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Discussant's Response to Has the Accounting Profession Lost Control of Its Destiny?

K. S. Gunning

Thorne Riddell & Co.

I deem it a privilege to be invited to your country to offer my views on the paper presented to you by such a distinguished member of our profession, and one, to boot, whose career has sprung from the fruitful wellsprings of academia.

Accordingly, I felt it incumbent on me to commence my remarks, as Doug did his paper, with some stirring and prophetic quotation from Homer or someone of equal relevance, having to do with destiny, or self-control, or professionalism.

After diligent search, I felt that I, standing here as a foreigner from the north, could do no better than to read to you the words that Representative Hiram Bell of Ohio said of my native land to your U.S. House of Representatives on January 10, 1853:

But, sir, there is a country and there is a people competent for self-government, that are prepared to take upon themselves the responsibilities of free men, and which we may find for our interest to receive among us—I mean peaceably—and allow them to become a part and parcel of this country, and I care not how soon. I refer, Mr. Chairman, to the whole British possessions upon the north, containing an area of two millions, two hundred and fifty-two thousand, three hundred and ninety-five square miles. That is something worth looking at . . . The accomplishment of that object peacefully will strengthen this Union, and add to its power and influence. The annexation of that territory to this Union (to use terms of gentlemen) Destiny has ordained, and it will ere long take place.

As Doug observed, man has not always been too successful in peering into the future, and I certainly don't intend to offer any comment on Hiram Bell's vision, even after 125 years; especially with what's going on in our country right now!

Anyway, enough of nothing, and let us consider Doug's most interesting and thoughtful paper.

There's been a great deal of ink spilled lately on the general theme of this paper—some in sorrow, some in anger, a lot in error. But little of the outpouring has considered our collective “destiny”—and, like Doug I think, I had a bit of trouble with the question posed. It's perhaps a bit like the old “have you stopped beating your wife yet?” angle—and maybe its better to answer “I never did” than get nailed for a simple yes or no.

Doug, I thought, was pretty agile in that regard, rephrasing the question with fine editorial license to read "Where are we going and who's in charge of the trip?"

The Role of the Accounting Profession

Personally I very much doubt that the accounting profession ever had control of its destiny in the first place. I subscribe to the views of the Cohen Commission re-echoed by our Adams Committee report in Canada and repeated by many, that the accounting arm of our profession has a primary responsibility for the preparation of realistic, meaningful and consistent financial reports to enable sensible decision making by others. The auditing arm fills the role of an independent and expert intermediary offering a reasonable degree of assurance to readers of those reports that they are free from error, omission, or bias.

Fundamentally, that's what I take to be the role of the accounting profession, broadly speaking, and that's what I would call its destiny. If you like, that's where we are going, and if we don't like that particular destination, well, we had better get off the train at the next stop, because that's where the tracks seem to lead.

Our profession should recognize, however, that this role is no God-given right. We happen to fill a key function in the capital formation process of our free enterprise system, a system which still seeks (with less and less success as the years go by) to operate as far as is possible without direct government intervention. But if we prove ourselves unable to command the respect and confidence of society, obviously our profession will no longer serve a useful purpose and our destiny will be the dustbin. The "accountants report" that inappropriately graced the cover of a national business magazine in March 1977 had more significance than just as a bad joke.

The voices that sound these critical sentiments are today heard loud and clear. In this age of consumerism and the rights of the little man, when profit becomes a dirty word, when successful businessmen are categorized as "well manicured hoodlums," it is not surprising to find outspoken critics of the profession building a political or academic career based on that thesis. But these shrill voices are not new; nor is the burden of their song. Consider George Bernard Shaw's often quoted condemnation of the professions as a "conspiracy against the laity." It is little wonder that today accountants face hostile and militant critics who loudly call for government takeover of the responsibilities which have been left to our profession.

A Common Problem

Doug's paper infers but does not develop the fact that our profession is far from alone in this problem. The medical profession has been subject to mounting public criticism and gradual government takeover for years and in many countries. The National Society of Professional Engineers was held, in a unanimous U.S. Supreme Court ruling last month, to have violated federal anti-trust law through their ban on competitive price bidding. Even the lawyers themselves, the draftsmen of the rules of the game, had their minimum fee

schedules outlawed in the U.S.A. in 1975. With these changes, observed the *Wall Street Journal* recently, “. . . the distinction between professions and businesses that engage in anti-competitive behaviour has become almost imperceptible.”

Nor is the situation unique in the U.S.A., which I note is the sole consideration of Doug's paper. In the United Kingdom, chartered accountants have for centuries been one of the hallmarks of respectability. Today, just as a small sampling, three separate English chartered accountants, knights or lords all, act as chairmen respectively of the Association of British Chambers of Commerce, the Royal Commission on the Legal Profession and Legal Services, and the Review Board for Government Contracts. The British accounting profession has over the past century and more gained a position of social respect and prestige unmatched certainly in North America and probably anywhere else. And yet suddenly in the past few years it finds itself in a most unaccustomed position of division, distrust and even derision. It too has been rocked by audit failures; criticized for lack of independence, standards, and failure to enforce standards or uncover fraud; badly split through a successful revolt of the membership, led by two small practitioners, against the imposition of a current cost accounting standard. Professor Eddie Stamp, the stormy petrel of the U.K. profession, derides its posture on foreign currency translation as being “reminiscent of that of the donkey who starved to death because of his inability to choose between two bales of hay,” and describes the British profession's development of auditing standards as the crowning ineptitude of its catalogue of failure. (Makes Mr. Briloff sound a bit tame, right?) But in fairness to Professor Stamp, and in contrast to Mr. Briloff, Eddie Stamp is a staunch supporter for self-control of the profession, and ends his article (in the *Financial Times* of December 14, 1977) with a ringing call (and I quote) “. . . for the profession to put its house in order quickly—before the case for government regulation becomes unanswerable.”

The Situation in Canada

In Canada, for whatever interest it may be to you, we somehow seem to have retained a reasonable degree of public confidence and escaped the wrath of public criticism. As an example, our CICA recommendations have been incorporated by regulation into law and securities regulation. Of course, we've had our audit failures—Atlantic Acceptance, after all, was one of the pioneers in that field. Our massive frauds and well-known questionable payments activities by government agencies and in the private sector take second place to virtually no one. So a year ago, the Canadian Institute of Chartered Accountants set up the Adams Committee to recommend further study and action (just as Eddie Stamp has urged in Britain) to react in advance of public calls for regulation of the profession. Many of you have probably seen the report, which took up the entire April issue of the CA Magazine. But you've probably not heard any of the press furor that followed. Why not? Because there was none, that's why. The entire body of press reaction to that report published to date consists of twenty-one newspaper articles—from sea to shining sea. Are we disappointed at that reaction? You can bet your damn boots we're not. We have the chance

in Canada, I believe, for whatever reason, if we react sensibly and responsibly, to preserve our position of relative respect (and I stress that word relative) and to hold the reasonable confidence of government and securities regulators which we now appear to have.

But I have perhaps strayed too long and too far from Doug's paper. I do so though with only slight apology, since I believe it is important to assess the position of the American accounting profession in a somewhat broader context than Doug has described.

Who's in Charge?

So back to the task—"where are we going, and who's in charge of the trip?" I have already discussed the destiny (which I translate as "role") of the profession, which I take to be the "where are we going" part of Doug's double-barreled question. The second part—"who's in charge"—he addresses in the context of the right to set the rules for the profession. He answers, realistically I think, in his last paragraph, "The accounting profession does not control its status . . .," but rather shares it with ". . . the courts, the SEC, Congress, and the undercurrent of consumerism in society." Let's consider the question of "who's in charge" first, against the sound of the prominent voices that speak on the topic, and secondly, in the light of the response by the American profession to date. Finally, and without adding to the list of timeless predictions which Doug so entertainingly catalogued for us, let's assess in the cold light of day the present chances of approval of the steps taken by the profession to date.

First, just listen for a moment to some widely varying voices:

Dr. John C. Burton (former chief accountant, SEC—February 1, 1978)

. . . in the final analysis, I believe that the AICPA system as a whole must be characterized as insufficient. Its insufficiency does not result primarily from the unwillingness of the accounting profession to design an effective system but rather from the inadequacy of its authority to do so. In summary, it is my view that a formal self-regulatory approach is one which offers both public protection and institutional stability for the accounting profession.

Report of the Commission on Auditors' Responsibilities (1978)

It does not appear that a comprehensive federal mechanism for regulating the profession would be superior to the present system; nor is a complex restructuring of the profession required.

Eli Mason, C.P.A. (January, 1978)

Mr. Chairman, I urge that the congress of the United States enact legislation which would provide for registration of public accountants to practice before the SEC.

Of course, it has been stated that anyone can join the SEC Companies Practice Section, but Mr. Chairman, who wants to play the game if no one will ever throw you the ball?

Harvey Kapnick, C.P.A. (May 24, 1977)

It must be recognized that the profession has a critical responsibility

not to delay further but to take immediate corrective actions. If we do not abdicate our responsibility, but instead welcome it, there will be no reason or justification for more government intervention.

Alan Brost, C.P.A. (January, 1978)

It seems ironic that the very attacks on the dominant power of the Big Eight in the AICPA have triggered a response by that organization which can only make them more dominant in this crucial area of audit practice.

AICPA Report of Progress (January 30, 1978)

Perhaps never before has a profession in so short a time adopted so ambitious a program to improve its performance, police itself, report on its conduct to the public and submit itself to public scrutiny.

. . . if these (changes) are insufficient, that will quickly become apparent. Congress can then act in the light of this experience.

Abraham J. Briloff, C.P.A. (December, 1977)

Except for occasional platitudinous nods, the Institute has chosen to ignore the most serious transgressions on the part of its members . . .

. . . the profession has, in many ways, taken on the attributes of the major corporations it is supposed to audit . . .

Sub-committee on Reports, Accounting and Management (Metcalf Committee—November, 1977)

Subcommittee members prefer that the profession itself achieve reforms in cooperation with the SEC.

The amount of time for achieving reforms is not unlimited. Therefore, the subcommittee expects the accounting profession and the SEC to act in a timely manner to implement the policy goals in this report.

Harold Williams (March 3, 1978)

We believe the accounting profession should have a reasonable opportunity to achieve effective regulation on its own.

It would be premature to over-ride the profession's efforts at this time.

We believe that self-regulation, if it can be made to work, is preferable to direct governmental regulation.

The AICPA must instill in the Public and in Congress confidence that it is an independent, professional organization—not a trade association in the sense of being a promoter of the financial interests of its members and not a lobbying arm for its members corporate clients.

Representative John E. Moss (March 3, 1978)

. . . the Chair is both disappointed and dissatisfied with the self-regulatory program of the AICPA.

Whether or not the accounting profession is ultimately regulated might very well depend not so much on the adequacy or inadequacy of the present AICPA program, but on the willingness of the SEC to exercise its authority.

(February 25, 1978)

A harmful result of the high degree of concentration among the large firms is the bitterness displayed at our recent hearings between the large and small firms. The divisive allegations and cross-allegations which permeated our hearings surely take a toll on the public's perception of the profession, (and) jeopardizes the effort at self-reform . . .

My concerns about the AICPA program center on the control of SEC Section's Executive Committee by the largest 16 accounting firms, the effectiveness of the peer review procedure, and the composition and effect of the Public Oversight Board.

You may have heard, as I have, that with the passing of Senator Metcalf and John Moss not seeking re-election, legislative proposals regulating accountants will never become law. Don't bet on it!

A. E. MacKay (May 3, 1978)

Government regulation of the accounting profession gives government a further wedge into business and is unacceptable. We must retain the respect of the American people and convince them and their representatives in Congress that we accountants are able to discharge our responsibilities without regulation by the government.

Finally, one voice from the Canadian scene: **The Hon. Bette Stephenson, M.D., Minister of Labour, Province of Ontario** (February, 1977)

Self-government and professionalism are symbiotic of inter-twined mutually supportive concepts. The role of the profession is a demonstration that the principles of free enterprise, effectively combined with dedicated service to the public, can be a bulwark against the ever present danger of growing state control. It is up to government—and the professions too—to demonstrate strong opposition to the thinly veiled collectivist route to state control.

The profession—like any institution—can drift away from those it is designed to serve, into isolation. When this happens, the public sees the professional not as an ally but as an adversary. The public must recognize that your primary concern is the public interest and that you are striving to fulfill your responsibility to them.

Gentlemen, all of those voices are prominent in one way or another in influencing the decision as to the way in which our profession is to be conducted and controlled in the future. Who's in charge of the trip?

Well, Doug's paper refers to the prospects of what he terms "unbridled" regulation as being "fluid." Now exactly what that means I'm not sure, but if it means that the prospects are uncertain then I am in full agreement. As I hear these voices, and please bear in mind that I hear them from some distance and am certainly less up to date and far less intimately involved with the problem (which may be either an advantage or a disadvantage), I judge the prospects of regulatory legislation to be entirely uncertain at present, but highly likely to be resolved one way or the other in the coming months.

As I see it, there are four possible events (three of which are addressed in Doug's paper), the occurrence of any of which could trigger legislation to regulate the accounting profession.

- First, the SEC could become dissatisfied with the progress of the profession in achieving its goal of meaningful self-regulation.

While Harold Williams has indicated repeatedly a preference for self regulation by the profession, he obviously will expect stiff standards to be self-imposed. Further, as has been heard from several other prominent voices, and as Doug has pointed out in his paper, the SEC may be under strong political pressure to take regulatory action soon after their July hearings.

- Secondly, then, the politicians could become dissatisfied with the stance of the SEC vis-à-vis the profession's progress. Senator Moss' speech in California in February, from which I quoted earlier, does seem to foreshadow some big storm clouds on the horizon, shaping up quickly. If you have not read that speech, you will find it interesting. Senator Eagleton also obviously knows on which side his ballots are buttered. Doug's assessment as to the likelihood of congressional support for either or both of these crusaders, should it come to legislation, is obviously far more acute than mine, and would be of interest.
- Thirdly, as Doug noted in his paper, "If another Penn Central or Equity Funding surfaces, support for federal regulation could crystallize quickly." Perhaps something less than another such massive corporate failure might even provoke such action. I would suspect that any other highly visible combined fraud and alleged audit failure might have the same effect.
- Fourthly, there is the lawsuit challenging the AICPA move to sections. It would obviously be imprudent if not impossible for a vice president of the AICPA to write on this matter while it is before the courts, and on this basis its omission from Doug's excellent paper is fully understandable. However, as a mere observer on the sidelines I can neither ignore the matter nor prejudice the parties to the action by my comments.

In my view, it is apparent from some of the speeches and papers which I have quoted here that a successful court challenge to the validity of the AICPA action in providing for two separate practice sections would be a serious blow indeed to the accounting profession—possibly even a fatal one—in its attempt to demonstrate its willingness and ability to regulate its own affairs in the public interest. I cannot assess the likelihood of the outcome of the action. I can only note the potential of its effects.

One year ago I wrote a review of the Cohen Commission's **Report of Tentative Conclusions** for the Canadian Institute's CA Magazine entitled "A Profession at the Crossroads." I concluded that article by observing that:

. . . no less than the independent auditor's real usefulness in our free enterprise system is being questioned. It's not the Cohen Commission that is asking the question . . . It's being asked by lawyers, senators, investment analysts, members of parliament, bankers, judges, the person on the street, and by sometime soon, the profession had better start coming up with some answers. "Big Brother" will provide them soon enough if it doesn't.

If I were writing that article today I would continue to entitle it "A Pro-

fession at the Crossroads." A short year later, we're still there. The American accounting profession has certainly come up with some fast and far reaching answers. But whether "Big Brother" is satisfied that they are the right ones is, at this moment, to my view, hanging in the balance.

As I said at the beginning, it is not my place to make another of those immortal predictions of the future, but merely to serve for you as discussant on a most important and timely paper. I have to apologize, I suppose, for the gradual decline of humour in my paper. Funny thing, I noticed the same thing in Doug's. Perhaps its just not a great subject for laughs.

As a visitor from a foreign country, I am also quite conscious of what can happen when one's neighbours intrude on one's domestic concerns. But, Howard, you asked me, after all, if not to intrude, at least to comment. In doing so, I have tried to bring the broader perspective which is usually provided by a more distant vantage point.

In closing, may I observe that the destiny of the U.S. accounting profession will profoundly affect that of your fellow professionals throughout the free world.

Speaking as one of them, I sincerely hope, whoever turns out to be in charge of the trip, that the AICPA will continue to attract the support and confidence of the American public and of the elected government which is so necessary to fulfill its destiny.

Thank you, Mr. Chairman, for the honour of the invitation; and gentlemen, for the courtesy of your attention.