspects of standards setting.

The Board delegates significant power and authority for technical activities to the standards-setting committees. This enhances the committees' independence and gains them broad professional, governmental, and public acceptance. The Governance and Structure Committee believes this independence and objectivity must be preserved. The Board must therefore achieve a delicate balance between increasing its crucial oversight responsibilities and preserving these committees' independence.

A key part of the Board's increased oversight role will be determining whether the Institute's technical and ethical standards-setting committees—

- Are responsive to the Institute's Mission.
- Observe an appropriate level of due process in determining both the items to be placed on their agenda and the outcome of their deliberations.
- Receive adequate Institute resources and conduct their work as expeditiously as possible.

In this way, the Board should be familiar with the technical committees' activities and, without undermining their objectivity and independence, have the opportunity to communicate directly with them. Thus, the Board will be able to anticipate the ramifications of pronouncements before they are issued.

To accomplish this, the Board should create a Committee on Committee Operations that would monitor all Institute committees' activities. This committee should designate subcommittees to monitor groups of related committees. Each of these subcommittees would then be assigned the appropriate staff vice president to provide staff support. The Secretary of the Board should provide staffing for the Committee on Committee Operations.

An essential function of the Committee on Committee Operations would be to recommend to the Board whether new committees should be created and whether existing committees should be terminated or merged. Within a relatively short time (such as one year), the committee should review all Institute committees to assess their purpose and effectiveness in meeting the objectives of the Mission Statement and the strategic plan and to determine whether redundancy exists.

Office of the Chairman of the Board

A Chairman's full term on the Board usually spans three years: one year as Vice Chairman before becoming Chairman, one year as Chairman, and one year as immediate past Chairman. Because of this position's severe time demands, it is unlikely that qualified volunteers could serve as Chairman longer than one year and successfully maintain careers elsewhere. In addition, one-year terms give more members the opportunity to serve the profession in this important role. Accordingly, the Governance and Structure Committee believes that the Chairman's term should continue to be limited to one year.

Office of the Treasurer

RECOMMENDATION: ***Eliminate the elected Treasurer position and give that title and responsibility to the Chairman of the Finance Committee of the Board.***

As it now stands, Council elects the Institute's Treasurer who serves a one-year term on the Board. The Institute's Bylaws define the Treasurer's responsibilities as follows:

> The Treasurer shall familiarize himself with financial policies, investment policies, and the accounting procedures, controls, and financial reporting of the Institute, and shall consult with the President and the independent auditors on such matters, on which he shall advise the members of the Board of Directors and the President. He shall report thereon to the Board of Directors to the extent that he deems desirable or as the Board of Directors may direct, and shall perform such other related duties as may be assigned to him by the Council or the Board of Directors.

In recent years, the Treasurer has also served as chairman of the Board's Finance Committee.

The Governance and Structure Committee concluded that the responsibilities described in the Bylaws are in fact responsibilities that are carried out by the Finance Committee (those related to financial policies), the Investments Subcommittee (those related to investment policies), or the Audit Committee (those related to accounting procedures, controls, and financial reporting). Operational aspects of the treasury function are in fact carried out by the staff person who acts as the Institute's chief financial officer. Accordingly, the Finance Committee chairman should be named as the Treasurer, and in that capacity present financial reports to Council.

Size, Composition, and Term of Office

RECOMMENDATION: ***Eliminate the offices of elected vice presidents with one-year terms. The number of Board members should be increased from twenty-one to twenty-three. Eighteen Board members should be elected for three-year terms, with the Chairman, Vice Chairman, immediate past Chairman, President, and Secretary also serving on the Board during their incumbency.***

To assist the Board of Directors in meeting its expanded oversight responsibilities, the size and structure of the Board should be changed. First, all Board members should serve for three consecutive years. The current one-year terms for Board vice presidents are too short to allow them to become meaningfully involved or to provide input into the Board's work. This expanded term will give Board members more time to become familiar with the issues.

The Board of Directors should consist of twenty-three members: eighteen (including three representatives of the public) who would serve three-year staggered terms; the Chairman, Vice Chairman, and immediate past Chairman (whose one-year terms in office amount to three years of Board participation); and the Institute's President and Secretary, who serve during their incumbency. This would effectively eliminate one-year terms, evenly stagger the election of Board members, and slightly increase the Board's size. This enlarged Board would provide somewhat greater resources to monitor and oversee the Institute's committee structure.

Selecting and Evaluating the President

RECOMMENDATION: ***The Chairman of the Board of Directors should appoint a Presidential Review Committee at least one year before the President's term ends to evaluate the President's performance and, when necessary, search for and recommend a successor.***

The Governance and Structure Committee noted that Institute Presidents have been employed under five-year contracts. Although the Board of Directors determines the President's term of office, a formal process does not exist for either continuing the incumbent's term or appointing a successor.

Therefore, the Board of Directors should adopt a policy in which the Institute Chairman appoints a Presidential Review Committee at least one year before the end of the President's term. The committee would consist of five members, including the Chairman and at least one other Board member. The committee should complete its review of the President's performance sufficiently before the end of the President's term to allow the Board of Directors to confirm the incumbent or to search for, select, and install a successor.

The Presidential Review Committee should seek information about the profession's and the Institute's future needs, the President's role as it relates to those needs, the qualities required to perform that role, and the incumbent's strengths and weaknesses in meeting those requirements. Confidential sources of information should consist, at a minimum, of all Board Chairmen who served during the President's current term, the current Vice Chairman, and the chairmen of key Institute and Board committees. The Presidential Review Committee should also review the President's goals and plans in the context of the Institute's future needs.

The Presidential Review Committee should report its findings and recommendation to the Board of Directors in an executive session. If the Board then decides to seek a new President, the Presidential Review Committee should be reconvened as a Presidential Search Committee.

The Institute's Bylaws specify that the President must be a CPA. Because the AICPA is an extremely large organization, and the President's duties are so demanding, the Governance and Structure Committee considered whether to lift this restriction to widen the pool of available candidates. The committee believes, however, that the profession's growing complexity and the controversial issues the Institute faces reinforce the importance of having a top staff person who has a CPA's education, technical knowledge, and professional expertise. The Governance and Structure Committee therefore reaffirms that the AICPA's President should come from the Institute's membership, regardless of his or her previous field of employment.

THE NOMINATIONS COMMITTEE

RECOMMENDATION: ***Elect a twelve-member Nominations Committee that includes the two most immediate past Board Chairmen and ten other members with two-year staggered terms (five to be elected each year). Of these ten members, no more than two should be on Council when they are elected. The elected members should not be on the Board of Directors when they are elected or have served previously on the Nominations Committee. The most recent past Chairman should serve as the Nominations Committee's chairman.***

At present, an eleven-member Nominations Committee, which is elected by Council, nominates the officers, Council members, and Board members as well as the Joint Trial Board and the Quality Review Executive Committee.[7] Council has traditionally elected the immediate past Board Chairman as the Nominations Committee chairman. The Board selects ten other members from twenty names drawn from AICPA records of active members with substantial committee service and leadership roles in the AICPA and state societies. Those ten names are submitted to Council for election.

Council has traditionally elected the Nominations Committee on the Board's recommendation. Currently, no more than three members of the Nominations Committee can be Council members and no more than one of these three Council members can be on the Board of Directors. Nominations committees have broadly represented various membership segments, firm sizes, and geographic areas. Membership on the Nominations Committee is for one year, and each Nominations Committee meets only once, making it difficult to achieve continuity.

Accordingly, the Governance and Structure Committee recommends restructuring the Nominations Committee by lengthening the term and staggering the election. The Nominations Committee should consist of the two most immediate past Board Chairmen and ten members elected from the general membership, no more than two of whom should be on Council when they are elected. None of the elected members should be on the Board of Directors when they are elected. Each committee member would serve for two years and could not serve again as an elected member. Each year the Board would consider ten names for the Nominations Committee and recommend five of them to Council for election.

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7. See chapter 6 for a recommended change in selecting the Quality Review Executive Committee.

SPOKESPERSONS FOR THE INSTITUTE

RECOMMENDATION: ***The Chairman and the President should continue to speak for the Institute. Nothing further should be done to define the Chairman's or the President's authority as Institute spokespersons. Additionally, Council should retain its right to endow certain committees with the authority to promulgate standards or make public statements without prior clearance.***

Implementing Resolutions of Council authorize both the Chairman and the President to speak for the Institute. Three Institute committees are also designated to promulgate enforceable professional standards—pronouncements that "speak" both to the members and the public.

Council has authorized eight Institute senior technical committees,[8] including those designated to promulgate professional standards, "to make public statements, without clearance with the Council or the Board of Directors, on matters related to their area of practice." However, when public statements on government affairs need to be made on the Institute's behalf, those statements are subject to "Guidelines for Clearance of Public Statements on Behalf of the AICPA," issued by the Government Affairs Committee. The guidelines are designed to provide both consistency and continuity, as well as to clarify the approval process when there is a potential overlap or differing views among Institute committees. Although the Institute's Bylaws do not cover the guidelines, they seem to accomplish the desired objectives effectively. The Governance and Structure Committee concluded

8. These committees include the Accounting and Review Services Committee, the Accounting Standards Executive Committee, the Auditing Standards Board, the Federal Taxation Executive Committee, the Management Advisory Services Executive Committee, the Professional Ethics Executive Committee, the Quality Review Executive Committee, and the Personal Financial Planning Executive Committee. Chapter 6 recommends that the SEC Practice Section Executive Committee also be designated a senior technical committee.

The Governance and Structure Committee believes that the ability to make public statements in technical areas without Council or Board clearance distinguishes these committees from other Institute committees. Because of this authority, appointment by the Chairman of the Board to senior technical committees should require the Board's approval, as is presently the case. Furthermore, to avoid confusion, the committee believes that use of the term *senior committee* for a group that does not have the authority to make public statements should be discontinued. These committees should be appointed by the Chairman of the Board without the Board's approval.

that it is not desirable to limit the number, or narrow the scope, of those who speak for the Institute.

The President coordinates policies among various groups and individuals. The President and the Chairman also decide at which forums each should speak. The Governance and Structure Committee believes it is most effective to allow the President and Chairman to continue to serve as spokespersons and to work out between themselves how best to allocate that task.

CHAPTER 3

Overview of Proposed Committee Structure

OBJECTIVE: ***Formalize the Institute's committee structure so that it consists of technical divisions, self-regulatory bodies, membership groups, and other professional and member services to (1) ensure that Institute resources are used as efficiently and effectively as possible in providing services to members, (2) help members better understand the opportunities for participating in Institute activities, (3) provide opportunities for more coordinated staffing, and (4) enhance the Board's ability to oversee and monitor Institute activities***

To fulfill its Mission and objectives, the Institute uses an extensive committee structure. Committees, composed of volunteer members and assisted by AICPA officers and employees, afford members the most important way of becoming involved in Institute activities. Council, the Board of Directors, and the Board's committees govern and manage the Institute's affairs. Other committees direct its standards-setting and self-regulatory activities, determine the services to be provided to the membership segments, and represent those segments in the Institute's decision-making processes. In fact, the purely administrative and operational areas are the only areas in which committees do not carry out the Institute's activities.

Because committees are the driving force behind most Institute activities, the Governance and Structure Committee analyzed whether the present committee structure best serves the membership, the profession, and the public.

The AICPA committee structure is organized around *divisions. Divisions,* according to the AICPA *Committee Handbook,* are the "combination of executive committees, subcommittees, task forces, and staff having responsibility for a major area of activity and assigned divisional status by the Chairman of the Board with the concurrence of the Board of Directors when required by the Bylaws." This report does not essentially change that definition, but it does define more specifically the executive committees' responsibilities for carrying out the divisions' activities.

Defining and formalizing the Institute's committee structure is important. It will help the Institute manage its operations better through improved financial resource allocations and staff assignments. It will also help the Board monitor and oversee all AICPA committees and activities better and will help members understand how they can best participate in the AICPA and influence its decision making. Finally, a clearly defined committee structure will make it easier to explain to nonmembers just what the Institute *is*. The Institute *is* what its committees do. Exhibits 1–5 in appendix B to this report summarize the committee's recommendations for the Institute's committee organization.

The Governance and Structure Committee believes all Institute committees should be grouped by the principal purposes they serve. This means they will be part of either technical divisions, membership groups, self-regulatory bodies, or other professional and member services. Exhibit 1 indicates each of these four components' relationship to the Institute's members, Council, and the Board of Directors. The remainder of this chapter briefly explains each of these organizational components. The following chapters will describe them in greater detail.

All four components of the Institute's committee structure—technical divisions, self-regulatory bodies, membership groups, and other professional and member services—contribute to the Institute's Mission. All act on the members' behalf, or provide support, to assure that CPAs serve the public interest in performing quality professional services.

Institute committees are generally accountable to the Board of Directors, which creates committees and appoints their members with input from the volunteer and staff leadership. As chapter 2 discusses, the Board should monitor, oversee, and evaluate the committees' contribution to the AICPA's Mission and objectives and should eliminate committees that no longer serve their purpose.

TECHNICAL DIVISIONS

Technical divisions comprise committees, subcommittees, task forces, and staff who support all activities to help members carry out their responsibilities. Those activities could include setting standards, providing advice on accreditation of specialists, and providing services to members. A technical division may also include a member section.[1] In a member section, members, regardless of employment or occupation, can jointly participate in specific technical programs. Executive committees in each technical division are responsible for carrying out these activities and should consider which of them are appropriate.

MEMBERSHIP GROUPS

Members with common occupations compose membership groups. These include, for example, members practicing with firms of various sizes, members in industry, members in education, and members in government. A committee that represents a membership group—

- Communicates with the Institute leadership about professional issues and members' needs and with AICPA technical divisions about technical matters and establishing professional standards.
- Provides management and practice aids to firms in public practice and other services to members not in public practice.

To varying degrees, these functions are carried out through committees, subcommittees, and Institute staff.

The membership groups and technical divisions (including member sections, if appropriate) are not mutually exclusive. On the contrary, members may find themselves involved in both. This structure provides two vehicles through which the Institute serves member needs and draws out their talents. For example, the Members in Industry Executive Committee would represent the interests of a CPA who is a chief financial officer. That same person might also want to participate in, and benefit from, the proposed Management Accounting Division's programs. This opportunity for dual involvement should encourage members in industry to participate more fully in Institute committee work.

SELF-REGULATORY BODIES

Self-regulatory bodies comprise committees, subcommittees, task forces, and staff involved with the Institute's practice-monitoring pro-

1. The Institute presently uses the term *division* to describe an area of activity and the members who have joined a particular division. This report refers to the latter as *member sections* of divisions.

grams, the Professional Ethics Division, and the Joint Trial Board. Their activities include (1) establishing effective peer review and quality review programs to monitor public accounting firms' accounting and auditing practices and (2) enforcing technical and ethical standards by investigating and adjudicating disciplinary charges against members.

OTHER PROFESSIONAL AND MEMBER SERVICES

The fourth component, other professional and member services, benefits all or a significant group of AICPA members, regardless of their technical interests or employment. These services include academic and career development, communications, continuing professional education, examinations, member programs, publications, specialization accreditation, state society relations, technical information services and the library, and the Institute's Washington office. Some of these services have committee assistance; others do not. The Board of Directors determines whether committees are appropriate for particular activities.

CHAPTER 4

Technical Divisions

OBJECTIVE: ***Develop a more focused approach to providing the support necessary to assure that CPAs perform quality professional services***

Some of the Institute's divisions have executive committees charged with promulgating technical standards, speaking for the Institute in their practice areas, and otherwise planning, initiating, supervising, and coordinating technical projects, programs, and activities. These are called *technical divisions* in this report. They currently oversee technical activities related to financial accounting, auditing, federal taxation, management advisory services (MAS), and personal financial planning (PFP).

Technical divisions help Institute members carry out their professional responsibilities in technical practice areas. Three technical divisions (PFP, Tax, and MAS) provide additional services to individuals who have become members of those divisions. Members who belong to a division are described as belonging to *member sections* in this report. In a member section, members, regardless of employment or occupation, can jointly and voluntarily participate in technical programs specific to their common interests. For example, members with an interest in tax can participate in the tax section's projects, programs, and activities, whether they are employed in public practice, industry, government, or academe. Section membership is open to all members, and members may join as many sections as they wish.

TECHNICAL DIVISIONS' STRUCTURE AND ACTIVITIES

Recommendation: ***The programs and activities of a technical division should encompass, where appropriate, setting technical standards and providing other technical guidance, consulting with the Specialization Accreditation Board about accrediting specialists, and***

providing membership activities and programs in a specific technical area. At least one executive committee should oversee each technical division's activities. The executive committee of a technical division without a member section might consider having one.

The Governance and Structure Committee believes technical divisions should house all programs and activities in their technical practice areas. These programs and activities should include, where appropriate, the following:

- Setting technical standards and providing technical guidance
- Consulting with the Specialization Accreditation Board about accrediting specialties[1]
- Proposing programs to enhance members' technical skills
- Providing services to their member sections

The technical divisions' executive committees should be responsible for each of these activities and, if the division does not provide them, for deciding whether they are appropriate. Recommendations for new member sections or for accrediting specialists should either originate from, or be made in consultation with, the executive committees of the appropriate technical divisions.

This revised concept of a technical division is different in two ways from the existing one. First, it establishes the term *technical divisions* and defines their purposes in a way that distinguishes them from other elements in the Institute's structure. Second, by defining their purposes, it suggests the full range of activities that each technical division could undertake and for which the executive committees are responsible. This would encourage both the division and the Board of Directors to consider activities the division currently does not undertake.

To accomplish their objectives, technical divisions should have working committees (including the existing committees, subcommittees, and task forces that are a natural part of a division). These should include standards-setting and specialist accreditation committees appropriate to each technical area. Divisions with member sections should also have committee structures for planning and supervising membership activities and programs.

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1. Chapter 7 discusses the Specialization Accreditation Board's role in accrediting specialties.

The committee that oversees at least one of a technical division's purposes should be designated as an executive committee.[2] Accordingly, each technical division should have at least one executive committee. The extent of a technical division's activities should dictate its committee structure. For example, the MAS Executive Committee oversees the MAS Division's standards-setting as well as its membership activities and programs. These functions could be split and have separate executive committees if that becomes necessary.

The Governance and Structure Committee recommends no change in the criteria or process for creating member sections. As is the case now, the Board of Directors and Council should approve the creation of member sections based on the need for them. Each member section should be economically self-sufficient; that is, it should be able to support itself through sectional dues both when it is created as well as afterwards. In addition, member sections should be justified by their contribution to the public interest.

As chapter 2 discusses, to help the Board of Directors monitor the Institute's committee activities better, a senior Institute staff person should coordinate all activities within a technical division, regardless of how many executive committees administer these activities.

The Governance and Structure Committee recommends formalizing the structure to recognize technical divisions in these areas:

- Auditing
- Financial accounting
- Taxation
- Personal financial planning
- Management accounting (a new technical division)
- Management advisory services

More technical divisions may be added in the future. It is implicit in the following discussion that existing divisions and their committees continue performing the activities they now perform. Exhibit 2 of appendix B to this report summarizes the technical divisions' recommended organizational structure.

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2. As the Glossary indicates, the committee with the greatest authority or responsibility (beneath the Board of Directors) for overseeing one or more activities of a division should be designated an *executive committee.*

The Auditing Division

The Auditing Division would encompass standards-setting for audit, other attest, and compilation services. This division would include the Auditing Standards Board (ASB), its subcommittees and task forces, and the Accounting and Review Services Executive Committee.

The Auditing Division currently does not have a member section, nor are there accredited specialists in auditing. As noted earlier, the activities of all technical divisions may include administering a member section and recommending the accreditation of specialties, if needed. The ASB might therefore consider whether to recommend these activities.[3]

The ASB sets technical standards for auditing and most other attest engagements; the Accounting and Review Services Committee sets standards for compilations and reviews of financial statements.

The Governance and Structure Committee notes that, by definition, the Accounting and Review Services Committee is an executive committee because it sets standards enforceable under the Code of Professional Conduct, which meets the definition of an executive committee, and should therefore be designated as such in the future.

The Financial Accounting Division

The Financial Accounting Division would encompass all the technical functions for financial accounting standards that presently compose the Accounting Standards Division. The division's primary components would continue to be the Accounting Standards Executive Committee (AcSEC) and its related committees and task forces.

AcSEC determines Institute technical policies and positions on financial accounting standards and is the Institute's principal spokesman on these matters. It also maintains liaison contacts with the FASB, the GASB, and the SEC. The Accounting Standards Division currently does not have a member section, nor are there accredited specialists in financial accounting. AcSEC might therefore consider whether to recommend that a member section be created or that financial accounting specialists be accredited.

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3. This statement, as it appears here and in the discussions of the other divisions, is only a suggestion. The Governance and Structure Committee neither encourages the divisions to form member sections or recommend the accreditation of specialties, nor discourages them from doing so.

The Tax Division

RECOMMENDATION: ***The Federal Taxation Division should be renamed the Tax Division. The charge of the division's executive committee should be expanded to cover broad aspects of international, state, and local taxes, thus reflecting the wide range of interests it presently pursues.***

The Tax Division should encompass all technical taxation functions. Its primary components would continue to be its executive committee, which supervises, coordinates, plans, and initiates all division activities, its numerous subcommittees and task forces, and the existing member section.

The Governance and Structure Committee believes that limiting the division's name and its committee charge to federal taxation is too narrow when one realizes the division deals with multinational, state, and local taxation in addition to federal taxation. Accordingly, the Federal Taxation Division should be renamed the Tax Division and its charge expanded to reflect its present activities.

The division currently publishes technical guidance on tax practice and provides technical services to section members. There is no taxation specialization. The division's executive committee might therefore consider whether to recommend accrediting taxation specialists.

The Personal Financial Planning Division

The Personal Financial Planning (PFP) Division would encompass all the present technical functions related to personal financial planning. The division's primary components will continue to be its executive committee, subcommittees, and the existing member section.

The PFP Executive Committee currently plans, initiates, supervises, and coordinates all division activities. The division has a member section, and the Institute has a program to designate Accredited Personal Financial Planning Specialists. The division also develops advisory statements on the practice of personal financial planning. The Governance and Structure Committee has no recommendations for changing the PFP Division.

A Management Accounting Division

RECOMMENDATION: ***Create a Management Accounting Division with an executive committee and appropriate Institute staff.***

For this report's purposes, the Governance and Structure Committee defined *management accounting* as the process of preparing and communicating financial and operating information, primarily used by management, to control and evaluate an organization's business activities. To ensure that resources are used and accounted for appropriately, the scope of management accounting extends to designing, implementing, and maintaining an entity's internal control structure, including the internal audit function. Management accounting encompasses functions such as controllership, cost accounting, operational auditing, systems, planning and budgeting, treasury, and financial analysis. It also encompasses the methodologies and techniques of decision sciences in providing the basic informational support to management for strategic decision making.

The Institute's technical activities have traditionally concentrated on financial accounting, with the emphasis on external reporting, as opposed to management accounting, which emphasizes internal reporting, planning, and control. The Institute has implicitly acknowledged management accounting's existence and importance in its authoritative auditing standards on the internal control structure and the auditor's risk assessment activities, as well as through its support of the Management Advisory Services Division. However, it has not explicitly provided technical guidance in management accounting.

Management needs accounting and other information beyond that contained in the externally reported, historical-cost-based financial statements. For example, management accounting is essential to preparing feasibility studies. Moreover, information about cash resources and cash flows may be more relevant to operating and financing decisions than accrual-based accounting income. Cost accounting information is similarly used to decide on plant utilization, determine unabsorbed overhead, and set prices, as well as provide the data for the inventory cost presentation for the balance sheet. Finally, establishing an organization's performance standards helps in decision making and in setting management's compensation and incentives. The teamwork between operating and financial management, supported by appropriate management accounting information, can be the key to an organization's success.

CPAs in both industry and public practice who consult on a broad range of management issues work with, and need assistance in, management accounting. Moreover, assisting CPAs engaged in management accounting activities (related to both profit and not-for-profit entities) will better serve the public interest because it will help CPAs to create an environment that will bring greater integrity to financial reporting. This will enhance productivity and global competitiveness. That environment would also be conducive to improved internal financial information and could make independent audits more efficient.

For these reasons, the Governance and Structure Committee recommends establishing a Management Accounting Division,[4] to be governed by an executive committee with the assistance of appropriate subcommittees, task forces, and staff to—

- Evaluate the effectiveness of existing management accounting concepts and practices in today's changing environment in all entities, whether manufacturing- or service-based, whether profit-oriented or not-for-profit.
- Provide educational and guidance materials to improve management accounting concepts and practices, and act as a catalyst for innovation.
- Plan and implement a communications program that will effectively inform management, educators, CPAs in public practice, and government officials of changing management accounting concepts and practices and how they relate to their needs and the public interest.
- Serve as the Institute's liaison with the Cost Accounting Standards Board.
- Consider whether to recommend a member section, with a dues structure.
- Consider whether to recommend the accreditation of management accounting specialists.

The Governance and Structure Committee does not anticipate that the Management Accounting Executive Committee would initially need to make public statements or to issue either technical

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4. The recommendation to create a Management Accounting Division is distinct from the recommendation in chapter 5 to create a Members in Industry Executive Committee. As chapter 3 explains, the Management Accounting Division would be a *technical division*; the Members in Industry Executive Committee would represent the interests and views of the *membership group* composed of members in industry. Members in industry would, of course, be encouraged to participate in the Management Accounting Division's activities and to join the division's member section, if one is created.

standards for management accounting or behavioral standards for management accountants that would be binding on CPAs through the Code of Professional Conduct. In the future, the Management Accounting Executive Committee should consider whether it needs authority to make public statements without the Council's or the Board's clearance. If it does need that authority, it should seek senior technical committee status. It should also consider whether it needs the authority to issue standards that would be binding on members.

The Management Advisory Services Division

The Management Advisory Services (MAS) Division would encompass all the present technical MAS functions. The division's primary components are the MAS Executive Committee, its subcommittees, and the existing member section.

The MAS Executive Committee currently develops and interprets standards for the conduct of MAS and communicates technical developments through practice aids and special reports to assist division members. The Institute does not accredit MAS specialists. The executive committee might therefore consider recommending the accreditation of MAS specialists.

Representation on Technical Committees

RECOMMENDATION: ***There should be no restrictions on qualification for committee service by size of firm.***[5]

RECOMMENDATION: ***Although service on an Institute technical committee should normally be limited to three years, exceptions should be permitted where special expertise is involved.***

The Governance and Structure Committee believes the profession benefits significantly when firms share their experience and technical expertise. To do this even more effectively, the committee believes certain adjustments are necessary to the committee service rules.

The Institute currently limits the number of representatives from the largest accounting firms that can sit on technical committees (except for the Auditing Standards Board) and on the Professional Ethics Division's Executive Committee. However, there would be a greater sharing of

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5. Following preliminary exposure of this report to the Board of Directors, the Board decided to remove any restrictions that measure qualification for committee service by size of firm.

experiences, expertise, and technical resources if no firm were automatically excluded from representation on Institute committees that set standards or determine Institute policies on technical matters simply because of an arbitrary limitation on large-firm participation. Those committees include AcSEC, the ASB, the Accounting and Review Services Executive Committee, the PFP Executive Committee, the Taxation Executive Committee, the MAS Executive Committee, and the Management Accounting Executive Committee.

The Institute also has a policy that service on a particular committee should be limited to three years. For most committees, this policy is in the best interests of both the membership and the profession. Rotating committee service allows more members to serve and, perhaps more important, brings new viewpoints to committee deliberations. On occasion, however, the Institute might believe an individual with particular technical expertise should be asked to continue on a technical committee, subcommittee, or task force beyond three years. Accordingly, although committee service should normally be limited to three years, exceptions should be permitted when special expertise is involved.

Responding Promptly to Emerging Accounting and Auditing Issues

Recommendation: ***The Auditing Standards Board (ASB) and the Accounting Standards Executive Committee (AcSEC) should reassess how emerging issues are identified and how accounting and auditing guidance is developed in response to them. The ASB and AcSEC should then change the process to ensure prompt response.***

Recently, Congress and others have criticized the profession because, in their view, accounting and auditing guidance was outdated or had not been promptly issued in response to the changing environment in certain industries. The AICPA has historically assumed the responsibility for keeping that guidance current to help firms avoid audit failures. Given this responsibility, the Governance and Structure Committee reviewed how the Institute identifies the early warning signs for emerging issues and other circumstances that might require accounting and auditing guidance. The committee also reviewed the procedures used to develop this guidance and considered several recommendations for meeting this challenge. It concluded that the senior technical committees with primary responsibility in this area—the ASB and AcSEC—should improve the process.

The Governance and Structure Committee therefore urges the Board of Directors to give high priority to developing these improved procedures by charging the ASB and AcSEC with the responsibility for developing a plan of action within a short time, presenting that plan to the Board, and reporting periodically on the progress made toward its implementation.

CHAPTER 5

Membership Groups

OBJECTIVE: ***Provide effective channels of communication with, and represent the interests of, the various segments of the membership***

AICPA membership consists of two broad groups: members in public practice and members in industry, education, and government. A primary Governance and Structure Committee goal is to ensure that members in both groups participate and are represented effectively within the Institute. Exhibit 3 of appendix B summarizes the recommended organizational structure of the membership groups.

MEMBERS IN PUBLIC PRACTICE

Members in public practice associate with firms of varying sizes, which have common as well as differing interests. The Governance and Structure Committee focused on alternative structures that would enable the AICPA to respond effectively to the needs of firms of all sizes.

The Largest Firms

RECOMMENDATION: ***Recognize the largest firms' (currently six) chief executives as a group and establish and maintain open lines of communication with them.***

The largest firms are an important constituent group with significant resources that benefit the profession. However, no structure is in place to allow this group to communicate its views to Institute leadership, nor is a program planned for Institute leadership to solicit the views of the largest firms' chief executives. At times, of course, they communicate informally about issues. This communication must continue, preferably even more often.

Both the AICPA and the largest firms could benefit from improved communications between them. The largest firms might gain broad-based support in Washington and the media more easily if they developed a closer working relationship with the profession. For its part, the AICPA should know these firms' views on important issues. Improved communications will result only if the chief executives and Institute leadership are mutually committed to that objective.

Guidelines for improving communications should include the following:

- AICPA leadership should request the views of the largest firms' chief executives on issues pertinent to the profession.
- The Institute leadership should meet with the chief executives to discuss professional issues when appropriate.
- The chief executives should communicate their views to the Institute leadership on issues pertinent to the profession.

These guidelines would allow the largest firms to develop their own agenda following their own timetable while establishing a formal communication link with Institute leadership. That link would also demonstrate that the Institute and the largest firms are working cooperatively to deal with professional issues.

The Group B Firms

RECOMMENDATION: ***The AICPA leadership should continue to consult the Practice Group B Advisory Committee for its views on issues of interest to firms in public practice and to medium-sized firms in particular.***

The Group B firms represent another key Institute membership segment. Through the Practice Group B Advisory Committee, over fifty firms, each with at least fifty AICPA members, exchange views on issues relevant to their practices and offer input to Institute leadership and other Institute committees. The AICPA leadership should actively seek input from the Group B firms.

RECOMMENDATION: ***Continue to limit Group B's size.***

Group B currently limits its number of members to forty. However, Group B has temporarily allowed additional firms to join so that the number of participating firms now exceeds fifty. The Governance and Structure Committee believes that all eligible firms should have the opportunity to join Group B. The committee also recognizes that permitting an unlimited number of firms to join Group B would make its forum less effective. The committee therefore recommends that the Board of Directors determine an appropriate course of action if the number of firms eligible for Group B membership expands considerably.

The Medium-sized and Small Firms

Medium-sized and small firms are an important and diverse membership segment. Sheer numbers alone tell why: There are about 46,500 medium-sized and small firms (including sole practitioners), varying widely in size. Moreover, of the 128,000 AICPA members in public practice, about 100,000 of them practice in medium-sized and small firms.

A CPA firm's management must develop and maintain a quality practice, regardless of the firm's size. This responsibility is in both the public's and the firm's interests. Firm management must also ensure that the firm becomes sufficiently profitable to fund quality. These responsibilities—quality and profitability—have a mix of public interest objectives and firm objectives, which are difficult, if not impossible, to separate. Firms cannot serve the public interest if they do not offer services of the highest professional caliber. A firm that wants to provide high-quality professional services, however, must also be profitable to survive. The Institute offers those firms programs to help their management achieve adequate profitability. In so doing, the Institute fulfills its Mission of helping firms to serve the public better.

Firms also have a responsibility to express their views, both inside and outside the Institute, on professional matters. Although this responsibility also contains a mix of public interest and firm objectives, CPA firms of all sizes have traditionally demonstrated that their positions on technical issues reflect a concern for the public interest that transcends narrow objectives. Accordingly, another way in which the Institute fulfills its Mission of helping members serve the public is by providing opportunities for firms to communicate their views on professional matters to appropriate groups and individuals.

The Governance and Structure Committee considered whether the current structure best enables the Institute to offer medium-sized and small firms practice-management guidance and other services, as well as to provide a forum for these firms to express their opinions. The focus was primarily on (1) the present role and structure of the Private Companies Practice Section (PCPS) and the Management of an

Accounting Practice (MAP) Committee in meeting those objectives and (2) the most effective structure for ensuring that Institute members continue to receive as economically and efficiently as possible the excellent services and programs PCPS and the MAP Committee currently provide.

The Governance and Structure Committee believes that MAP should be continued as should the PCPS Executive Committee. However, the PCPS Executive Committee should assume expanded responsibilities to represent the interests of, and oversee the services provided for, *all* medium-sized and small firms. To help the committee assume those responsibilities, and in the process make it more effective, its name should be changed.

The Governance and Structure Committee's recommendations for medium-sized and small firms will accomplish the following:

- One executive committee will represent all medium-sized and small firms' interests and will oversee all Institute activities carried out on their behalf. The executive committee will also continue to administer the member-firm organization (presently called PCPS) for firms that voluntarily join for added membership benefits.
- The executive committee will have expanded authority and responsibility to develop new and meaningful programs for all firms within this membership segment, including sole practitioners. These programs might include, for example, forums for firms of similar sizes to discuss mutual problems.
- Competitive programs are avoided so that resources can be used more effectively. (For example, both PCPS and the MAP Committee presently provide MAP-type services and both believe they serve advocacy functions.)

Underlying the committee's recommendations in this section is the conclusion that the Plan to Restructure is changing the PCPS Executive Committee's primary role. The committee's focus in the past has been mainly on its practice-monitoring responsibilities. In the future, however, it will concentrate more on representing and providing services to its member firms.

The Executive Committee's Expanded Responsibilities for All Medium-sized and Small Firms

RECOMMENDATION: ***The Private Companies Practice Section Executive Committee should continue its present responsibilities for mem-***

ber firms. In addition, it should expand its current role to represent, act as an advocate for, and provide services to benefit, all medium-sized and small firms. Because of its expanded responsibilities, it should be renamed the Public Practice Executive Committee.

A single executive committee, the Public Practice Executive Committee (PPEC), should have the responsibility and authority to develop programs and activities for all medium-sized and small firms.[1] To do this, PPEC should study the needs of firms of various sizes to develop meaningful and innovative programs to benefit *all* firms in this membership segment.

Since the PCPS Executive Committee would assume an expanded role to represent *all* firms within this membership segment (rather than just the member-firm organization), it should be renamed the Public Practice Executive Committee to reflect its new role more accurately.

RECOMMENDATION: ***The Public Practice Executive Committee (PPEC) should have the responsibility of providing practice-management services through the Management of an Accounting Practice Committee to benefit all medium-sized and small firms. PPEC would also represent those firms' interests on professional issues, primarily through the Technical Issues Committee and a newly created Practice-Monitoring Liaison Committee.***

The MAP Committee helps firms to improve their practice management and achieve their profit goals. This assures that the public will continue to receive high-quality professional services. MAP is also charged, as stated in the AICPA *Committee Handbook*, with promoting "a positive image of CPA firms among the business community and the general public by helping firms to be well managed." MAP has developed practice management programs that participants have praised, one of the many reasons MAP has long-standing credibility within the profession. Along with the general MAP conferences, the MAP Committee has developed a small-firm conference and uses a variety of programs to focus on the needs of various-sized firms.

The MAP Committee functions effectively, and its role and activities should not be changed. PPEC, however, would provide greater direction, interaction, and support to the MAP function. PPEC would be a joint advocate with MAP for seeking Institute support,

1. Although the executive committee will have this responsibility, interaction forums and advisory committees that may exist or be created for firms of similar size may also develop views and programs within those groups.

funding, and other resources for the MAP Committee's activities. MAP Committee services and publications would continue to be available to all Institute members.

Largely through its committees and subcommittees, PPEC would also represent all medium-sized and small firms' interests on professional issues. It would oversee the Technical Issues Committee and represent all medium-sized and small firms before AICPA senior technical committees as well as interact with other standard-setting bodies such as the FASB and GASB.

Through a newly created Practice-Monitoring Liaison Committee, it would also communicate the medium-sized and small firms' views on practice-monitoring matters to all Institute practice-monitoring committees.

In recognition of the responsibility of the MAP, Technical Issues, and Practice-Monitoring Liaison committees to represent all medium-sized and small firms, the Chairman of the Board should appoint their members. Further, in recognition of PPEC's responsibilities to represent all medium-sized and small firms through these three committees, appointments to them should be subject to PPEC's concurrence. Their members need not, however, practice with firms that have voluntarily joined the member-firm organization discussed below.

RECOMMENDATION: ***The Public Practice Executive Committee should consider developing networking forums and other programs for firms of similar size, particularly for smaller firms and sole practitioners.***

This section's recommendations are intended to increase the opportunities of medium-sized and small firms to exchange views on professional matters and provide input to Institute leadership and committees. For example, networking forums for medium-sized firms with fewer than fifty Institute members could serve the same function for them as Group B serves for larger firms. PPEC should be responsible for establishing these networking groups.

Equally important, PPEC should be responsible for developing programs for various-sized firms, emphasizing activities that will benefit small firms, including sole practitioners. Several programs already exist that are targeted to small firms' needs, including the MAP Committee's annual small-firm conferences and the "PCPS Team" program, which benefits firms with ten or fewer professionals.

If one executive committee had responsibility for all of these programs, coordination would obviously improve. In addition, the Governance and Structure Committee suggests that PPEC pay special attention to other programs that will meet the needs of small firms and sole practitioners.

The Member-Firm Organization

RECOMMENDATION: ***The Private Companies Practice Section member-firm organization, with its membership requirements and additional benefits for firms that join voluntarily, should continue and should be administered by the Public Practice Executive Committee. Its name should be changed to the Section for Firms to recognize the evolution of its primary role and to encourage more firms to join.***

PCPS was formed in 1977 primarily to improve the quality of services CPA firms provide to privately owned companies. PCPS did this mainly by maintaining an effective self-regulation system of member firms through peer reviews. Its organizational document also contained the objective of providing "a better means for member firms to make known their views on professional matters, including the establishment of technical standards." This has been referred to as the *advocacy function.*

PCPS's Peer Review Committee administers its peer review program under the oversight of the section's executive committee. Other PCPS functions are administered by the Technical Issues Committee (which represents member firms' interests as they relate to accounting, auditing, and other technical matters) and by the executive committee (which serves as the spokesman for member firms on other professional issues). Performing these functions initially constituted PCPS's major services.

The 1984 *Report of the Special Committee to Study the Objectives, Policies, and Procedures of the Private Companies Practice Section* recommended that PCPS, in coordination with existing AICPA activities, develop a program to provide member firms with additional services, such as assistance in developing and administering their tax and MAS practices and in practice management. As a result, PCPS's MAP-type activities have increased steadily, especially through relevant programs at the annual PCPS conferences. Member-firm representatives and prospective members who attend these conferences have shown a strong interest in those programs. In short, PCPS has become a major representative of, advocate for, and provider of, services to its members.

The Governance and Structure Committee believes that belonging to and participating in an organization of member firms often creates a spirit of camaraderie and "bonds" the members to the Institute.

Members benefit from services that strengthen their ability to manage their practices and, through the commitment to membership requirements, are encouraged to uphold the profession's best traditions. Its members agree that PCPS accomplishes those objectives and much more. The Governance and Structure Committee therefore believes that the PCPS member-firm organization should continue.

Many firms have not joined PCPS, however, and AICPA members who practice in those firms are not benefiting from its programs. Obstacles, real or perceived, that prevent firms from joining must be removed, where possible, so that more firms will join.

There are 46,500 practice units represented in the Institute. About 5,700 of them have joined PCPS. The following table summarizes data on AICPA members and the categories of CPA firms with which they practice (all figures are approximate):

AICPA members who practice with the six largest CPA firms (which, while members of PCPS, actively participate in SECPS rather than PCPS)	30,000
AICPA members who practice with PCPS firms other than the six largest CPA firms	32,000
AICPA members who practice with medium-sized and small CPA firms that are not members of PCPS	66,000
Total AICPA members in public practice	128,000

Thus, PCPS effectively represents about 32,000 members practicing in about 5,700 medium-sized and small firms. On the other hand, about 66,000 AICPA members practicing in about 40,000 firms are not represented.

Firms have not joined PCPS for various reasons. For example, when the Division for CPA Firms was formed, many members objected to the division's self-regulatory programs. Although more firms have joined PCPS now that practice-monitoring is mandatory, many others have not.

Although PCPS has carried out its programs in an exemplary fashion, the Governance and Structure Committee believes there are continuing biases against it, justified or not. The committee therefore recommends changing PCPS's name to the Section for Firms, which should remove the name as an obstacle, thus encouraging firms to join and obtain its benefits. This change also recognizes that PCPS's role is evolving primarily into that of a leadership organization that speaks on behalf of its members and provides opportunities for them to share ideas and expertise.

In addition, member sections under the direction of executive committees already exist in the Tax, MAS, and PFP divisions. These executive committees administer their member sections and also conduct technical activities to benefit all Institute members. Renaming the member-firm organization recognizes its evolving nature, which would avoid historical perceptions and biases associated with its earlier role, primarily in practice monitoring. Moreover, the name Section for Firms communicates the broad nature of the member-firm organization consistently with other Institute member sections.

In summary, the Governance and Structure Committee concluded that the PCPS member-firm organization should continue, that firms presently belonging to PCPS should continue as members, that its name should be changed to Section for Firms, and that PPEC should administer it. All firms, regardless of size, could join the Section for Firms, and firms could belong to both the section and Group B.

The Section for Firms would be composed of firms that commit to a high standard of excellence in their audit and accounting practice. PPEC should therefore determine the membership requirements to which member firms would commit. The Governance and Structure Committee's suggestions for these membership requirements are shown in appendix C.

Practice monitoring and a public file would continue to be important membership requirements. As with PCPS, a firm that joins the Section for Firms would be required to have a peer review at least once every three years and to place its peer review report and letter of comment in a public file. Initially, member firms would have either a PCPS or an SECPS peer review, both of which require a public file. After the PCPS peer review and Quality Review programs are combined, each member firm of the Section for Firms would have a peer review by either of the two surviving programs (SECPS or the combined program).[2]

The Quality Review Program does not require firms to place their peer review reports and letters of comment in a public file, and the Governance and Structure Committee is not recommending that the combined program have this requirement. The committee does

2. See chapter 6 for a discussion about combining the PCPS peer review program and the Quality Review Program.

believe, however, that firms that voluntarily join the Section for Firms should continue their commitment to a public file, so that the public file should be a membership requirement for the Section. In this way, the public-file requirement would continue to be a significant distinction for firms that belong to the Section for Firms.

Another membership requirement would have all professionals in member firms meet continuing professional education (CPE) requirements parallel to the present PCPS and SECPS requirements. The Governance and Structure Committee noted that the PCPS and SECPS CPE requirements generally parallel the Institute's CPE requirements but differ in some administrative details, in particular the reporting period for determining compliance with the requirement. Although the Governance and Structure Committee did not study this issue in depth and is not in a position to specify which alternative is preferable, it does believe the Institute should have just one method of administering CPE requirements for all its subgroups.

Firms that belong to the Section for Firms can continue to have additional benefits not available to nonmembers. Examples of these benefits might include the following:

- Services available only to Section members:
  1. Recognition in an annual membership directory
  2. Opportunity to be listed as a peer reviewer in a "Firm-on-Firm Review Directory"
  3. Annual conference for Section members
  4. Periodic surveys of member firms on aspects of practice management
  5. Meetings directed at small firms (for example, "TEAM" [TEn At Most])
- Services available to all firms for a fee that Section members would receive at a discount:
  1. National MAP conferences
  2. Regional MAP discussion forums, in groupings according to the size of the firms represented
  3. National small-firm conferences
  4. National marketing conference
  5. MAP Local Firm Consultation Program
  6. Tax Practice Management Consultation Program
  7. Consulting reviews

- Publications available only to Section members:
  1. A series of imprinted giveaway practice development publications, such as those PCPS currently sponsors
  2. A marketing and public relations binder with periodic updates
  3. An advocate newsletter
- Publications available to all firms for a fee that Section members would receive at a discount:
  1. MAP *Handbook*
  2. Selected readings on practice management
  3. *The Accountant's Business Manual*
  4. *CPA Client Bulletin*
  5. *CPA Client Tax Letter*
  6. Texts of speeches and related handout materials
  7. Nontechnical in-house and self-study CPE materials

RECOMMENDATION: ***The Public Practice Executive Committee should assume the Private Companies Practice Section (PCPS) Executive Committee's present responsibilities for the PCPS peer review program until it and the Quality Review Program are combined.***

As stated previously, PPEC should assume the PCPS Executive Committee's present functions, including administering the Section for Firms and overseeing the PCPS peer review program for as long as that program exists. However, firms that voluntarily join the Section for Firms must commit to either the SECPS or PCPS peer review program, as long as PCPS remains a separate practicing-monitoring program. Consequently, PPEC should continue the PCPS Executive Committee's responsibility for overseeing the PCPS peer review program, as long as that program exists as a separate practice-monitoring program.[3]

Composition and Selection of the Public Practice Executive Committee

RECOMMENDATION: ***The Public Practice Executive Committee (PPEC) should be composed of representatives of twenty-one firms that belong to the Section for Firms, plus the Management of an Account-***

3. When the PCPS peer review and the Quality Review programs are combined, the Board of Directors should determine PPEC's continuing responsibility for the combined practice-monitoring program.

ing Practice (MAP) Committee chairman and two other MAP Committee members (whose firms need not belong to the Section for Firms). The Chairman of the Board should appoint PPEC subject to the Board's approval and, except for the three MAP Committee members, the concurrence of the members of the existing committee. When PPEC first assumes responsibility for providing practice-management services through the MAP Committee, PPEC should also include other individuals with MAP Committee experience.

Because PPEC administers the Section for Firms in addition to its other responsibilities, and because membership in that organization is an expression of interest and a desire to participate, membership on the executive committee, except for three MAP Committee representatives, should be limited to individuals whose firms have joined the Section for Firms. The Governance and Structure Committee also believes that PPEC should have the right to concur in the appointment of its new members, except for the three MAP Committee members, since, as the Section's representatives, their advice on which member firms should be selected would be invaluable.

During the transition, PPEC should include individuals who have had PCPS Executive Committee or MAP Committee experience. Preserving reasonable continuity for both PPEC and the MAP Committee is important. For example, in its first year, PPEC might consist of PCPS Executive Committee members who would not have been scheduled to rotate off that executive committee and MAP Committee members who have just completed their terms on that committee.

MEMBERS IN INDUSTRY, EDUCATION, AND GOVERNMENT

Over half the Institute's members are employed in industry, government, and education. These members have unique needs that the Institute can and should address.

Members in Industry

RECOMMENDATION: ***Create a Members in Industry Executive Committee to meet these members' needs and represent their views better.***

The present Industry Committee's objective is "to advise other committees and boards on the interests and needs of members in industry and implement programs for this segment of the membership." This committee is not an executive committee and is not presently structured to adequately consider the many issues concerning the Institute's industry membership. Therefore, the Governance and Structure Committee recommends altering the structure.

The Institute should create a Members in Industry Executive Committee with authority to create and coordinate appropriate subcommittees and advise AICPA divisions and the Board of Directors on matters of interest to members in industry.

The Members in Industry Executive Committee's objectives would be to—

- Recommend how AICPA resources can be better used to strengthen the skills of CPAs in industry, which would make them even more valuable to their employers.
- Communicate to the general public, employers, and other members about the benefits of having CPAs in management positions in business.
- Interact with the Management Accounting Division.
- Determine the future needs of CPAs in management positions in business.
- Develop input on professional issues from the industry CPA's viewpoint.

To meet its objectives, the executive committee should—

- Recommend establishing necessary subcommittees and task forces.
- Advise and direct the subcommittees' work to ensure that their efforts are consistent with the Institute's Mission Statement and strategic plan.
- Review and approve programs or expenditures the subcommittees propose.
- Review and approve statements, reports, or responses to other Institute boards and committees on professional issues.
- Establish programs to encourage industry members to volunteer for committee service and to achieve adequate representation on Council and the Board.
- Maintain mutually beneficial contacts with other professional organizations to which industry members belong.

Although the current Industry Committee has often discussed issues related to professional standards and has occasionally produced comment letters, it should take a more active role in light of the increasing impact the revised Code of Professional Conduct and the proposals of the National Commission on Fraudulent Financial Reporting (the "Treadway Commission") will have on industry members. Full subcommittee status should be given to groups concerned with particular member program areas. This action would encourage more industry members to seek opportunities for committee service.

Members in Education

The Institute has no volunteer structure for providing services to, or representing the views of, members in education. (The Education Executive Committee and its subcommittees are concerned with Institute policy on accounting education issues and related matters, but not with policy or issues pertaining to AICPA members in education.)[4] In fact, the Institute provides no services specifically designed for *AICPA members* in education. (All AICPA services described as "education member services" in the Institute's May 1989 *Education Member Survey* are provided not just to *member* academics, but to all academics.)

In its May 1989 *Education Member Survey,* the Institute attempted to find out what services member-educators want. These members were given a list of the services the Institute provides and asked what other services the Institute should provide to meet their needs. The most frequent response was that "the AICPA needs to somehow make members aware of all the services that are currently provided." Another frequent comment was that the AICPA should encourage accounting research. Several respondents wanted to see more articles in the *Journal of Accountancy* by or for educators and more information on current developments in the profession. None of the survey respondents suggested new services aimed solely at Institute members in education.

A major objective of educators' activities in the Institute is to learn more about the problems that firms and individuals in public practice face. That objective is achieved by interacting with Institute members who are not in education.

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4. According to the *Committee Handbook*, the Education Executive Committee's objective is "to formulate and recommend to the Board of Directors policy on issues pertaining to pre-entry accounting education and related matters; and to consider for approval the implementation of projects and activities recommended by the subcommittees."

In light of the desirability of integrating educator-members throughout the Institute's activities, and in the absence of any expressed desire on their part for services specifically designed only for them, the Governance and Structure Committee does not recommend a committee structure that would provide such exclusive services. Instead, the Institute could continue to meet this segment's needs by offering them services that are directed at all Institute members as well as those that are directed at all accounting educators.

Members in Government

Unlike members in education, members in government are directly represented in the Institute's committee structure and programs are conducted specifically for them. According to the *Committee Handbook,* the Members in Government Committee's objective is "to promote and encourage increased participation and involvement by government CPAs in the affairs of the AICPA by (1) advising other committees and boards on the interests and needs of members in government, (2) striving to place government members on key committees of the AICPA, (3) providing a means for surfacing governmental sector issues that require attention, and (4) implementing programs to further the interest of government members, including provision of governmental CPE opportunities."

The Institute's July 1988 *Government Member Survey* provided no evidence that members in government believe the Institute is unresponsive to their needs. This finding, together with the existence of a structure that addresses these members' needs, led the Governance and Structure Committee to conclude that no structural changes are needed to improve the delivery of services to, or better represent the interests of, members in government.

CHAPTER 6

The Self-Regulatory Function

OBJECTIVE: ***Enhance the efficiency and effectiveness of the Institute's self-regulatory function***

CPAs who join the Institute agree to an array of membership requirements that encourage them to strive for a high standard of professional excellence. These requirements include complying with the AICPA Code of Professional Conduct and, for members in public practice, agreeing to practice only with a firm enrolled in an Institute-approved practice-monitoring program. As used in this report, the *self-regulatory function* includes (1) the Professional Ethics Division's and the Joint Trial Board's activities and (2) the Institute's three practice-monitoring programs: the peer review program of the SEC Practice Section (SECPS), the peer review program of the Private Companies Practice Section (PCPS), and the Quality Review Program. Exhibit 4 of appendix B summarizes the recommended organizational structure of these self-regulatory bodies.

The Professional Ethics Division develops standards of professional conduct, investigates apparent violations of those standards and the AICPA's Bylaws, and presents them to the Joint Trial Board for disciplinary action. The Joint Trial Board adjudicates disciplinary charges against AICPA members. The Governance and Structure Committee considered the Professional Ethics Division's and the Joint Trial Board's organization and activities but did not evaluate them in depth. The committee learned nothing to indicate that these components of the Institute's self-regulatory function were not performing as intended. Accordingly, this chapter addresses only how to make the practice-monitoring components of the self-regulatory function more efficient and effective.

NOMINATIONS PROCESS FOR THE SECPS AND QUALITY REVIEW EXECUTIVE COMMITTEES

RECOMMENDATION: ***Revise the selection process for the SEC Practice Section Executive Committee and the Quality Review Executive Committee so that those committee members, including the chairmen, would be appointed by the Chairman of the Board, subject to the Board's approval and the concurrence of the members of the existing committees.*** [1]

Three executive committees (PCPS, SECPS, and Quality Review) currently carry out the activities of the Institute's three practice-monitoring programs.

The PCPS and SECPS executive committees consist of representatives of at least twenty-one member firms, serving three-year staggered terms. Council elects a nominating committee for each section, composed of members whose firms belong to the section.

The nominating committee's makeup is not the same as the Institute's Nominations Committee (although significant overlap has existed). The two nominating committees nominate firms that designate representatives to serve on the two executive committees. The Chairman of the Board of Directors, with the Board's approval, then appoints those nominees. Appointments to the executive committees also require the approval of the existing committees. Each executive committee elects its chairman for a one-year term; the chairman may serve no more than three such terms.

The Quality Review Executive Committee consists of eighteen members elected by Council from nominees selected by the Institute's Nominations Committee. The Council resolution creating the Quality Review Executive Committee does not specify the process by which the chairman of the Quality Review Executive Committee is selected.

There is no substantive reason for using different procedures to nominate or appoint the Quality Review and SECPS Executive Committees, as well as the Public Practice Executive Committee (PPEC). In fact, the procedure should be streamlined to increase the efficiency of the committee-appointment process. The Chairman of the Board, subject to the Board's approval and the concurrence of the members of the existing committees, should appoint the members. The

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1. See chapter 5 for the Governance and Structure Committee's similar recommendation about selecting the Public Practice Executive Committee.

appointment process for each of the executive committees can take into account problems unique to its composition and purpose and build in appropriate constraints and safeguards. Requiring the members of the existing executive committees to concur on the appointments would provide an additional safeguard to ensure that committee members would have knowledgeable insights about practice monitoring.

The Governance and Structure Committee recognizes that the rationale for Council's direct election of the Quality Review Executive Committee is related to the possible loss of an individual's membership if his or her firm is uncooperative or commits an egregious act. However, other Institute executive committees have similar authority over Institute members' professional activities through technical and ethical standards, and violating them could also result in loss of membership. All three executive committees have practice-monitoring responsibilities,[2] and the objective of carrying out those responsibilities effectively, fairly, knowledgeably, and efficiently should be the underlying reason for executive committee appointments. The Governance and Structure Committee therefore believes the Quality Review Executive Committee's appointment process should not be singled out by providing for direct Council election.

SIZE OF THE QUALITY REVIEW EXECUTIVE COMMITTEE

RECOMMENDATION: ***The Quality Review Executive Committee should consist of twenty-one members.***

The Governance and Structure Committee could find no inherent reason for the Quality Review Executive Committee to be smaller than the SECPS Executive Committee or PPEC. Its smaller size could lead to the misperception that its work is less important or less burdensome. The Governance and Structure Committee believes the Quality Review Executive Committee's role and work load require an executive committee of twenty-one members.

ROLE AND STRUCTURE OF THE SECPS EXECUTIVE COMMITTEE

RECOMMENDATION: ***The SEC Practice Section Executive Committee should be designated a senior technical committee, appropriately staffed, and given the authority to make public statements on matters***

2. As noted in Chapter 5, PPEC would continue to have the PCPS Executive Committee's responsibilities for the PCPS peer review program while it remains a separate program.

related to its area of responsibility, subject to the Institute's "Guidelines for Clearance of Public Statements on Behalf of the AICPA."

SECPS is a unique element within the Institute's structure. It alone has a Public Oversight Board and a Quality Control Inquiry Committee and is subject to SEC oversight. Furthermore, it makes a special and highly visible contribution toward achieving the Institute's Mission by improving the quality of practice in a closely watched area where there is great public interest and by assuring the public and the business community about that quality.

The SECPS Executive Committee is responsible for initiating AICPA positions related to practice before the SEC. It should also, like the executive committees of technical divisions, have the explicit authority to make public statements about its positions. These public statements would be subject to the "Guidelines for Clearance of Public Statements on Behalf of the AICPA", and held to the same standards of accountability to which the Board of Directors holds other senior technical committees. When issuing public statements about positions on audit and accounting issues, the SECPS Executive Committee should consult with the other senior technical committees that are responsible for those areas of practice (that is, the ASB and AcSEC).

Considering the role SECPS plays in the profession, in conjunction with the recommendation that it be designated a senior technical committee, the Governance and Structure Committee urges Institute management to consider the appropriate level of staffing for SECPS to enable it to accomplish its objectives.

RECOMMENDATION: ***The SEC Regulations Committee should be a part of the SEC Practice Section (SECPS) and report to the SECPS Executive Committee.***

The Institute's SEC Regulations Committee's purpose, as described in the AICPA *Committee Handbook*, is "to provide advice and assistance to the SEC regarding its rules and regulations that are in effect, and those proposed, as they relate to financial statements and related matters included in SEC filings; to advise senior technical committees and Institute members regarding relevant matters." In addition, the committee organizes an annual conference on SEC matters for AICPA members and others.

All SEC-related activities should fall under the aegis of SECPS and be subject to its executive committee. Accordingly, the SEC Regulations Committee should be a part of SECPS and report to the SECPS Executive Committee.

FUTURE COMBINATION OF THE PCPS PEER REVIEW AND THE QUALITY REVIEW PROGRAMS

RECOMMENDATION: ***Combine the Private Companies Practice Section peer review program with the Quality Review Program when the Board of Directors determines the Quality Review Program has been effectively implemented and that combining them will make the reviews more consistent, ensure that available resources are used effectively, and assure users of the consistently high quality of CPAs' services. After the two programs are combined, the need for the Division for CPA Firms as a separate structure would no longer exist, since the SEC Practice Section would then be the only remaining component of the division.***

Because there are three practice-monitoring programs, there are also three executive committees to oversee them: the PCPS Executive Committee, the SECPS Executive Committee, and the Quality Review Executive Committee.

Both PCPS peer reviews and quality reviews are designed for medium and small firms whose clients are privately held companies rather than SEC registrants. These reviews are similar in many respects, particularly in selecting and approving the review teams or firms and in implementing the reviews. For on-site reviews, standards and results are essentially the same under quality review and peer review. Both programs are designed to be positive, educational, and corrective, and quality is the objective of both. A properly conducted review of the same firm should yield the same results under quality review or peer review.

The major difference between the two programs is that the results of all PCPS peer reviews are held in a public file, whereas the results of quality reviews are not. Another difference is that a national committee of practitioners reviews and accepts PCPS peer review reports, whereas state society committees administer and accept quality review reports in most states. (There are some other differences in the programs for off-site reviews for firms that do not have an audit practice.)

Perpetuating two similar practice-monitoring programs that serve firms whose clients are privately held companies is an unnecessary duplication of effort. The most significant difference is the public file. The Governance and Structure Committee believes the PCPS peer review and Quality Review programs should ultimately be combined, but is not recommending that the combined program require firms to place their peer review reports and letters of comment in a public file after the programs are combined. Again, the public file is an important distinction indicating PCPS member firms' commitment to the quality of their practices. The Governance and Structure Committee has therefore concluded that the Section for Firms should continue to require its members to place their peer review reports and letters of comment in a public file. The committee reiterates that the recommendation for continuing the public file distinction for the Section for Firms does not affect the surviving practice-monitoring program when the PCPS peer review and Quality Review programs are ultimately combined.

The Governance and Structure Committee believes that the PCPS peer review and Quality Review programs should not be combined immediately. The first group of regularly scheduled reviews under the Quality Review Program is taking place in 1990. Preparation for these reviews indicates significant start-up and implementation problems that will require a major effort to resolve. Combining these programs before those problems are resolved could lead to unnecessary confusion. Accordingly, the programs should be combined only after the Board of Directors determines that the Quality Review Program has been effectively implemented and that the combination will make the reviews more consistent, ensure available resources are used effectively, and assure users of the consistently high quality of CPAs' services.

When the two programs are combined, the AICPA would have only two practice-monitoring programs: (1) the surviving program of the combined PCPS peer review program and the Quality Review Program and (2) the SECPS peer review program. The Governance and Structure Committee believes that this will eliminate the need to continue the Division for CPA Firms as an umbrella over the PCPS and SECPS peer review programs.

As discussed in chapter 5, the committee recommends combining these two practice-monitoring programs and expanding the PCPS Executive Committee's responsibilities because the PCPS Executive Committee's primary role has been evolving into representing and providing services to member firms.

PPEC will also continue the PCPS Executive Committee's function of overseeing the PCPS Peer Review Committee, at least until the programs have been combined. On the other hand, the SECPS Executive Committee would continue to function solely as a self-regulatory body, focusing on the quality of the accounting and auditing practices of firms that practice before the SEC. This responsibility would be fulfilled primarily through its Peer Review and Quality Control Inquiry Committees. Furthermore, because of the unique public interest in SEC practice, the independent Public Oversight Board will oversee, and the SEC will monitor, SECPS activities and programs.

CHAPTER 7

Other Professional and Member Services

In addition to the programs and services that have already been described, the AICPA provides an array of programs and services that support, enhance, and monitor the quality of members' practices. These include academic and career development, examinations, continuing professional education (CPE), state society relations, Washington activities, specialist accreditation, the Institute's various member insurance and retirement programs, technical information services, the library, and publications. (These last three are not supported by committees of Institute members.)[1]

Although the Governance and Structure Committee did not explicitly study the structure of the examinations or CPE divisions or the member insurance and retirement programs, either the committee or its task forces did consider the organization and activities of those functions. The Governance and Structure Committee received no indications that they were not performing as intended, and therefore neither evaluated them in depth nor made any related recommendations.

The committee did examine the Institute's Washington activities, the specialist accreditation process, academic and career development programs to enhance the profession's human resources, and state society relations. In this chapter the committee discusses the Institute's Washington activities and the specialist accreditation process; in chapter 8 the profession's human resources are considered; and in chapter 10 the committee presents recommendations for improving the working relationship between the AICPA and the state societies.

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1. Other programs and services include primarily managerial or administrative functions, such as promotions, public relations, communications, meetings and travel, internal accounting, and internal human resources. None of these are supported by committees of Institute members. The Governance and Structure Committee determined that studying the Institute's management and administrative functions was beyond its charge.

WASHINGTON ACTIVITIES

OBJECTIVE: ***Strengthen the Institute's Washington activities in order to improve the Institute's ability to deal with issues confronting the profession***

Background

The Institute first opened a Washington office to interact with legislators and their staffs and give them technical assistance. In recent years, however, the federal government has become increasingly aware of the profession, and the AICPA's involvement with government has expanded commensurately. Although initially a less significant objective of the Washington office, representing the profession's interests before the federal government is now a principal activity. Accordingly, the Institute has taken major steps to bolster its efforts in Washington, for example, by establishing the Government Affairs Committee (including its Federal Legislative Task Force).

Before 1987 the office was under an Institute vice president's direction. From 1987 through 1989, this position was entitled Special Assistant to the Chairman–Washington Activities. The Governance and Structure Committee (in consultation with others) reviewed that title and suggested that it be changed to raise the position's profile in Washington. The committee views favorably the decision to change the title to Deputy Chairman–Federal Affairs. The title should be reconsidered if the position's responsibilities change or, possibly, if a different person fills that position.

Although these changes are salutary, there is broad sentiment across all membership segments to make an even greater Washington effort. The Washington staff must ensure that it represents all these segments.

Resources

RECOMMENDATION: ***There are at present no compelling reasons why the office of the AICPA President should be relocated to Washington. The President, Deputy Chairman–Federal Affairs, and the Board should strive to strengthen the Institute's effectiveness, image, and respect in Washington and elsewhere by providing sufficient resources and reinforcing the link and interaction between the New York and Washington offices.***

An important purpose of the Institute's Washington activities is to represent the profession in such a way that individual segments will find it more effective to use the Institute rather than mount their own fragmented efforts. For this to happen, various membership groups must provide ample input and adequate representation to create a powerful voice in Washington.

Although the AICPA's major thrust is as a professional organization, it also represents its members' interests. The Governance and Structure Committee believes this is an appropriate function, and the Institute should commit resources to accomplish both. The Institute's Mission Statement and the Government Affairs Committee's charge are sufficiently broad to encompass representing members on both professional matters and matters affecting their own interests.

The Governance and Structure Committee considered whether additional Institute functions should be moved from New York to Washington. For example, it considered whether the AICPA's President should now, or at some time in the future, have his or her office in Washington. The advantages to the move are as follows:

- Congress and regulatory authorities such as the Securities and Exchange Commission would perceive the President as the Institute's spokesperson.
- Many major issues the profession will face over the next two decades are likely to emanate from, or be greatly influenced by, Washington.
- The Institute could become more deeply involved in Washington activities and influence the legislative process more effectively. It would also provide greater continuity for the Institute's Washington representation.

The Governance and Structure Committee also considered the disadvantages of moving the President's office to Washington. They include the following:

- The President would be in such great demand to participate in Washington activities that he or she could not devote sufficient time to his or her other responsibilities. It would become necessary to delegate or transfer some of these responsibilities to other staff.
- Increasing the President's involvement, as well as increasing the allocation of AICPA resources to Washington and its political environment, may cause both members and outside

observers to perceive the Institute as a trade association rather than a professional organization.

The Governance and Structure Committee concluded that the disadvantages of such a relocation outweigh the possible advantages. Although the top Institute officers should increase their efforts and visibility in government affairs, moving the office of the President to Washington is not presently desirable.

The Government Affairs Committee

RECOMMENDATION: ***The Government Affairs Committee should (1) meet regularly, (2) seek input from the Federal Legislative Task Force on an ongoing basis, and (3) be structured to identify key issues that are in both the public's and the profession's interest. The Chairman of the Board of Directors should chair the Government Affairs Committee.***

The Governance and Structure Committee considered the Government Affairs Committee's role, composition, and objectives. The Government Affairs Committee is composed of the Chairman, Immediate Past Chairman, and Chairman–elect of the Institute; the President; the Deputy Chairman–Federal Affairs; the Federal Legislative Task Force chairman; the Government Affairs State Society Subcommittee chairman; and the SECPS Executive Committee chairman. The committee's objective, as stated in the Institute's *Committee Handbook*, is—

> To develop, coordinate, and direct the implementation of strategies to address governmental matters—legislative, regulatory, and executory—that affect the accounting profession; to assist in the development of a more effective relationship with leaders in government; to identify public issues on which the accounting profession is particularly qualified to make contributions; to provide advice on how the accounting profession can make its skills available to government in its efforts to improve financial reporting and controls.

The Government Affairs Committee currently meets "as needed." The Governance and Structure Committee believes that a more active Government Affairs Committee is an essential element for furthering the interests of the Institute's membership. The Government Affairs Committee should therefore meet regularly, seek input from the Institute's various constituencies, be allocated adequate Institute resources, and be structured to identify key issues. Additionally, the Chairman of the Board of Directors should chair this committee.

The composition of the Government Affairs Committee has varied since its inception, with the most recent change being the addition of the SECPS Executive Committee's chairman.[2] The committee believes that the Government Affairs Committee's composition should reflect, at least in part, its agenda. Accordingly, the Board of Directors should redetermine the Government Affairs Committee's composition as circumstances change.

SPECIALIST ACCREDITATION

OBJECTIVE: ***Formalize the technical divisions' role in specialist accreditation***

RECOMMENDATION: ***Specialization Accreditation Board proposals to the Board of Directors for accrediting specialties should be made after consulting the appropriate technical divisions' executive committees.***

Council approved the Institute's program for accrediting specialties in May 1986. Later that year, a Committee on Specialization was appointed, which was subsequently renamed the Specialization Accreditation Board (SAB). As the *Committee Handbook* states, the SAB's objective is "to establish standards for the accreditation of specialties; to recommend an appropriate implementation program for the accreditation of specialists; to receive, consider, and recommend action to the Board of Directors on applications for accreditation of specialties; and to monitor the overall specialty program to assure consistent application of and adherence to the standards for accreditation."

The Institute has accredited only one specialty to date: the Accredited Personal Financial Specialist (APFS). A body of knowledge for that specialty has been developed and examinations prepared and given on two occasions, resulting in about 250 accredited members. The initiative to accredit the personal financial planning specialty developed from a formal request from the Personal Financial Planning Executive Committee (a technical committee). The SAB dropped

2. The addition of the SECPS Executive Committee's chairman to the Government Affairs Committee was a recommendation of the Governance and Structure Committee in a preliminary draft of this report.

a separate recommendation originating from a non-technical AICPA committee for accrediting a governmental auditing specialty after reviewing comments on the proposal from other AICPA committees.

The SAB has discussed the accreditation program with representatives of various Institute constituencies to encourage them to consider specialties within their practice areas for accreditation. Except for the APFS and the government auditing specialty, however, the SAB has received no other recommendations for accrediting specialties from within the AICPA. A number of state societies have informally contacted the SAB about the accreditation program. Additionally, one state society has formally requested the SAB to consider a specialty in health care. The SAB has begun preliminary studies to determine whether to recommend this.

SAB operating procedures require it to request comments from other Institute committees on proposed specialties. These procedures also require in-depth study to determine both the profession's and the public's needs for proposed accreditation. This must be done in detail sufficient to undergo the scrutiny of the AICPA Board of Directors, if the SAB recommends approving a specialty.

The SAB believes, and the Governance and Structure Committee concurs, that the SAB should proactively consider (in the profession's and the public's interest) areas of practice in which the need for special skills is such that an identified body of knowledge and a program to accredit practice areas to reorganize those skills should be developed. This does not conflict with the recommendation in chapter 4 that the executive committees of technical divisions that presently do not include accredited specialties might consider recommending such specialties. Once again, however, the Governance and Structure Committee believes that any SAB recommendation for accrediting a new specialty should be made after consulting with the appropriate technical division's executive committee before being forwarded to the Board of Directors.

CHAPTER 8

The Profession's Human Resources

OBJECTIVE: ***Improve the quality of the profession's human resources***

The quality of the men and women who become CPAs is crucial to the profession's future. The Institute's Strategic Planning Committee projects, however, that attracting and retaining high-quality talent in the years ahead will become increasingly difficult. This chapter discusses how to raise the quality of accounting programs, attract capable individuals to the profession, and subsequently retain them. It also considers how nonaccounting professionals employed by CPA firms could become involved with the AICPA.

DEVELOPING, ATTRACTING, AND RETAINING HIGHLY QUALIFIED PROFESSIONALS

RECOMMENDATION: ***Rename and restructure the Relations with Educators Division as the Division for Academic and Career Development, to be headed by an executive committee, with the responsibility for all Institute activities for developing highly qualified individuals, attracting them into the profession, and retaining them after they enter.***

As part of its Mission, the AICPA encourages highly qualified individuals to become CPAs. Further, the October 1988 *Report of the Strategic Planning Committee* suggested that the Institute should "work aggressively to attract qualified people into the profession and the Institute and to retain them after they enter." The Governance and Structure Committee strongly agrees with this suggestion. There are many other professions that these top people can choose to enter, and the Institute's job is to market the profession and the Institute to them.

The Governance and Structure Committee considered what new policies might need to be formulated and implemented to attract and retain top candidates and whether the present structure could accomplish them. To this end, the October 1988 *Report of the Strategic Planning Committee* lists eleven strategic directions the Institute should pursue to attract qualified people into the profession and retain them after they enter:

1. Attract the best and brightest high school and college students into accountancy by effectively communicating the opportunities inherent in the expanding activities and by developing public relations programs directed at students, parents, faculty, and counselors.
2. Work with state CPA societies to develop a program of assigning a member to each high school with particular attention being paid to guidance counselors.
3. At the college level, direct the recruitment effort to the brightest and best students on campus, including those enrolled in liberal arts and other nonbusiness programs.
4. Study ways to encourage minorities to consider entering accountancy.
5. Encourage the development of innovative paths to make careers in accounting attractive.
6. Develop ways to enhance the upward mobility of women and minorities.
7. Disseminate information on the impact of demographic changes on staffing patterns of organizations through MAP and CPE courses.
8. Develop a portable benefits package for members.
9. Develop a communications program to deal with such things as adverse publicity, litigation, stress, and burnout.
10. Determine criteria to assist in identifying potentially successful CPAs as the demographics of the available pool of future CPAs change.
11. Encourage more accountants in education, government, and organizations to become CPAs.

The Governance and Structure Committee agrees with these directions and notes in particular their relevance to all segments of the profession.

The strategic planning report also listed the Institute's current activities in this area. The Education Executive Committee carries out most of them, but no one Institute division or committee oversees the full range of Institute human resources activities. The Governance and Structure Committee believes the Institute's human resources role should be expanded in light of the Institute's Mission, related objectives, and strategic directions.

Accordingly, the Governance and Structure Committee recommends renaming and restructuring the present Relations with Educators Division as the Division for Academic and Career Development. The division would be headed by an executive committee with responsibility for all Institute activities related to developing highly qualified individuals, attracting them into the profession, and retaining them after they enter. The present Education Executive Committee and its subcommittees, which are responsible for activities related to developing individuals for entry-level positions in the profession, would report to the Executive Committee of the Division for Academic and Career Development. Their objectives and activities would generally remain unchanged. Similarly, the Upward Mobility of Women Committee would report to the division's executive committee, as would other committees that implement the strategic directions related to the profession's human resources.

IMPROVING THE QUALITY OF EDUCATION

RECOMMENDATION: ***Appoint a committee to study the existing American Assembly of Collegiate Schools of Business accounting accreditation standards, as well as the accreditation process itself, and develop recommendations to improve that process. The committee should also consider whether the AICPA should accredit accounting programs.***

Accounting education must be improved so that graduates are better prepared to enter the profession. The Institute must become more involved in accounting education to ensure that educational programs meet the needs of students and the profession alike. One step toward accomplishing this goal would be to establish an Institute committee to study the present accreditation standards and explore whether the Institute itself should accredit accounting programs.

The college and university accreditation process currently operates at three levels. First, the entire college or university is typically accredited by one of six regional accrediting bodies. Second, the American Assembly of Collegiate Schools of Business (AACSB) may accredit the university's undergraduate or graduate business schools. Third, AACSB may accredit accounting programs within the business school. About 260 business schools are accredited by AACSB. At about 72 of these schools, approximately 127 undergraduate and graduate accounting programs are AACSB-accredited. This is a relatively small portion of accounting programs in the United States.

Accreditation of college and university accounting programs represents a key area in which the Institute could take an active leadership role. This would ensure that enough high-quality programs exist to provide the analytical, technical, and communication skills demanded by the rapidly changing environment. One of the Institute's top priorities, therefore, should be to expand the number of accredited accounting programs. As part of the same effort, the AICPA should take an active role in developing and implementing appropriate criteria for accreditation by AACSB or by the AICPA, if the decision were made that the Institute should become an accrediting body.

RECOMMENDATION: ***The committee that studies accounting accreditation should also consider whether graduation from an accredited accounting program should become an eligibility requirement to sit for the CPA examination or to apply for AICPA membership.***

Recognizing the need to upgrade the profession's educational requirements, the AICPA changed its Bylaws to specify that anyone applying for membership who first becomes eligible to take the CPA examination after the year 2000 must have 150 semester hours of education, including a bachelor's degree or its equivalent, at an accredited college or university. (The Bylaws do not define the term *accredited college or university*, but it is generally understood to mean only accreditation by one of the six regional accrediting bodies.) The Institute has also implemented a plan that encourages state boards of accountancy to adopt a similar requirement as a prerequisite for taking the CPA examination.

Although most jurisdictions require anyone who sits for the examination to have a bachelor's degree, no jurisdiction requires that an applicant's degree be from an AACSB-accredited school or that the applicant's accounting program be AACSB-accredited. Specifying graduation from an AICPA- or AACSB-accredited accounting program as part of a national qualifications program (see chapter 9) would be one way to strengthen the profession's educational requirements. Similarly, the AICPA Bylaws eventually could be revised to require graduation from an accredited accounting program (or an acceptable alternative for those with other majors) as a prerequisite for Institute membership.

ATTRACTING TOP GRADUATES

The AICPA and state societies currently have several programs to attract qualified students to the profession. These include various scholarships and awards, as well as communications tools such as videotapes, brochures, and speaker's bureaus. Additionally, college and university students can subscribe to the *Journal of Accountancy* and the *Tax Adviser* and purchase CPA examinations and unofficial solutions at reduced rates through forms faculty members distribute. (About 8,000 students currently subscribe to the *Journal.*)

There are no other direct links between the Institute and accounting students. If the Institute wants to attract talented students to the profession, it must more actively communicate the challenges and rewards of a public accounting career to students and should make them aware of both the Institute itself and its Mission.

The Governance and Structure Committee examined whether various types of AICPA student affiliation would help the profession attract highly qualified individuals in greater numbers. Institute affiliation could lead to an earlier identification with the profession. It could improve relations between the AICPA and colleges and universities by providing a means for the AICPA to understand more clearly, and be more responsive to, student interest in accounting as a career.

About fifteen state CPA societies have a student membership or affiliation category and find it generally effective in meeting their objectives. Other professional associations, such as the American Bar Association, also have student membership categories.

However, the Governance and Structure Committee does not recommend a student affiliate membership class within the Institute for the following reasons:

- The program would require substantial resources that could be directed toward other efforts the Institute's Education Executive Committee is currently exploring.
- Many of the benefits to student affiliates could be provided without the framework of formal affiliation.
- Students who have already decided on accounting careers will probably not be influenced by the offer of AICPA affiliation; those who are undecided may not respond to the opportunity.

The Governance and Structure Committee decided that, on balance, the benefits that both the profession and students could obtain through formal Institute affiliation could be as effectively achieved by more economical means. Cultivating students and the faculty that teach and influence them can best be done by the state societies, particularly since they are more familiar with the high schools and colleges in their area. The committee encourages both the Institute and state societies to undertake appropriate activities to attract students to the profession.

INVOLVING NON-CPA PROFESSIONALS IN THE AICPA

Recommendation: ***Permit non-CPA professionals who work for CPA firms to join the member sections of the Institute's technical divisions as "section associates."***

All professionals in an SECPS or PCPS member firm, whether or not they are CPAs, must adhere to the Code of Professional Conduct, as well as meet specific CPE requirements. Because non-CPA professionals have no direct link to the AICPA, they have no personal commitment to the Institute. They do not receive information about AICPA publications, conferences, and CPE courses. They can neither serve on Institute committees (except as consultants) nor participate in the technical division's member sections.

To remain competitive in the consulting arena, accounting firms have employed non-CPA professionals who possess skills besides those associated with accounting and auditing. Lawyers, engineers, computer specialists, and others now provide their expertise and help round out the services that accounting firms can offer. For many CPA firms today, management advisory services (MAS) and tax practice represent a significant portion of revenues, and as noted in the October 1988 *Report of the Strategic Planning Committee*, more non-CPA professionals will become an integral part of the profession. The Institute has acknowledged the importance of this growing group to the profession and, in the same report, noted the need to bring these professionals and their resources into the AICPA.

Although offering non-CPA professionals some type of AICPA affiliation has obvious advantages, many believe it also has disadvantages. Chief among these are the adverse effect it could have on the Institute's image as the professional association of CPAs and the additional cost to the CPA firms for non-CPA membership dues.

To embrace the non-CPA professionals, while avoiding these disadvantages, the Governance and Structure Committee recommends that non-CPA professionals employed by CPA firms enrolled in an AICPA practice-monitoring program should be permitted to become affiliated with the AICPA by joining only the technical divisions' member sections. Currently the MAS, Taxation, and PFP Divisions have these sections. These individuals, who would be called "section associates," could participate in all section activities but would not be voting members of the Institute. Section associates would be required to meet the Institute's CPE requirements and adhere to the Code of Professional Conduct. Their application for section affiliation should be supported by an Institute member who is a partner in a CPA firm. The executive committee of an Institute division would have the authority to terminate a non-CPA's section affiliation for appropriate cause. On separation from the CPA firm, a non-CPA professional would no longer be eligible for membership in the section.

The association of these non-CPA professionals with the Institute would have the additional advantage of bringing different perspectives to these divisions. Further, if the AICPA does not offer these professionals some type of affiliation, they will likely seek other professional groups and associations with which to interact and the Institute would miss the opportunity to obtain the benefits of their valuable input. For example, about 30 percent of the members of the Council of Consulting Organizations—the successor organization to the Association of Management Consulting Firms and the Institute of Management Consultants—are MAS practitioners in CPA firms.

CHAPTER 9

Uniform Licensing and Coordinated Practice Monitoring

OBJECTIVE: ***Assist the AICPA and state boards of accountancy in efficiently and effectively serving the public interest through uniform CPA certification and licensing requirements and coordinated monitoring of CPAs' compliance with the profession's technical and ethical standards***

The Institute's goal is to ensure that CPAs serve the public interest by providing quality professional services. The AICPA accomplishes this in part by developing and grading the uniform CPA examination, promoting uniform certification and licensing standards for CPAs, establishing ethical and technical standards, and monitoring compliance with those standards.

State boards of accountancy are responsible for licensing CPAs and for ensuring the quality of practice by accountants licensed to serve the public. Many of their goals are congruent with the AICPA's Mission Statement. This chapter looks at how the AICPA and state boards of accountancy can work together more efficiently and effectively to achieve their mutual goals in certification and licensing and in practice monitoring.

CERTIFICATION AND LICENSING OF CPAs

RECOMMENDATION: ***Create a joint AICPA/NASBA permanent liaison committee to discuss, on an ongoing basis, ways to achieve uniformity in all aspects of licensing and regulation.***

To obtain a license to practice as a certified public accountant in one of the fifty-four U.S. licensing jurisdictions, an applicant must meet education requirements specified by the licensing body, pass a uniform examination, and meet other specified requirements, of which the most prevalent is a period of relevant work experience.

Uniform certification and licensing standards serve the profession and the public well, particularly in an era when audit and other attest engagements are national, transnational, and even global in scope. The Governance and Structure Committee believes that the public interest demands uniform licensing standards. Uniform standards also serve both the public and the profession by promoting reciprocity among the licensing jurisdictions.

The AICPA's development of a uniform CPA examination and advisory grading service is a significant accomplishment unparalleled among other professional organizations in this country. Since 1917, the Institute has provided examinations and advisory grading services, and since 1952, all state boards of accountancy have uniformly accepted these services. The CPA examination is an example of both the benefits of uniformity and the Institute's ability to achieve it.

Since 1977, the Institute has engaged the National Association of State Boards of Accountancy (NASBA) to review the examination process to assure the licensing boards and the public about the development, administration, advisory grading, and reporting of the grades for each examination. NASBA CPA Examination Review Boards have issued affirmative reports following their review of each examination. The Institute, in turn, has been responsive to the NASBA review boards' recommendations to improve the development and grading of the CPA exam. During these years, the AICPA's independence, objectivity, and competence in developing and grading the uniform CPA examination have gone unchallenged, and the AICPA uniform examination has become a model for licensing examinations.

A few state boards of accountancy have suggested that NASBA be responsible for writing and grading the CPA examination. Presumably, NASBA would either write and grade the examination itself or retain some other organization to do so. The Governance and Structure Committee believes the present system of dual involvement by the Institute and NASBA provides additional assurance that might not exist if NASBA wrote and graded the examination alone. It also believes the present process is working well and there is no persuasive evidence to change NASBA's role from examination overseer to originator. Therefore, the committee believes that the AICPA should continue to develop and grade the uniform CPA examination and that NASBA should continue to oversee the process.

The process through which NASBA and the AICPA address issues of mutual concern, including the CPA examination, has generally worked well. Joint committees and task forces have been created to address specific issues, and the leadership of both organizations meet together annually. Those groups tend to focus on current issues of immediate concern, however, and do not provide an ongoing means for understanding and resolving potentially divisive issues.

The Governance and Structure Committee believes the relationship between NASBA and the AICPA would be strengthened if a committee were created to inform each group of both organizations' activities. Accordingly, the Institute and NASBA should create a joint permanent liaison committee to discuss, on an ongoing basis, ways to carry out the goal of uniformity in all aspects of licensing and regulation. The committee's charge should not be limited to the CPA examination, but should encompass all aspects of state licensing, relicensing, and regulation in which AICPA/NASBA coordination could enhance the efficient use of resources by both licensees and state boards.

A NATIONAL QUALIFICATIONS SERVICE

Recommendation: ***Create a national qualifications service to establish and administer qualifications for individuals that the licensing jurisdictions could voluntarily substitute for their own licensing and relicensing requirements.***

The Governance and Structure Committee's study of the current licensing system revealed a wide disparity of practices among licensing jurisdictions in their education and experience requirements. As a matter of fact, the CPA examination is the only element in the licensing process that is uniform throughout all jurisdictions.

The committee believes that members, their firms, and the public are ill served by widely disparate licensing (and relicensing) standards. They cause redundant and inefficient recordkeeping and reporting systems for assuring compliance with as many as fifty-four different sets of requirements and create reciprocity problems between jurisdictions. The committee is concerned that as state boards create and implement new entry-level education and CPE requirements, standards among jurisdictions could become more diverse.

To achieve greater uniformity in licensing requirements, the Governance and Structure Committee considered two alternatives to the current CPA licensing system. The first is federal licensing, under which a single, nationwide license would be granted either by a federal agency empowered to do so by federal legislation or by the AICPA, similarly empowered. The committee concluded that whereas federal licensing would accomplish the objective, the enabling legislation to create a federal licensing process would likely also bring about increased federal regulation of the profession, a result that the committee did not favor. It would also be difficult to persuade fifty-four legislatures to surrender their responsibilities to a federal agency or private-sector body. Therefore, the committee concluded that federal licensing was not the way to achieve the objective.

The second alternative, and the one the committee strongly favors, is an AICPA-administered national qualifications service. Under such a program, individuals would meet educational and examination standards the AICPA created and administered and they would be acknowledged for that achievement. Over time, the program would gain recognition, and state boards of accountancy would be encouraged to grant licenses to individuals meeting the national standards, particularly if the program were subject to NASBA review and oversight. This would assist state boards in performing one of their most burdensome tasks, namely, establishing the credentials of applicants for the CPA exam. It would also help move the profession toward national uniform licensing. Such a program would further provide an ongoing mechanism to encourage state boards to accept specific AICPA qualification standards, such as the 150-hour educational requirement, as part of their licensing requirements.

A national qualifications service could eventually be used to enforce these qualification standards and administer a program for relicensing CPAs as well as for initial licensing. As noted earlier, redundant recordkeeping and reporting systems (for example, for CPE requirements) are inefficient and probably unnecessary, particularly now that the AICPA has CPE requirements for continuing membership.

A national qualifications service might eventually also provide a means, within the Institute, for determining "equivalency" standards for practitioners emigrating to the United States. Both the public and the business community are best served by the fullest freedom of movement across national boundaries by qualified accounting professionals. However, the Governance and Structure Committee is not making a specific recommendation in this regard.

ASSISTING STATE BOARDS IN MONITORING FIRMS' PRACTICES

RECOMMENDATION: ***Encourage all state boards of accountancy that have positive enforcement programs, as part of their policy of registering or licensing firms, to accept enrollment by firms in any AICPA-approved practice-monitoring program as meeting their requirements. The Model Public Accountancy Bill should be amended to reflect this recommendation.***

Traditionally, state boards of accountancy have licensed individuals only. Recognizing the reality that firms generally perform audit and other attest services, many states now also register or license firms to practice within their jurisdictions. Increasingly, state boards are instituting "positive enforcement programs," as part of the process to license and relicense firms.

The Plan to Restructure Professional Standards included a requirement that AICPA members engage in public practice only with firms enrolled in an Institute-approved practice-monitoring program. This requirement has resulted in the creation of the Quality Review Program, which is quite similar to the PCPS peer review program.[1] Although the Institute will have primary responsibility for the program's overall operation, state CPA societies will administer the reviews. The AICPA's Quality Review Program and state positive enforcement programs are similar in that they both seek to enhance the quality of CPAs' and firms' practice throughout the United States.

Keeping practice-monitoring costs as low as possible is in the best interest of the public, state boards, and the CPA firms. Participating in more than one practice-monitoring program is duplicative and costly and serves no useful purpose. State boards with positive enforcement programs could save time, money, and effort if they could use another organization's work. Accordingly, the AICPA should work with NASBA to ensure that state boards with positive enforcement programs recognize enrollment in any AICPA practice-monitoring program as automatically meeting their requirements. In addition, the Model Public Accountancy Bill should be amended to reflect this recommendation.

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1. As chapter 6 discusses, the committee recommends combining the PCPS peer review program and the Quality Review Program at an appropriate time in the future.

OVERSIGHT OF PRACTICE-MONITORING PROGRAMS

RECOMMENDATION: ***Establish independent oversight of the Quality Review Program, with the possibility of NASBA or some other independent body serving in the oversight capacity, for the benefit of state boards with positive enforcement programs.***

From its inception, the SEC Practice Section of the Division for CPA Firms has had a Public Oversight Board. This independent oversight and public reporting of the Board's activities and recommendations has added credibility to the section's peer review process. Although the Private Companies Practice Section of the Division for CPA Firms has also had the authority from its inception to establish a similar oversight body, it has chosen not to do so. The new Quality Review Program, mandated by the Plan to Restructure Professional Standards, provides for the AICPA to oversee the state societies that would administer the program at the state level, but it does not provide for independent oversight of the program itself.

Independent oversight generally provides two benefits: (1) It indicates to the sponsoring organization that the program is operating as designed, and (2) it provides credibility and enhances the image of the program to third parties who may rely on the process to assure that high-quality audit and other attest services are provided. These reasons alone suggest the desirability of independent oversight of the Quality Review Program. The outcome would be that state accountancy boards would be more likely to accept the AICPA programs as meeting their own positive enforcement programs if NASBA or some other independent body provided oversight.

The Governance and Structure Committee recognizes that state boards may be more inclined to accept independent oversight as meeting their requirements if CPAs who are not AICPA members could participate in the Institute's Quality Review Program in order to qualify for relicensing. The committee believes that the AICPA and NASBA should explore ways to accommodate the nonmember CPAs' needs. The joint AICPA-NASBA permanent liaison committee should work out the details.

CHAPTER 10

The Institute and State Societies

OBJECTIVE: ***Improve the working relationship between the AICPA and state societies***

INTRODUCTION

Although state CPA societies are independent of the AICPA, both share common goals for their members' and the public's benefit. This includes a commitment to ensuring that CPAs adhere to high professional standards. State society support of the Plan to Restructure Professional Standards and its overwhelming adoption by the membership demonstrated the cooperative effort between the AICPA and the state societies.

The successful adoption of the Plan to Restructure also reinforced the state societies' role as the key link between the Institute and its members and as marketers of national programs to benefit the entire profession. Their ability to reach the "grass roots" membership ideally suits them to educate members about important professional issues and services. In most cases, however, state societies continue to rely on the AICPA to assist them in effectively delivering various programs and services, such as the newly approved Quality Review Program.

Numerous other programs currently require coordination and communication between the Institute and the state societies (see appendix D). Moreover, state societies significantly influence the Institute's governance by nominating 193 of the 260 Council seats, as Council is presently constituted.

Recognizing the unique partnership of the AICPA and state societies and their respective strengths, the Governance and Structure Committee examined how to improve communication between them. The committee's recommendations should help the Institute better understand the state societies and their members' needs, increase members' awareness of Institute services, and improve the delivery of state society and Institute programs.

AN AICPA/STATE SOCIETY COORDINATING COMMITTEE

RECOMMENDATION: ***Rename and restructure the Relations with State Societies Executive Committee as the AICPA/State Society Coordinating Committee. This committee would oversee AICPA/state society relations and serve as a link for providing input from state society leaders to the AICPA leadership.***

The Relations with State Societies Executive Committee currently plans the annual State Society Planning Conference and oversees several other AICPA/state society activities, as shown in appendix D. The Governance and Structure Committee recommends that this executive committee be renamed and restructured as the AICPA/State Society Coordinating Committee with an expanded charge. The new committee would provide a more formal and effective means for the Institute to obtain input from the state societies. It would also give state society leaders more opportunities to discuss professional and operational matters. In this way, the link between the Institute and the state societies would be strengthened.

As part of its expanded charge, the coordinating committee should periodically convene planning meetings of state society presidents, presidents-elect, and executive directors. Although several vehicles, such as the National Planning Conference, exist to support communication efforts between the AICPA and state societies, they do not always provide the Institute with input from state society leaders, particularly the volunteer leadership. For example, the AICPA executive staff meets annually with the CPA Society Executives Association Board of Directors to discuss current issues, but these meetings do not include state society presidents. Member roundtables are also held annually to help the AICPA executive staff learn more about the members' needs and concerns, but state society leaders do not necessarily participate in these meetings.

The planning meetings would serve two purposes. First, they would create networking opportunities for the leadership of all state CPA societies to exchange information about professional and operational issues. Second, the forums would improve communication between the state society and AICPA leadership and would give the state society leaders an opportunity to share their thoughts and opinions with the AICPA leadership.

These meetings could include plenary and concurrent sessions, with the participants assigned according to state society size, geography, or other factors. They should be convened regularly as well as on an "as needed" basis. Whenever possible, they would be scheduled in conjunction with the AICPA fall or spring Council meetings.

The AICPA/State Society Coordinating Committee should also carry out the activities of the present Relations with State Societies Executive Committee, including planning the annual State Society Planning Conference. In addition, the coordinating committee should oversee the entire AICPA/state society relations function and serve as the link for providing input from state society leaders to the AICPA leadership.

The AICPA/State Society Coordinating Committee, to be appointed by the Chairman of the Board, should consist of thirteen representatives: four state society presidents, four state society immediate past presidents, four state society executive directors, and a chairman. The committee membership should be balanced both geographically and by the number of state society members.

COORDINATING GOVERNMENT AFFAIRS

RECOMMENDATION: ***Identify and clarify policies that will better coordinate AICPA and state society contacts with federal and state legislative and regulatory organizations.***

To improve the profession's government relations efforts, the AICPA and the state societies should more closely coordinate their government relations programs. For example, state societies should consult with the AICPA before testifying before Congress or contacting a federal regulatory agency. Similarly, the AICPA should confer with a state society before contacting a state legislature or agency. This policy, administered by the Institute's Washington office, would reinforce the partnership between the AICPA and state societies and encourage the profession to speak with one voice on government matters.

APPENDIX A

Present Authority of the Membership, Council, and the Board of Directors

Present Authority of the Membership

The following provisions of the Bylaws, which the Governance and Structure Committee would not change, provide the membership's authority:

- Members are entitled to attend all meetings of the Institute (section 3.2.1).
- Members are entitled to vote in person, when in attendance, on all questions brought before duly called meetings of the Institute and by mail ballot for the election of Council members pursuant to sections 6.1 through 6.1.6, on proposed amendments to the Bylaws or to the Code of Professional Conduct, and on proposed resolutions of the membership as provided in section 5.1.4 (section 3.2.2).
- Only members of the Institute may serve as officers of the Institute or as members of Council, the Board of Directors, or any committee or board, except the board of examiners, designated as "senior" by the Council or as "permanent" by the Bylaws provided, however, that the secretary, who need not be a member of the Institute, and three representatives of the public, none of whom shall be members of the Institute, shall be members of the Board of Directors (section 3.2.5).
- A majority of the members of the Institute may direct the Chairman of the Board to submit questions to the membership for a mail vote (section 5.1.4).
- Proposals to amend the Bylaws or the Code of Professional Conduct may be made by any thirty members of Council, by any 200 or more members of the Institute, by the Board of Directors, or by petition of 5 percent of the membership (sections 8.1 and 8.2).

Present Authority of Council

The Council's authority is provided through the following provisions of the Bylaws, which, except for the powers of electing the Quality Review Executive

Committee and the nominating committees for the Private Companies Practice Section and the SEC Practice Section executive committees (as described in chapter 6), the Governance and Structure Committee would not change:

1. *Governance Powers*

- Establish the composition of the Board of Directors (section 3.4).
- Designate committees as senior and establish their responsibilities (section 3.6.1).
- Establish the responsibilities of the Professional Ethics Division (section 3.6.2.2).
- Call special meetings of the Institute (section 5.1.2).
- Call special meetings of Council (section 5.2.2).
- Authorize mail ballots to revise the Bylaws (section 8.4).
- Authorize mail ballots to revise the Code of Professional Conduct (section 8.4).
- Designate the bodies to issue standards under Rules 201, 202, and 203 of the Code of Professional Conduct (Rules 201, 202, and 203 of the Code of Professional Conduct).

2. *Requirements for AICPA Membership*

- Set educational requirements for CPE (section 2.3.3).
- Establish conditions for acceptance of member resignations (section 7.1).
- Establish conditions for nonapplication of automatic suspension and termination provisions (section 7.2).

3. *Certain Election and Appointment Powers*

- Elect the Nominations Committee (section 3.6.2.1).
- Elect the Joint Trial Board (section 3.6.2.3).
- Elect the Quality Review Executive Committee (Implementing Resolution under section 2.3).
- Elect the nominating committees for the PCPS and SECPS Executive Committees.
- Elect members-at-large of Council, the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, and the Treasurer (section 6.3).
- Elect the President and the Secretary (section 6.4).
- Fill vacancies on Council, the Board, and Institute offices (section 6.6).

4. *Overall Fiscal Control*

- Establish dues (section 2.3.1).
- Elect auditors (section 4.1).
- Approve the budget (Article 4 and Implementing Resolution under Article 4).
- Designate officers or employees to sign instruments (section 4.3); this is an authority shared with the Board.
- Prescribe the Institute's fiscal year (section 4.6).

Present Authority of the Board of Directors

The following provisions of the Bylaws, which the Governance and Structure Committee would not change, provide the Board of Directors' authority:

- Organize the committees and staff of the Institute into divisions and adopt rules of procedure and operating policies for such divisions (section 3.1).
- Act as the executive committee of Council between meetings of Council; control and manage the property, business, and activities of the Institute; and take whatever action it deems desirable, including the establishment of policies for the conduct of the affairs of the Institute consistent with the provisions of the Bylaws, resolutions of the membership, or actions of Council (section 3.4.1).
- Approve the appointment by the Chairman of the Board of Directors of members to senior committees (section 3.6.1).
- Designate officers or employees to sign instruments (section 4.3); this is an authority shared with Council.
- Fix the date of the annual meeting of the Institute (section 5.1.1), and request the Chairman of the Board to call special meetings of the Institute (section 5.1.2).
- Designate the dates for the regular meetings of Council (section 5.2.1) and request the Chairman of the Board to call special meetings of Council (section 5.2.2) or submit questions to Council for a mail vote (section 5.2.3).
- Appoint temporary successors to fill vacancies among the elected offices of the Institute (section 6.6) and recommend replacements for election by Council for vacancies in Council, the Board, or officers (Implementing Resolution under section 6.6).
- Act on resignations and applications for reinstatement of resigned members under such provisions as Council may prescribe (section 7.1).
- Terminate the membership of a member who fails to pay dues or to comply with the practice-monitoring or continuing education mem-

bership-retention requirements. Any membership so terminated may be reinstated by the Board of Directors, under such conditions and procedures as Council may prescribe (section 7.2).

- Recommend to Council persons to be elected as President and Secretary (Implementing Resolution under section 6.4).

APPENDIX B

Recommended AICPA Committee Organization Charts and AICPA Standing Committee and Subcommittee Locator List

EXHIBIT 1

Recommended AICPA Committee Organization Chart

OVERVIEW

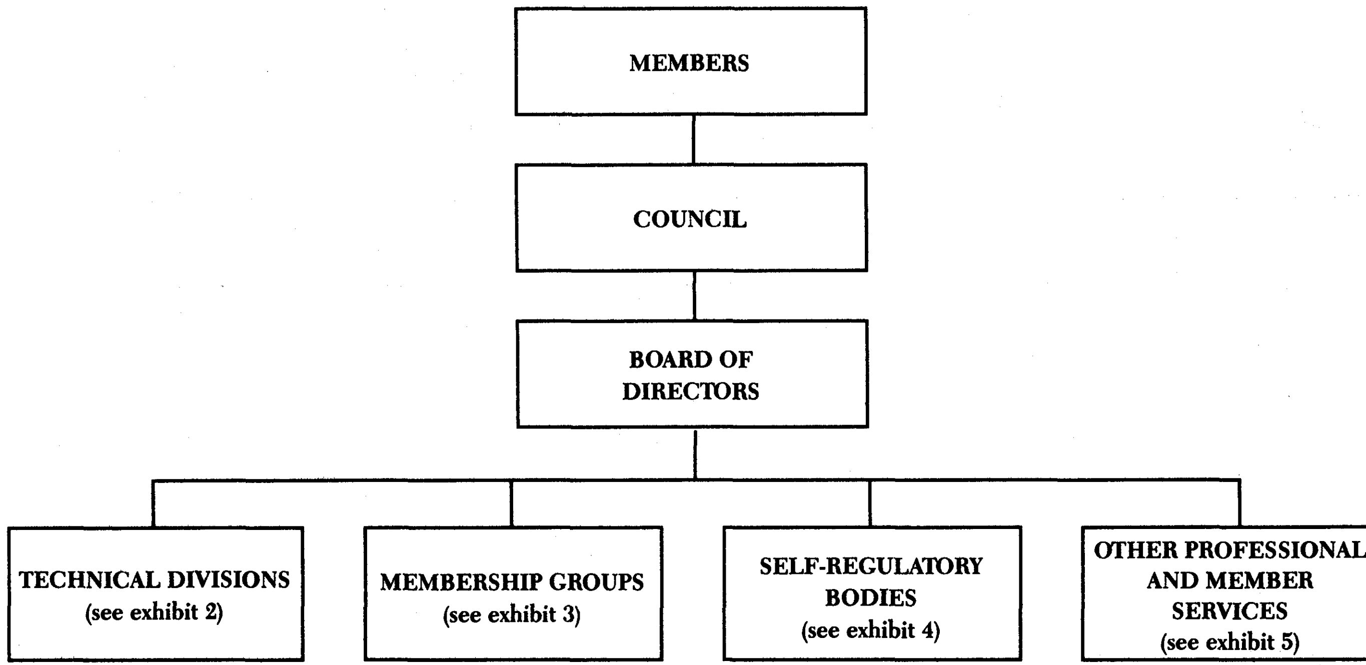
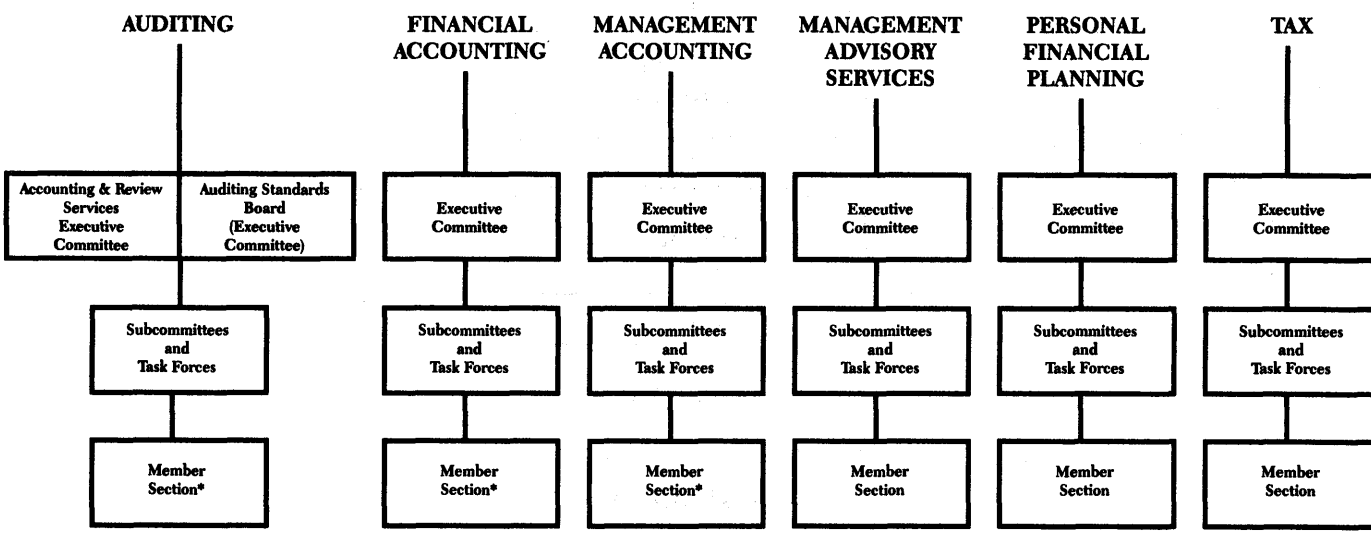


EXHIBIT 2

Recommended AICPA Committee Organization Chart

TECHNICAL DIVISIONS

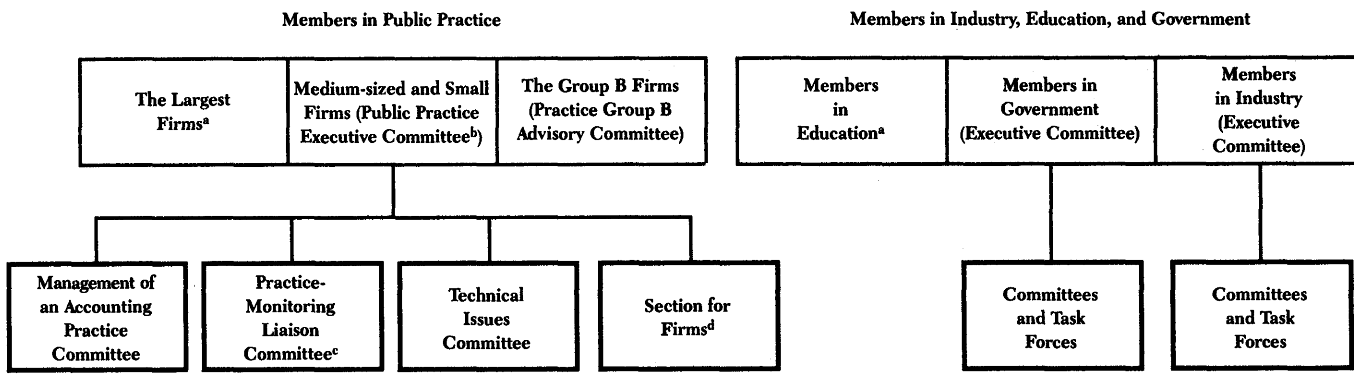


*If recommended by the Specialization Accreditation Board (in consultation with the executive committee of the appropriate technical division) and approved by the Board of Directors in the future.

EXHIBIT 3

Recommended AICPA Committee Organization Chart

MEMBERSHIP GROUPS



[a] No AICPA committee presently exists for these groups, and none is recommended by the Governance and Structure Committee.

[b] Formerly the PCPS Executive Committee, but with expanded responsibilities (see chapter 5).

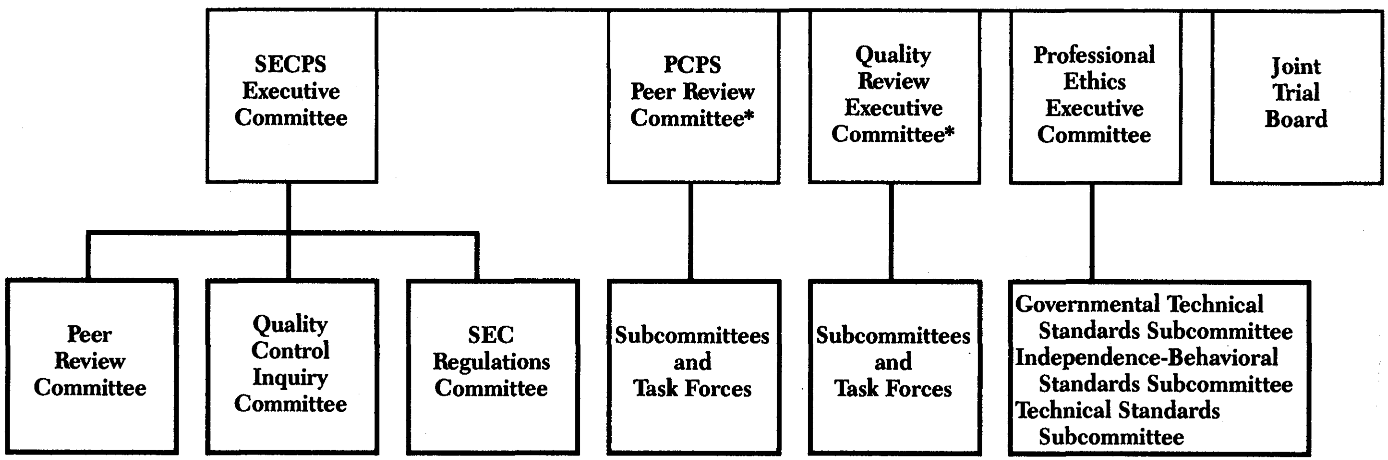
[c] Until the PCPS peer review program and the Quality Review Program are combined (see chapter 6), the Public Practice Executive Committee (as the successor to the PCPS Executive Committee) and the PCPS Peer Review Committee would continue their present responsibilities with respect to the PCPS peer review program.

[d] Formerly PCPS (see chapter 5 for details).

EXHIBIT 4

Recommended AICPA Committee Organization Chart

SELF-REGULATORY BODIES



*As explained in chapter 6, the Governance and Structure Committee recommends that the PCPS peer review program and the Quality Review Program should he combined at an appropriate time in the future. Until then, the Public Practice Executive Committee, as the successor to the PCPS Executive Committee (see chapter 5), would continue to oversee the PCPS Peer Review Committee.

EXHIBIT 5

Recommended AICPA Committee Organization Chart

OTHER PROFESSIONAL AND MEMBER SERVICES

Academic and Career Development	Communi-cations	Continuing Professional Education	Exami-nations	Member Programs	Publications	Speciali-zation Accreditation	State Society Relations	Technical Information and Library	Washington Activities (except tax and SEC)

AICPA STANDING COMMITTEE AND SUBCOMMITTEE LOCATOR LIST

(Terminology used here is that proposed by the Special Committee on Governance and Structure.)

Exhibit 1: Overview

Board of Directors

- Accounting Research Association, Inc.
- AICPA Effective Legislation Committee
- AICPA Accountants Foundation
- Audit Committee
- Committee on Committee Operations
- Compliance with CPE Membership Requirements Committee
- Finance Committee
  - Investments Subcommittee
- Government Affairs Committee

Exhibit 2: Technical Divisions

Auditing Division and Financial Accounting Division

- Accounting Standards Executive Committee
- Auditing Standards Board
- Accounting and Review Services Executive Committee
  - Banking Committee
  - Computer Auditing Subcommittee
  - Credit Unions Committee
  - Defense Contractors Committee
  - Employee Benefit Plans Committee
  - Government Accounting and Auditing Committee
  - Government Contractors Guide Special Committee
  - Health Care Committee
  - Insurance Companies Committee
  - International Practice Committee
  - Investment Companies Committee
  - Not-for-Profit Organizations Committee
  - Public Utilities Committee
  - Real Estate Committee
  - Relations with Actuaries Committee
  - Savings and Loan Associations Committee
  - Savings and Loan Assocation Guide Special Committee
  - Stockbrokerage and Investment Banking Committee
  - Transportation Committee

Management Accounting Division

- Management Accounting Executive Committee

Management Advisory Services Division

- Management Advisory Services Executive Committee
  - Computer Applications Subcommittee
  - Information Technology Research Subcommittee
  - Management Advisory Services Education and Information Subcommittee
  - Management Advisory Services Practice Standards and Administration Subcommittee
  - Management Advisory Services Small Business Consulting Practices Subcommittee
  - Management Advisory Services Technical and Industry Consulting Practices Subcommittee

Personal Financial Planning Division

- Personal Financial Planning Executive Committee
  - Personal Financial Planning Legislation and Regulation Subcommittee
  - Personal Financial Planning Practice Subcommittee
  - Personal Financial Planning Professional Education Subcommittee

Tax Division

- Tax Executive Committee
  - Corporations and Shareholders Taxation Subcommittee
  - Employee Benefits Taxation Subcommittee
  - Energy Taxation Subcommittee
  - Estate and Gift Tax Subcommittee
  - Fiduciary Income Tax Subcommittee
  - Financial Services Industry Taxation Subcommittee
  - Individual Taxation Subcommittee
  - International Taxation Subcommittee
  - Liaison with State Society Tax Committees Subcommittee
  - Partnership Taxation Subcommittee
  - Relations with the Bar Committee
  - Responsibilities in Tax Practice Subcommittee
  - "S" Corporation Taxation Subcommittee
  - Small Business Taxation Subcommittee
  - State and Local Taxation Subcommittee
  - Tax Accounting Subcommittee
  - Tax Computer Applications Subcommittee
  - Tax Division Administrative Subcommittee
  - Tax Division Communications Subcommittee
  - Tax Education Subcommittee
  - Tax Exempt Organizations Subcommittee
  - Tax Forms Subcommittee
  - Tax Legislative Liaison Subcommittee
  - Tax Policy and Planning Subcommittee

Tax Practice Guides Subcommittee
Tax Practice Management Subcommittee
Tax Practice and Procedures Subcommittee
Tax Simplification and Efficiency Subcommittee

Exhibit 3: Membership Groups

Members in Public Practice
Practice Group B Advisory Committee
Public Practice Executive Committee
Management of an Accounting Practice Committee
Practice-Monitoring Liaison Committee
Technical Issues Committee

Members in Industry, Education, and Government
Members in Government Executive Committee
Members in Industry Executive Committee

Exhibit 4: Self-Regulatory Bodies

SECPS Executive Committee
Quality Control Inquiry Committee
SECPS Peer Review Committee
SEC Regulations Committee
PCPS Peer Review Committee
Quality Review Executive Committee
Professional Ethics Executive Committee
Governmental Technical Standards Subcommittee
Independence-Behavioral Standards Subcommittee
Technical Standards Subcommittee
Joint Trial Board

Exhibit 5: Other Professional and Member Services

Academic and Career Development
Accounting and Career Development Executive Committee (formerly the Education Executive Committee)
Accounting Careers Subcommittee
Accounting Educators Subcommittee
Accounting Literature Awards Committee, Joint AAA/AICPA
Curriculum Subcommittee
Minority Doctoral Fellows Committee
Minority Recruitment and Equal Opportunity Committee
150-Hour Education Requirement Committee
Personnel Testing Subcommittee
Upward Mobility of Women Committee

Communications
Public Service Committee

Continuing Professional Education

Continuing Professional Education Executive Committee
CPE Marketing and Distribution Subcommittee
CPE Standards Subcommittee
Educational Management Exchange Subcommittee
National CPE Curriculum Subcommittee

Examinations

Board of Examiners
Accounting Practice Subcommittee
Accounting Theory Subcommittee
Auditing Subcommittee
Business Law Subcommittee
Grading Subcommittee

Member Programs

AICPA Benevolent Fund, Inc.
Annual Meeting Hospitality Committee
Life Insurance/Disability Plans Committee
Professional Liability Insurance Plan Committee
Retirement (Members) Committee

Specialization Accreditation

Specialization Accreditation Board
Accredited Personal Financial Specialist Subcommittee

State Society Relations

AICPA/State Society Coordinating Committee (formerly the Relations with State Societies Executive Committee)

Technical Information and Library

Information Retrieval Committee
Information Technology Committee

Washington Activities (except tax and SEC)

State Legislation Committee
State Legislation Area Planning Subcommittees I-IV

Other

Accountants' Legal Liability Subcommittee
Awards Committee
Future Issues Committee
Government Affairs State Society Subcommittee
Nominations Committee
Staff Pension Plan Committee
Strategic Planning Committee

APPENDIX C

Suggestions for Membership Requirements for the Section for Firms

1. Ensure that a majority of the firm's partners, shareholders, or proprietors are CPAs, that the firm can legally engage in the practice of public accounting, and that each proprietor, shareholder, or partner who resides in the United States and is eligible for AICPA membership is an AICPA member.
2. Adhere to the AICPA's quality control standards. Until the PCPS peer review and Quality Review programs are combined, member firms must have either a PCPS peer review or a SECPS peer review. After the PCPS peer review and Quality Review programs are combined, the firm must undergo a peer review by either of the two surviving programs (SECPS or the combined program).
3. Ensure that all firm professionals residing in the United States, including CPAs and non-CPAs, complete 120 hours of continuing professional education during each three-year reporting period, with at least twenty hours each year. A professional who complies with a state licensing or state society continuing education requirement will also have complied with this provision provided the requirement is for an average of at least forty hours per year and provided the professional completes at least twenty hours each year.
4. Pay dues, as established by the Public Practice Executive Committee, and comply with the rules and regulations of the section, as established from time to time by the executive committee, and with the decision of the executive committee with respect to matters within its competence.
5. Within ninety days of the end of each fiscal year, file the following information with the Section for Firms for such fiscal year of the U.S. firm (covering offices in the United States and its territories):
   a. Form of business entity (for example, proprietorship, partnership, or corporation)
   b. Name of managing partner or equivalent

c. Number and location of offices

d. Month in which the firm's fiscal year ends

e. Total number of (1) proprietors, partners, or shareholders and (2) non-CPAs with equivalent status

f. Total number of CPAs (including proprietors, partners, shareholders, and staff)

g. Total number of professional staff (including proprietors, partners, or shareholders)

h. Total number of personnel (including item *g* above)

i. Disclosure regarding pending litigation as required under generally accepted accounting principles and indicating whether such pending litigation is expected to have a material effect on the firm's financial condition or its ability to serve clients

6. [Applicable only after the PCPS peer review and Quality Review programs are combined:] Permit its peer review report, letter of comment, and such other information as shall be determined by the Public Practice Executive Committee to be available in a public file.

[Note: This requirement is necessary only after the the two programs are combined, since SECPS and PCPS membership requirements already provide for this information to be in a public file.]

APPENDIX D

Current AICPA/State Society Activities

[**Note:** *This is a comprehensive, but not all-inclusive, listing of AICPA/state society activities. Activities indicated by an asterisk are overseen by the Relations with State Societies Executive Committee.]*

*CPA/SEA Meetings.** These meetings keep the organization of state society executive directors (CPA/SEA), which serves as a liaison between the state societies and the Institute, current on issues the profession faces. Three meetings are held each year: the CPA/SEA annual meeting, its midwinter meeting, and a meeting with the CPA/SEA Board of Directors and AICPA executive staff.

*National Planning Conference.** Held annually in the fall, this conference helps state society presidents-elect prepare for their upcoming terms, effectively plan and implement programs as professional leaders, and become more aware of the AICPA and its assistance available to state societies.

*Member Roundtables.** These meetings give state society members from all segments of the profession and AICPA executive staff an opportunity to discuss topics of professional interest and enable the AICPA and state societies to better understand their members' needs.

*President's Member Forums.** These forums enable AICPA and state society members to discuss important issues with the AICPA President. This program, formerly known as the Local Practitioners Seminars, was recently expanded to include Industry Member Forums as well. The meetings are regional, with each state society having the opportunity to send one or two representatives.

State Society Conferences. There are two annual conferences for targeted state society staff and volunteer leaders. These are the State Society CPE and Public Relations conferences. A third conference, held periodically, is the State Legislation Conference. The three conferences serve as instructional seminars and forums on current developments in these areas.

*President's Letter and State Society Coordinator.** These newsletters, published throughout the year, inform the state societies and AICPA leadership about both organizations' activities.

*Orientation Program.** In the first four months after a state society executive director is hired, he or she is invited to the AICPA New York office to gain a better understanding of the Institute's organization and operations and to encourage communications between the Institute and state society staff.

Money Management Series. This weekly column, distributed to state society public relations directors and managers, focuses on personal financial planning and tax matters. A Communications Division effort, the Money Management Series appears in approximately 1,300 newspapers (circulation of 23 million) and is currently used by forty-seven state societies.

Public Relations Handbook for Small State Societies. This annual Communications Division publication is an overview of AICPA public relations materials available to assist the smaller state societies. It also outlines ways the state societies can supplement their operations with AICPA resources. Added to this year's edition is a new section entitled "Crisis Communications."

News Clip Service. A weekly production of the Institute's Communications Division, the News Clip Service is a compilation of accounting-related news articles distributed to AICPA and state society leaders to keep them abreast of current developments in the profession.

*AICPA Coordination Handbook for State Societies.** This annual publication for state society presidents-elect and executive directors outlines the AICPA organization, identifies Institute assistance available to state societies, and indicates where state societies input is requested.

State Society Committee Chairmen Meetings. Several AICPA divisions (such as the Industry, MAP, MAS, Personal Financial Planning, and Tax divisions) hold annual meetings for the chairmen of their state society counterpart committees. These one-day meetings inform the state society chairmen of AICPA and other state society programs and emerging trends in their particular areas of interest.

Relations with State Societies Executive Committee. This committee, composed of five former state society presidents and two state society executive directors, fosters coordination of AICPA and state society programs, serves as an advisory group to the State Society Relations Division and other divisions of the AICPA as needed, and plans and coordinates the National Planning Conference.

State Legislation Committee and the State Legislation Area Planning Subcommittees. The State Legislation Committee oversees the monitoring of state legislation affecting the accounting profession and recommends revisions to state laws and regulations. The subcommittees promote the adoption of the Model Accountancy Bill, encourage an exchange of legislative and regulatory information among the state societies, and foster cooperation between the AICPA and the state societies.

CPE Conference Cosponsorship. Most AICPA national CPE conferences are cosponsored with the society in which the program is being held. The state society helps promote and administer the program and receives on a formula basis a portion of the excess of revenues over expenses.

Joint CPE Marketing and Distribution. The AICPA develops CPA group study, self-study, and video programs. With few exceptions, these products are offered for distribution through the state societies.

Federal Government Relations. The AICPA and state societies work cooperatively in a number of federal government relations programs, including the following:

- *Federal Keyperson Program.* This is a database listing of AICPA and state society members who are close to their senator or congressman. The AICPA keeps these individuals informed of current developments through the *Digest of Washington Issues* and *Federal Legislative Alerts.* The state societies help the AICPA keep this information current and assist in following up on specific keypersons when necessary.
- *Federal Keyperson Coordinator Conference.* Most state societies have a federal keyperson coordinator, who monitors and follows up on the keypersons in the state. The coordinators and state society executive directors are invited to an annual conference in Washington, D.C., where they are updated on issues affecting the profession.
- *Congressional/State Society Luncheon Program.* About ten times a year, the AICPA, in cooperation with specific state societies, invites its federal keypersons and other society leaders to Washington, D.C., to meet with the members of the state's congressional delegation. Recently, several state societies initiated their own congressional visitation programs in cooperation with the AICPA.
- *State CPA Society Subcommittee.* This is a subcommittee of the Government Affairs Committee composed of members and state society executive directors. The subcommittee considers governmental issues to be addressed by the AICPA and state societies, recommends positions and strategies to be used for these issues, and assists in communicating governmental issues to the state societies.

Practice-Monitoring Program. The AICPA, working in cooperation with the state CPA societies, aims through this program to improve the quality of CPA firms' practice by requiring all AICPA members engaged in public practice to have a peer or quality review.

150-Hour Education Requirement. The AICPA has mandated that, effective in the year 2000, all CPAs applying for membership have at least 150 hours of higher education. A major AICPA initiative in the next several years will be to seek the support and participation of the state societies and state boards of accountancy in implementing the 150-hour education requirement at the state legislative or regulatory level.

Joint Ethics Enforcement Program (JEEP). The AICPA and most state CPA societies have signed this contractual arrangement to eliminate duplicate investigation of the same ethics complaint. The JEEP program outlines the specific due process to be followed in ethics investigations.

Glossary

This glossary defines certain terms that are used in this report.

Board committee. A committee created by the Board of Directors to perform one or more Board functions of directing the affairs of the Institute and monitoring and overseeing its committees and operations. Board committees are usually composed of, or at least chaired by, members of the Board, but on occasion may include non-Board members.

committee. A group of individuals delegated to set policy in an assigned area of activity or to consider, investigate, take action on, or report on some matter or matters. The activities of a committee may be subject to monitoring by an executive committee.

division. The combination of committees, subcommittees, task forces, and staff having responsibility for a major area of activity and assigned divisional status by the Board of Directors when required by the Bylaws.

executive committee. The committee with the highest level of authority or responsibility (reporting to the Board of Directors) for overseeing an Institute activity, technical division, self-regulatory body, or membership group.

membership group. A segment of the membership that has a common occupational affiliation. AICPA members are in public practice, industry, education, and government.

officers of the Institute. The Chairman and Vice-chairman of the Board of Directors, the Treasurer, the President, and the Secretary are corporate officers and elected by the Council or, in the case of the Treasurer, appointed by the Board. The first three are volunteers (see definition below). The Board of Directors may appoint staff who are not corporate officers to positions with the title of vice president.

practice-monitoring programs. The PCPS peer review program, the SECPS peer review program, and the Quality Review Program.

section. An organization with unique programs within the AICPA that individuals or firms may join for a common purpose or because of common interests.

self-regulatory bodies. Committees, subcommittees, and task forces of the Professional Ethics Division, the Joint Trial Board, the PCPS and SECPS peer review programs, and the Quality Review Program.

senior technical committee. A committee authorized by Council to make public statements, without prior clearance with the Council or the Board of Directors, on matters related to its area of practice. A senior technical committee may also be designated by Council to promulgate technical standards with which members must comply under rules 201 and 202 of the Code of Professional Conduct.

subcommittee. A standing group ordinarily composed entirely or partially of some of the members of the committee to which it reports, organized for a specific purpose, and subject to monitoring by the committee to which it reports.

task force. A group ordinarily composed entirely or partially of some of the members of the committee whose chairman appointed it, formed to undertake a specific project that will terminate on completing its assignment, and subject to monitoring by the committee whose chairman appointed it.

technical division. Committees, subcommittees, task forces, and staff that support all activities to help members carry out their responsibilities related to a particular technical area.

volunteer. An AICPA member who is not a member of the Institute staff and who is elected or appointed to serve on an AICPA committee, subcommittee, or task force or performs some other service for the Institute, usually without compensation.

Reservations of Some Members of the Committee About Certain Recommendations in the Report

Ms. Feaver and Messrs. Greenspan, Kessler, Rubin, and Schiffman oppose the recommendations dealing with the responsibilities of the Private Companies Practice Section (PCPS) and the corresponding elimination of the PCPS name designation. Since PCPS pioneered peer review for local firms and created a professional climate that established the value of general practice monitoring and since the PCPS programs have been well accepted, they believe that the elimination of the PCPS name designation is inappropriate.

Messrs. Greenspan, Kessler, Rubin, and Schiffman oppose the recommendation that would, at some future date, combine the PCPS Peer Review Program and the Quality Review Program. The need for separate programs was communicated to the membership, and although the two programs are similar in many respects, there also are substantive differences, which were important to those voting in favor of the Quality Review Program. They believe that after the program is fully operational, evolutionary changes in structure, including the possible combination of the two programs, might be considered. They are confident that the Institute's leadership will carefully consider the issues at that time.

Messrs. Greenspan, Rubin, and Schiffman also have concerns that the report implies a separation of the technical and self-regulatory activities of the Institute from the activities of membership groups. They believe there is, and should continue to be, much greater interdependence of these functions than is suggested in the committee report. Moreover, they are not convinced that the proposed structure for members in public practice will provide a better forum for firms to express their views or will result in significantly better services. They also believe there is a suggestion in exhibits 3 and 4 of the recommended AICPA committee organization chart that the present activities of PCPS be divided, while keeping the SEC Practice Section unchanged (and adding to its stature in several ways). They believe that this suggested division is ill-advised.