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Discussion Draft

Report of the Committee on Scope and Structure

Discussion Draft

**Report of the
Committee
on Scope
and Structure**

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Preface

In his inaugural address to the 1972 annual meeting of the Institute, President LeRoy Layton indicated that he intended to ask a committee to undertake a study of the present and future scope of practice of accounting firms.

Shortly thereafter, the Institute's Board of Directors authorized the appointment of such a committee. The mission of the committee was later expanded to include consideration of what modifications might be required in the structure of the Institute itself to reflect the conclusions of the committee with respect to scope of practice.

This report is the result of that double-barreled assignment.

The committee began its work by reviewing a substantial volume of material related to its charge (a selected list of sources appears on page 35. It conducted interviews with nearly a hundred informed people both within and outside of the profession and it held frequent meetings during its 18 months of existence.

The committee has also benefited from comments on a preliminary draft of its report received from members of Council at a series of "round tables" conducted during the course of the spring meeting of the Institute's governing body last May. These were lively discussions, and the committee has substantially modified some of its recommendations in response to the Council's observations.

It is also important to note that, in keeping with its charge, the committee limited its consideration to public practice. It did not examine the responsibilities of CPAs in industry, government, or education, nor did it consider what changes in the Institute ought to be made to ensure that it was properly serving these highly important elements of the profession. This is an area which might well deserve study, but it is a task which the committee was not asked to perform.

The principal recommendations and observations set forth

in this report can be summarized in eight short paragraphs:

- Although no precise formula exists for determining what constitutes a profession, it is clear that one of the essential elements in retention of professional status is a willingness to respond in a responsible manner to public needs.
- This is exactly what the accounting profession has done. It has evolved, as revealed in its history, from a base of providing advice on accounting systems and stewardship to one of providing a broad range of services.
- These services have a basic characteristic in common: the expressing of opinions and the providing of advice and assistance on the accounting for, or the management of, the utilization of resources. It is this common characteristic which provides the foundation for a cohesive profession.
- Since the profession should be permitted — and, indeed, encouraged — to adjust to the needs of the public, the profession's scope of services should not be artificially restricted.
- This advocacy of an expanding role for the profession seems thoroughly justified in the absence of any significant objective evidence that its present range of services has impaired its reputation for independence in the performance of its crucial attest function. Nor is it likely that public confidence in the profession will be jeopardized so long as its services are professional in character and rendered in an advisory capacity. In performing these services, the profession must also observe certain constraints—primarily, competence, integrity, and objectivity.
- Since a multi-discipline approach to practice already exists and is increasingly necessary in the performance of the attest function, a program for the recognition of specialties should be established within the Institute.
- The appropriate senior committees of the Institute should be directed to develop a suitable qualifying process for specialists in their areas (including appropriate examinations) — and to inaugurate a program of activities to serve the needs of those specialists.
- Because non-CPA specialists employed in public practice aid the profession in providing a wide range of serv-

ices needed by the public, the qualifying process for specialists should be open to them if they meet certain additional requirements set forth in the report. After a reasonable period of experimentation with the specialist examinations, consideration should be given to granting membership status to those non-CPAs who successfully complete the specialist examinations and fulfill all the other requirements.

There can be no guarantee, of course, that any blueprint for the profession's future will prove to be flawless or that any general direction will not have to be altered in the light of experience.

Setting any course of positive action brings with it an inevitable risk of failure, but an even greater risk may exist in allowing the profession's fate to be decided by default.

The time is ripe for a more precise definition of what the profession wants to be and intends to become. A better sense of purpose seems clearly needed in view of the many perplexing issues which presently confront the profession.

It is for these reasons that the committee hopes that its report will generate discussion throughout the profession — and that those discussions will lead to the adoption of a plan for the future which can be implemented in an orderly fashion in the next few years.

*Respectfully submitted by the
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The Concept of Professionalism

There are countless definitions of a profession, and while most of them are helpful, none of them is totally enlightening.

One standard dictionary describes a profession as “a vocation requiring knowledge of some department of learning or science.” This establishes such a broad test that virtually every occupation could claim professional status.

A more useful set of criteria is advanced in the Roy-MacNeill study, *Horizons for a Profession*.¹ It notes that such well-established professions as medicine and law have these common characteristics:

- Each renders essential services to society.
- Each is governed by ethical principles which emphasize the virtues of honesty, probity, and devotion to the welfare of those served.
- Each has requirements for admission to the profession which are regulated by law.
- Each has procedures for disciplining those who violate its ethical standards.
- Each depends upon a body of specialized knowledge acquired through education.
- Each has developed a language of its own, in its more sophisticated forms understandable only to the initiated.

These six tests of professionalism, however, need to be applied with caution.

The inability to satisfy one or more of them would not necessarily invalidate a claim to professional status. Indeed, it seems likely that most of the established professions were accorded recognition even before meeting all of the cited tests.

Consequently, the conditions specified in at least some of

¹ Robert H. Roy and James H. MacNeill, *Horizons for a Profession* (New York: American Institute of Certified Public Accountants, 1967), p. 31.

the criteria may be more the end result of having achieved professional recognition than the means of attaining it.

It also seems clear that professional status is not acquired through self-recognition, although a commitment to seek it is no doubt essential to obtaining it. Only the public (or, at least, an informed segment of the public) can bestow that privilege, and its judgment on what constitutes a profession will be affected by a number of factors.

Some of these factors relate to the manner in which the services are rendered. The vital elements of professionalism include competence, objectivity, integrity, and devotion to the welfare of those served.

These observations lead to the suggestion that a profession is best defined by the word itself: a profession is comprised of people who profess. In more specific terms, they profess a competence to render a service to the public which is of more than ordinary value and complexity. At the same time, they profess a willingness to place their obligations to others — to the public, to their clients, and to their colleagues — ahead of their own personal welfare.

In serving others, however, those engaged in a professional pursuit must be vigilant in preserving their own independent judgment. That commitment has been ably described by Admiral H. G. Rickover:

A service ceases to be professional if it has in any way been dictated by the client or employer. The role of the professional man in society is to lend his special knowledge, his well-trained intellect, and his dispassionate habit of visualizing problems in terms of fundamental principles to whatever specific task is entrusted to him. Professional independence is not a special privilege but rather an inner necessity for the true professional man, and a safeguard for his employers and the general public. Without it, he negates everything that makes him a professional person and becomes at best a routine technician or hired hand, at worst a hack.²

Other criteria of professional status relate to the nature of the services — for example, the existence of standards and an underlying body of knowledge, the extent of education required, and the fact that the services are of more than ordinary value and complexity.

² H. G. Rickover, *Education and Freedom* (New York: E. P. Dutton & Co., Inc., 1959), p. 64.

Professional services are also distinguished from other services by the fact that the fees charged are based primarily on the personal services being rendered and do not include charges for any significant element of accompanying product.

Although common to most professions, an admission procedure regulated by law may not be essential for professional recognition. Statutory licensing is generally applied by society when normal relief under the law would not be sufficient to protect the public from malpractice. Such services are subjected to regulation regardless of whether or not a profession is involved.

One further element of professionalism needs to be underscored.

Every profession is continually changing or being changed. It is changed by the aspirations of its own members — not only by those who cherish its old traditions, but by those who are inspired by a new vision of its function in society. It is changed by the emergence of additional opportunities for service which, if accepted, can stimulate its growth and, if neglected, may reduce its prestige. It is changed by the need to develop new skills — a requirement which may often entail the enlistment of those trained in different disciplines or an apparent incursion into other realms of knowledge. It is changed by the impact of new social and moral values and by the influence of political decisions reflecting those values. It is changed by the spectacular advance of technological innovation. It is changed by the mounting demand for a constantly higher level of competence — not only in terms of a wider span of knowledge, but also a greater depth of knowledge in specialized areas. And a profession successfully adapts to its altered environment or it runs the risk of extinction. For no calling has a valid claim to eternal professional status. It must constantly justify its retention of that privilege by responding, in a creative and responsible manner, to the changing needs of society.

In view of all these considerations, it seems reasonable to conclude that there is no well-established formula by which recognition or withdrawal of recognition as a profession can be determined with certainty. Nevertheless, any decisions about scope of services must consider the impact which those services may have on public attitudes in the light of the factors cited above. In making such an appraisal, some useful insights can be gained from a short review of the history of the public accounting profession and the forces which are currently at work in our society.

The Evolution of Accounting Practice

The profession's history is relatively brief — indeed, a few elderly CPAs have lived through virtually all of it.

Despite its youth, however, professional accounting in the United States has its roots in the distant past. The co-authors of *Horizons for a Profession* describe the influences which brought it into existence in these words: “The world of affairs is the domain of the accountant. It is his mission to perceive it, to analyze it, to bring order to it, to portray it, and the more complex this world becomes, the more demanding become the tasks of the accountant. Thus there has been a direct historical relationship: public accounting as we know it today was born in the nineteenth century in response to needs generated by the Industrial Revolution, to the application of power to machines to which human skill and a measure of human intelligence had been transferred. These irresistible technological forces quickly became the economic forces which created the factory system, demanded large aggregates of capital, increased commerce by orders of magnitude, and led to the creation of that singular legal entity, the corporation. And, just as inevitably, these changes in the world of affairs led to the need for chartered accountants in Great Britain, to certified public accountants in the United States, and to their counterparts in other countries.”³

As this passage indicates, the accounting profession in the United States was the result of inescapable forces. But its emergence was also greatly fostered by a small invasion of British chartered accountants shortly before the turn of the century. Arriving on these shores to check on their countrymen's investments, they brought with them a fierce pride in their craft which instilled confidence in the business community — and, in turn, their example encouraged U.S. accountants to emulate them.

The Americans needed to raise their sights, for most of them

³ *Horizons for a Profession*, pp. 44-45.

occupied a lowly status in society — a status which they may well have deserved.

If the early advertising circulars published by accountants offer a clear view of their activities, they performed a relatively limited function. One of these promotional pieces refers to “planning and remodeling books for business firms, preparation and adjustment of partnership accounts, and more especially the periodical auditing and verification of books and statements as a safeguard not only against fraud but against error.”

These accounting pioneers, however, were on the threshold of a new era which resulted from both their own efforts and the impact of outside events.

First of all, they made a crucial decision: that the accounting art would never achieve its full potential unless it was practiced at a professional level — and then they set out to create the conditions which would encourage that kind of approach. They persuaded state legislatures to enact laws governing the issuance of the CPA certificate; they nurtured educational facilities for accounting; they built organizations for the orderly determination of professional policies; they stimulated the growth of accounting literature; and they delineated a host of standards to guide practitioners in discharging their responsibilities.

These achievements were facilitated by a series of developments: the emergence of the United States as one of the world's industrial giants, the need for capital which prompted a vast dispersion of corporate ownership, the collapse of the stock market which led to the enactment of laws imposing tighter controls over business — the most notable of these being the legislation which created the Securities and Exchange Commission.

These events, coupled with the profession's own efforts to justify public confidence in its work, significantly changed the auditor's mission.

Initially, as suggested in the promotional circular which was quoted earlier, the auditor was expected to determine — largely for the benefit of operating management—that the financial statements of an enterprise correctly reflected its basic books of account. Over a period of time, however, he was increasingly asked to assume a higher level of responsibility: to assess, on behalf of shareholders, creditors and others, the fairness of reports issued by management on its stewardship.

The auditor's role, in fact, is still being redefined. Business enterprises are being pressed, for example, to provide additional investor-oriented data to aid users in making economic decisions.

CPAs are being asked to become involved in adding further credibility to such disclosures. Nor is the demand that auditors assume a broader scope of responsibility limited to the private sector. The federal government is suggesting that the profession participate in examinations of governmental units which include not only the conventional review of their financial reports, but an appraisal of whether or not the resources assigned to them are being managed in an effective and efficient manner — and whether or not the desired benefits of the programs under their direction are really being achieved. These and other extensions of the attest function are almost certain to continue.

The pressures for change which transformed the auditor's role have also occurred in the other principal areas of the profession's work.

In the autumn of 1913, Congress enacted an income tax statute. It was a simple measure, and the rates were extremely modest when viewed from today's perspective. However, as the editor of *The Journal of Accountancy* promptly recognized, the legislation would become a powerful stimulus for the profession's growth. "The income-tax law," he predicted, "is bound to result in the engagement of accountants by many corporations and individuals who have not in the past availed themselves of such services. And even though such engagements may in the first instance be limited to purely income-tax questions, they will undoubtedly lead in many cases to a realization by the clients of the wider usefulness of the work of accountants. . . ."⁴

Because CPAs were acknowledged experts in the measurement of income, they quickly acquired a preeminent position in the tax field. That dominance would be challenged in time. But, despite the availability of other sources of tax assistance, CPAs are still widely regarded as superior guides through the perplexing maze of taxation.

It may have been generally understood at the time that the enactment of an income tax law would add a new dimension to the practices of accounting firms. Its ultimate impact, however, could hardly have been anticipated by even the most prescient observer. For the tax laws have become an instrument employed by government not merely to collect a staggering amount of revenue, but to accomplish an array of economic and social goals. They are a pervasive force which not only influences how taxpayers design

⁴ John L. Carey, *The Rise of the Accounting Profession*, 2 vols. (New York: American Institute of Certified Public Accountants, 1969), vol. 1, pp. 70-71.

their lives, but even how they plan for their deaths. Moreover, the search for tax equity has exacted the inevitable price of complexity; and complexity in turn has required a never-ending pursuit of knowledge by those seeking to assist an often bewildered citizenry.

The fact that taxes affect so many has created an impressive volume of work for accounting firms. But the increasing number of taxes, as well as their constantly changing nature, has profoundly altered the character of tax practice. The diversity of subjects embraced in tax practice was revealed in a 1963 survey of a sample of firms represented in the Institute's membership. Substantially more than half of them reported that they were concerned with the special tax problems inherent in estate planning, personal trusts, closely held corporations, employee pension trusts, executive compensation, form of business organization, liquidations, multi-state and multi-national operations, reorganizations, mergers and acquisitions. Obviously, these tasks confront today's tax practitioner with a challenge far different from the one faced by his predecessors.

A similar expansion has occurred in the profession's third major functional area: management advisory services.

According to the co-authors of *Horizons for a Profession*, this expansion has been in part a natural outgrowth of the CPA's audit role:

"The economic data . . . made available to the CPA in an audit engagement — and especially in a sequence of such engagements — embody the symptoms of illness or health of the enterprise. . . . CPAs have been advising their clients about these kinds of things as long as there have been CPAs; the rendering of management services of this kind is not new, as some believe, but is as old as the profession itself."⁵

That latter contention is supported by a document from the archives — a report, dated June 8, 1910, which was submitted to the Westinghouse Electric and Manufacturing Company by a major accounting firm. It reveals that the firm had been engaged to investigate the company's organization, its cost and general accounting systems, its production methods and its employee incentives. Recommendations on all these aspects of the engagement are advanced in the report.⁶

However, the implication in *Horizons for a Profession* that most management advisory services are merely by-products of

⁵ *Horizons for a Profession*, pp. 92-93.

⁶ *The Rise of the Accounting Profession*, vol. 1, p. 146.

an audit engagement needs to be challenged. Obviously, the knowledge gained in a recurring audit can be useful in detecting opportunities for such additional services; but CPAs have, also, long rendered advice to non-audit clients on a wide range of problems, both on an informal and a highly structured basis.

Like tax practice, the field of management advisory services has not been static. It, too, has been transformed under the pressures generated by a changing environment — the vigorous competition of the marketplace which dooms the inefficient, the emergence of corporate organizations of incredible complexity, the advent of electronic equipment with fantastic capabilities, the flood tide of inventions which makes obsolescence a constant hazard. These and similar developments have created a mounting demand for consulting talents of a high order; any organization which attempted to meet those needs in a responsible manner has been obliged to broaden its own span of knowledge and then learn to employ that knowledge with consummate skill.

Accounting firms have tried to do precisely that. They have sought, quoting an official AICPA document, to provide “professional advisory (consulting) services . . . to improve the client’s use of its capabilities and resources. . . .”⁷ While declining to make decisions for management or to assume its operating responsibilities, they have applied consulting techniques within the management process — a process which entails the establishment of objectives, planning, organization, implementation, and control. By applying an analytical approach, technical skills, and professional objectivity to that process, CPA firms have been able to increase the effectiveness of their client’s organizations. This has been accomplished through the identification of goals, the collection of relevant data, the definition of opportunities for improvement, the evaluation of alternative strategies, the presentation of findings, the submission of recommended courses of action, and the provision of assistance in implementing the choices made by management.

In pursuing this consulting function, accounting firms have substantially expanded their range of services. The Institute’s management advisory services division has tentatively identified 16 functional areas of current MAS practice, including systems

⁷ AICPA Committee on Management Services, Statement on Management Advisory Services No. 1, “Tentative Description of the Nature of Management Advisory Services by Independent Accounting Firms” (New York: American Institute of Certified Public Accountants, February 1969), p. 1.

design and installation, financial and economic analysis, managerial planning, information and control, cost accounting, executive recruitment, personnel administration, operations research, and electronic data processing. Even this catalog is by no means complete; and since it depicts the current situation, its accuracy will diminish with time because of the dynamic nature of MAS practice.

As this brief history has demonstrated, the accounting profession has always been in a state of transition. This is no cause for wonder. The value of the services rendered by accounting firms is determined by their social utility; hence the firms (and thus the profession) are constantly evolving in response to the changing needs of society.

One striking result of this broadening scope of practice has been the growth in the number of CPAs — from a few hundred at the turn of the century to nearly 150,000 today. The increase has been particularly remarkable in recent years — as evidenced by the fact that the Institute had only 9,000 members at the close of World War II and now has more than eleven times that number.

The profession's expanding scope has also created a growing need for a greater depth of knowledge, a wider variety of skills, and hence an increasing emphasis on specialization in many areas.

But this need has resulted not only from a broadened range of services. It has also been prompted by developments in the profession's traditional audit function — developments which have demanded the acquisition of specialized know-how in computer sciences, statistical sampling techniques, reporting requirements of governmental agencies, special industry problems, the needs of health care and similar institutions, and so forth.

These trends are almost certain to continue. The profession is being requested to assume a host of new responsibilities, and there is little reason to believe that such pressures will diminish unless a conscious and collective judgment is made to refuse to accept any additional responsibilities. Consequently, the profession needs to determine what role it wants to play in the future and what its response to public needs will be. Such a decision will provide the basis for resolving many of the questions relating to the future scope of practice and the structure of the profession.

However, in addressing these issues, the profession must also consider whether at some point it might jeopardize its status as a profession in the eyes of the public if an expanding scope of services is embraced.

Scope of Services

There seems little doubt that the profession is confronted with a crossroads decision about its future course: does it wish to remain a broad-gauged profession offering a wide range of services designed to benefit many users — including management, investors, creditors, governmental agencies, and the general public? Or should it adopt a more restricted view of its mission?

The latter option may be tempting. Since many of the new services involve matters of uncertainty and even controversy, they may expose the profession to criticism and possible additional legal liability. Moreover, if the additional responsibilities being assumed are not clearly delineated, a widening gap may develop between what the profession believes that it can feasibly do and what the public expects of it. Finally, as it broadens its range of services, the profession redefines its character — provoking, at least for a time, confusion about its true identity. This, in turn, may generate friction among those engaged in practice as well as between the profession and others who offer similar services.

Despite these dangers, the committee on scope and structure is convinced that the profession must not adopt a narrow concept of its role.

The profession is being asked to perform additional tasks because its expertise is desperately needed. If those who seek its assistance are rebuffed, they will be compelled to look elsewhere — possibly to others who may be less qualified to provide the needed services. That reluctance to accept new responsibilities could also reduce the profession's attraction for talented young people who are eager to be creatively involved in serving the public. Any such disenchantment with the profession on a large scale could gravely injure it and might even impair its ability to perform its attest function.

There are other cogent reasons to justify a policy of expanding scope:

- The growing public demand for a higher level of assurance on the reliability of financial reporting indicates that

CPAs must find more effective methods of meeting this need. A deeper and broader knowledge of all aspects of the management process will enhance the judgments that are crucial to effective audits. It follows, therefore, that the availability of a wide range of highly specialized skills which are utilized in an expanded role will supplement and improve the performance of the attest function.

- As noted earlier, the profession is being urged to apply the attest function to matters other than historical financial statements. Interim financial reports, forecasts, adequacy of record keeping and internal control, and the economy, efficiency, and effectiveness of government grant programs are examples of new types of attest services which are being sought by various public bodies. This is not intended to suggest that the profession will ultimately decide that it should undertake to provide all of the requested services. But it also should not decline to do so without giving full consideration to each request.
- The increasing use of advisory services provided by public accounting firms is strong evidence that the users of such services perceive them to be both useful and within the proper sphere of the profession. Thus it is reasonable to conclude that providing such services will not lead to any loss of status with this segment of the public. On the contrary, it should enhance the profession's status.
- The fact that other groups provide services that are similar to those rendered by the profession should not lead to the conclusion that such services should be avoided. The existence of competing sources for similar services is not a circumstance that is new or unique to the public accounting profession. In the last analysis, the public will look to those who best meet its needs; and, in many cases, the availability of a service from more than one source will be viewed as being in the best interests of the users. Moreover, since many of the services being sought involve significant elements of accounting, the public should not be foreclosed from obtaining them from the profession.
- The committee's study produced no evidence that would suggest avoidance of an expanding scope of services. Several of those interviewed by the committee did express some concern that it might jeopardize the attest

function. However, the committee uncovered no significant objective evidence indicating that independence had been impaired as a result of providing a broad range of services to audit clients. In the absence of such evidence, the committee concluded that it is unlikely that public attitudes will demand a curtailment of the present scope of services. In addition, it was concluded that the crucial qualities of integrity and objectivity need not be impaired by a policy of expanding the profession's services, *provided that certain restrictions to be discussed later are observed.*

The present broad range of services performed by the profession is a natural outgrowth of its own development. As previously mentioned, it evolved from an original base of services which was rooted in providing advice on business matters, record keeping, and reviewing and reporting on stewardship. The skills developed from this base involve recording, analyzing, evaluating, and reporting of data relating to economic transactions. These skills have been utilized over the years in advising owners, managers, and third parties in an ever-widening scope of services aimed at aiding management and investors to achieve a more effective use of resources. Of prime importance among these services is the lending of credibility to the reliability of financial statements to facilitate the functioning of today's capital markets.

It must be acknowledged, however, that the diversity of services provided by practitioners has raised the question of whether the profession is engaged in performing incompatible services and, if so, whether the result will be a diminution of the professional status of CPAs.

There have been several attempts to deal with this question. One of them resulted in a proposition that all matters having to do with information systems fall properly within the scope of services to be rendered by CPAs. This view implied the conclusion that professional status would not be endangered by engaging in at least some services other than the attest function. Although it endorses this implied conclusion, the scope and structure committee believes that there is a broader characteristic than information systems which provides the common base for the present and future services of a unified profession.

That characteristic is the expressing of opinions and the providing of advice and assistance on the accounting for, or the management of, the utilization of resources.

In tracing the profession's history, it seems clear that the profession's expanding skills have been applied consistently to offering such counsel. Advice or assistance on accounting, financial reporting, and taxes — as well as the many activities generally included under the term management advisory services — all have the above characteristic in common.

Although the domain of accounting has steadily enlarged, it can be argued that the basic function performed by the profession — i.e., the expressing of opinions and the providing of advice and assistance on the accounting for, or the management of, the utilization of resources — has not changed in any fundamental way. The need for such assistance has certainly increased; the number of those seeking it has multiplied; the manner of delivering it has been modified; the knowledge required to provide it has grown. Yet the basic function of the profession has remained essentially the same, and this has provided a cohesive force which has transformed what might otherwise appear to be merely a collection of diverse talents pursuing different objectives into a unified profession endowed with a common purpose.

It is recognized that a question remains as to whether the public either does or would continue to view a characteristic of such breadth to be appropriate for the profession. As indicated earlier, there is no available method whereby a completely reliable answer to that question can be determined. The measurement of public attitudes in a fast-changing society is — and always will be — an uncertain process.

Even if firm reassurances could be obtained in regard to public attitudes, some members may deplore the adoption of such a comprehensive concept of the profession's role. This concern seems primarily to reflect a skepticism about the ability of the profession to develop or maintain competence in a diversity of management techniques. In the last analysis, however, since the public will seek services only from those who are most competent to provide them, there is little danger that the profession's scope will exceed reasonable bounds. There would be little if any motivation to attempt to provide services for which there was no natural or valid demand.

In view of all these considerations, the committee on scope and structure believes that the profession, as it has in the past, must be willing in the future to maintain a broad and expanding range of services which are responsive to the needs of society. In doing so, however, it must not ignore a number of constraints which are essential to the retention of its professional status.

Constraints on Scope of Services

The decision to remain a broad-gauged profession does not, of course, obligate every practice unit to do everything which might be requested of it.

Obviously, practitioners are entitled to follow their own personal preferences in deciding which services to refrain from offering. But each firm has a further duty: it must consider a number of factors in determining its own proper scope of services.

The first factor is so patently obvious that it can be dismissed in a sentence: services cannot be performed which are reserved by law to others.

The second constraint to be weighed in evaluating whether or not a particular service should be provided is much more crucial and, thus, deserves more attention.

The Institute's Code of Professional Ethics imposes a duty upon every member to perform his work with a high degree of professionalism.

The concepts section of the Code offers additional guidance on meeting that obligation:

“Observance of the rule on competence calls for a subjective determination by a CPA with respect to each engagement. Some engagements will require a higher level of knowledge, skill, and judgment than others. Competence to deal with an unfamiliar problem may be acquired by research, study, or consultation with a practitioner who has the necessary competence. If a CPA is unable to gain sufficient competence through these means, he should suggest, in fairness to his client and the public, the engagement of someone competent to perform the needed service, either independently or as an associate.”⁸

The Code's injunction to perform with competence is coupled with a requirement that members must be aware of, and comply with, technical standards applicable to an engagement. They

⁸ American Institute of Certified Public Accountants, *Code of Professional Ethics*, March 1974 ed. (New York: American Institute of Certified Public Accountants, 1974), pp. 9-10.

are also reminded that since published standards can never cover the whole field of practice, they are expected to keep “broadly informed.”

These observations may cause some hesitation in contemplating an engagement for which no substantial body of performance standards may exist. The provision of such guidelines is a responsibility resting primarily with the American Institute, which has done much to meet that obligation. This is particularly true for the traditional audit function; but an increasing fund of instructional material is being provided for specialized audits, for engagements in the area of management advisory services, and for appropriate conduct in tax practice.

Even though he is armed with a considerable body of general standards applicable to all services, a practitioner would be well advised to proceed with caution when asked to perform a service for which specific guidelines may not be available. Above all, he must achieve a full understanding about the nature and objectives of the engagement with those who will rely upon his work, and he must firmly decline to accept responsibilities which neither he nor anyone else could discharge.

It would be an error, however, to shun a particular service solely on the grounds that a complete set of technical standards governing the performance of that service has not yet been developed. An outright prohibition on exploring new frontiers of service would inhibit progress in the formulation of needed standards which can only evolve as experience is gained in a particular area of practice. Moreover, such a ban would deprive the public of assistance which it requires now — not at some later time when all the unresolved issues have been settled.

Perhaps the most significant question to be answered in appraising the propriety of any particular service is this: would it be compatible with the firm’s obligation to maintain its public credibility in the performance of the attest function?

This is a significant inquiry because the performance of the attest function is of overriding importance to the profession’s future status. But more than the profession’s own self-interest is involved in safeguarding the function. In adding credibility to financial statements through his involvement in the reporting process, the CPA becomes a crucial element in the operation of an effective capital market. It is reasonable to assume that a broad-scale erosion of confidence in the profession’s audit independence would impede the flow of investments and thus disrupt the whole economy.

This issue of independence is a complex matter which is discussed at length in the AICPA's Code. It notes that independence has traditionally been defined by the profession as the ability to act with integrity and objectivity. The first is a quality of character; the second is an attitude of mind. Both are difficult to evaluate except through observing actions and relationships in the context of a specific situation.

The concepts section of the Code also observes that pressures upon a CPA's integrity or objectivity are offset by powerful countervailing forces, including the possibility of legal liability, professional discipline ranging up to revocation of his license to practice, loss of reputation, and, "by no means least, the inculcated resistance of a disciplined professional to any infringement upon his basic integrity and objectivity."

In establishing rules relating to independence, the concepts section of the Code declares that "the profession uses the criterion of whether reasonable men, having knowledge of all the facts and taking into consideration normal strength of character and normal behavior under the circumstances, would conclude that a specified relationship between a CPA and a client poses an unacceptable threat to the CPA's integrity or objectivity."⁹

The document then focuses on the attest function:

"When a CPA expresses an opinion on financial statements, not only the fact but also the appearance of integrity and objectivity is of particular importance. For this reason, the profession has adopted rules to prohibit the expression of such an opinion when relationships exist which might pose such a threat to integrity and objectivity as to exceed the strength of countervailing forces and restraints. These relationships fall into two general categories: (1) certain financial relationships with clients and (2) relationships in which a CPA is virtually part of management or an employee under management's control.

"Although the appearance of independence is not required in the case of management advisory services and tax practice, a CPA is encouraged to avoid the proscribed relationships with clients regardless of the type of services being rendered. In any event, the CPA, in all types of engagements, should refuse to subordinate his professional judgment to others and should express his conclusions honestly and objectively."¹⁰

⁹ *Code of Professional Ethics*, March 1974 ed., p. 7.

¹⁰ *Ibid.*

The concepts section concludes with these words:

“To sum up, CPAs cannot avoid external pressures on their integrity and objectivity in the course of their professional work, but they are expected to resist these pressures. They must, in fact, retain their integrity and objectivity in all phases of their practice and, when expressing opinions on financial statements, avoid involvement in situations that would impair the credibility of their independence in the minds of reasonable men familiar with the facts.”¹¹

The scope and structure committee endorses these precepts and has concluded, in the light of them, that engaging in a consultative role or providing assistance on a broad range of matters related to accounting for, or management of, the utilization of resources would not diminish a practitioner’s appearance of being free of client control in the eyes of the public provided the services rendered were professional in nature. The subject matter involved, or the fact that the primary user of the services might be management rather than third parties, should have little bearing on the appearance of being independent. However, becoming involved in an administrative capacity, or assuming the functions of management, is a role that would very likely contradict the right to be regarded as being independent. Thus the committee believes that a strict adherence to an advisory role is of crucial importance whenever a high risk exists that the rendering of any particular service will create doubts in the public mind about the independence of a firm or practitioner in the performance of the attest function.

Even when a consultative role has been strictly maintained, it may be difficult under certain circumstances to avoid appearing to be biased or lacking in independence with respect to expressing opinions on financial statements. The risk of this occurring increases considerably when the services performed may have a significant impact on a client’s financial statements and where there is reasonable doubt as to the ability of management to appraise the proffered advice. In these situations, the practitioner must consider whether a choice must be made between performing the audit or rendering the service which might prompt questions regarding his independence.

The basic emphasis of the cited excerpts from the AICPA’s Code of Professional Ethics is that the propriety of any specific service hinges importantly on the manner in which it is performed.

¹¹ *Code of Professional Ethics*, March 1974 ed., p. 9.

In harmony with that philosophy, the Institute's division of management advisory services has issued several statements for the guidance of members in their consulting activities. One of them contains this observation:

"The role of an independent accounting firm in performing management advisory services is to provide advice and technical assistance, and should provide for client participation in the analytical approach and process. Specifying this as the proper role recognizes both the appropriate place of management advisory services and the realities of practice. This is the only basis on which the work should be done and it is the only basis on which responsible management should permit it to be done."¹²

As the MAS division continues to release such guidelines for the professional approach to consulting, it may well diminish concerns over any possible loss of independence by further clarifying the way in which CPAs are expected to conduct their MAS engagements.

There have been suggestions that a CPA firm should be prohibited from providing any management advisory services to audit clients. This drastic step would have a number of adverse effects: the advantages of familiarity with the client's operations would be lost; the costs of performing the services would doubtless be increased; the insights gained in the engagement which might increase audit effectiveness would be sacrificed; the discipline imposed by a continuing client relationship would be diminished. Such a remedy, purchased at such a heavy cost, would be warranted only if adequate evidence could be cited that the performance of consulting services was in fact imperiling the profession's reputation for independence. As noted earlier, the committee has not found any significant objective evidence which would suggest that such an impairment of independence has occurred.

The suggestion has also been advanced that one or more of the "peripheral" management advisory services, i.e., those which may appear to be only marginally related to the traditional accounting function, ought to be proscribed.

This may seem at first to be an inviting course of action.

The challenged services are presently performed by relatively few firms, and none of them constitutes a major part of the practice of any firm. A prohibition against one or more of these services would not inflict much of a hardship on the profession,

¹² Statement on Management Advisory Services No. 1, p. 1.

but it would deprive the business community of convenient access to useful assistance. A decision to ban a particular service, however, cannot be justified if it is merely designed to silence those who question the propriety of that service. Such a gesture of appeasement, even if it proved effective in mollifying the critics (a dubious assumption), would set a dangerous precedent. If any proscription were to be adopted, it ought to be the result of a clear determination, based on solid evidence, that the prohibited service was creating serious questions about the profession's independence in performing its attest function.

In determining what services to offer, a practicing unit also needs to be concerned about its "image" — an admittedly vague term for describing the overall impression of its character which is created in the minds of others by its actions. If a firm's range of services appears to exceed its resources in talent, it may provoke skepticism about the general level of its competence. Or if it seems excessively concerned about growth, it may generate fears not only about its fidelity to the professional commitment of service above self, but about its ability to maintain adequate supervision over the quality of its performance. Or if its non-audit services become, or seem to become, a dominant element in its practice, it may run the risk of appearing to downgrade its vital audit function. Or if any significant individual service which it renders is predominantly commercial in character, it may jeopardize its professional status.

These are matters which need to be thoughtfully weighed; but they can only be weighed by each of the practicing units within the profession. They, and they alone, are in a position to consider all of the factors which must be taken into account in making a decision.

This, however, does not relieve the Institute of its own special obligation to do all within its power to ensure that the actions of its members are consistent with their responsibilities to the public. If the reputation of the profession as a whole were being endangered by any segment of the profession, it would have a duty to serve as the instrument of the collective will of the profession in attempting to rectify the situation.

The decisions to date by accounting firms on their scope of services do not appear to pose any such threat to the profession's reputation.

Obviously, it would be easier to explain the profession to others if its activities were confined, for example, to the performance of independent audits. But the likelihood that its performance of a wide range of services may increase the difficulty of promoting

general understanding of the profession hardly justifies the imposition of artificial limitations on its scope.

The adoption of needless restrictions, indeed, would be a disservice to all concerned. If the firms were permitted to do now only what they have done in the past, they would obviously be far less helpful to society; and, if they were confined in the future to doing only what they presently do, they would be precluded from becoming even more useful.

The profession must insist, therefore, that its opportunities to provide a needed service should not be curtailed, so long as it renders that service with due regard for all its obligations, including the imperative duty to *perform with competence, integrity, and objectivity*.

The decision to remain a broad-gauged profession, however, raises some additional issues which need to be explored.

The Need for Multi-Disciplines and Specialization

Nearly a decade ago, the Institute's Council adopted a statement setting forth a description of accounting.

It reads in part:

"Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization.

"The information which accounting provides is essential for (1) effective planning, control and decision making by management, and (2) discharging the accountability of organizations to investors, creditors, government agencies, taxing authorities, association members, contributors to welfare institutions, and others.

"Accounting includes the development and analysis of data, the testing of their validity and relevance and the interpretation and communication of the resulting information to intended users. The data may be expressed in monetary or other quantitative terms, or in symbolic or verbal forms.

"Some of the data with which accounting is concerned are not precisely measurable, but necessarily involve assumptions and estimates as to the present effect of future events and other uncertainties. Accordingly, accounting requires not only technical knowledge and skill, but even more importantly, disciplined judgment, perception and objectivity."¹³

Many elements of this description remain valid even with the passage of time.

It has, however, a serious deficiency: it does not adequately emphasize the fact that a command of more than one field of knowledge is required if the profession is to be fully responsive to the growing public need for better and more extensive services.

The definition, indeed, rests upon the assumption that the discipline of accounting is the characteristic which provides the common base for the profession and its scope of services. Obvi-

¹³ *The Rise of the Accounting Profession*, vol. 1, pp. 10-11.

ously, this is a view which is widely held both within and outside the profession. It is a view which is reinforced by the fact that entrance to the profession has been achieved solely by passing the Uniform CPA Examination, which is aimed principally at testing accounting and auditing knowledge, and by the fact that only certified public accountants are permitted to be affiliated with the Institute.

Nonetheless, the desirability of reexamining this underlying premise is suggested by a number of developments. Some of these relate to the attest function. The need for improving upon the current high levels of assurance on the reliability of financial information, the expression of opinions on matters other than historical financial statements, and a more realistic portrayal of economic values indicates that a multi-discipline approach to practice has become inescapable. In addition, the profession has been under mounting pressures to supplement its basic accounting skills with varied disciplines in providing a wide range of advisory services. These pressures are a natural outgrowth of an economy which involves intricate business transactions, highly developed capital-raising techniques, elaborate entity structures, and extensive intervention by government in the private sector.

In order to meet these new demands, the profession has sought to acquire the expertise needed to supply the requested services. It has done this by training CPAs and non-CPAs in the necessary disciplines and by employing non-CPA experts in the other disciplines.

This need for a multi-discipline approach, incidentally, is not confined to public practice. It exists in industry and in government.

D. L. Scantlebury of the General Accounting Office has written:

Much has to be learned about melding the work of auditors and experts in other fields. My contacts with others in the accounting profession lead me to believe that we in GAO are leading in this trend and that others are just beginning to experiment with it. However, we are far from having reached the optimum in using expert help, and if we want to do our work as easily, yet as effectively as possible, we must continue to expand our capabilities to use other disciplines. The areas of interest to the Congress are so broad and what the Congress looks to GAO for is so diverse that we cannot respond appropriately unless we do expand this capacity. I view this process of melding the talents of auditors and

experts in other disciplines as the major challenge in auditing in the next decade.¹⁴

In view of all these developments, the profession's traditional structure ought to be reexamined to ensure that it fully recognizes that a broad-gauged profession has emerged.

If a creative response is to be made to these events, the profession needs to rethink its mission and the structure which will best serve its purposes.

Unless a conscious decision is reached, the profession may well fail to move in an orderly manner toward well-defined objectives. In the view of the committee on scope and structure, those objectives should be a profession that embraces a unifying concept of its role and a structure that is designed to accommodate a multi-discipline approach to practice.

The committee has already identified a common base for a unified profession: the expressing of opinions and the providing of advice and assistance on the accounting for, or the management of, the utilization of resources.

In regard to desirable structural changes, the committee is also convinced that the profession should take prompt action to provide for the formal recognition of specialization.

Clearly, a multi-discipline approach to practice, generally requiring a division of labor within the firms along specialist lines, is already being pursued by many firms. In effect, therefore, *de facto* recognition of specialists exists today; but it is granted by firms and thus it is based on various criteria.

If a profession-wide program were inaugurated, a far higher degree of uniformity in the criteria for recognizing specialists could be attained. Moreover, the opportunity to achieve such recognition in specific fields would be made more readily available to all practitioners and not confined to those associated with firms whose size permits an organizational setup which encourages a presumption of expertise.

There are two other important benefits to be derived from a formal program to recognize specialists within the profession:

- The provision of such recognition would be an incentive to excellence. The attainment of a further mark of distinction by meeting a set of standards formulated by one's

¹⁴ D. L. Scantlebury, "Using Analytical Experts in Auditing," *The GAO Review*, Summer 1974.

professional colleagues would be a source of personal satisfaction. But, more significantly, the effort to acquire that additional prestige would demand a vigorous pursuit of knowledge and that, in turn, should benefit the public by ensuring an even higher quality of service.

- Such recognition, gained within the profession's national organization, would underscore the point that the specialized areas are legitimately within the profession's scope of services. It would, in effect, validate what is presently being done in practice; and this is important because the committee believes that what *is* being done is what *ought* to be done if firms are to remain fully capable of meeting society's needs.

The committee's recommendation that the Institute should inaugurate a formal program for the recognition of specialists has been sketched out in rather broad strokes.

It is now time to translate that general proposal into a detailed plan of action.

A Plan for Implementation

Under the program envisioned by the scope and structure committee, a number of the existing senior technical divisions would be empowered to develop qualifying procedures to be used in admitting specialist members to the divisions.

Initially, this assignment would be given to the division of federal taxation and the division of management advisory services. In addition, the divisions of accounting and auditing standards would be requested to conduct a joint study of the categories of specialization which might be appropriate in their areas (for example, specialization by industry, SEC practice, and auditing techniques such as statistical sampling and computer auditing).

Pending the creation of specialist examinations, which would be administered annually by the Institute and would be of comparable difficulty to the Uniform CPA Examination, a member of the Institute would be eligible for admission as a specialist to one of the divisions by providing evidence that he was devoting a plurality of his time to that specialty and had done so for a period of two years.

As soon as suitable examinations have been prepared, AICPA members who had not already been admitted during the interim period would be required to pass one such examination as a prerequisite for admission as a specialist to a division. The successful completion of one of these examinations would entitle the member to receive an appropriate document attesting to his achievement.

An AICPA member specialist would also be entitled to refer to his affiliation with a division on business cards and elsewhere — e.g., “Member of the AICPA Federal Taxation Division.” It is recognized that such a reference would require a modification of the current interpretation of Rule 502 issued by the Institute’s division of professional ethics. The use of such a designation, in addition, would be subject to regulations of the appropriate state board of accountancy.

Each of the divisions would be requested to determine the categories of specialization and the required qualifying examinations for them.

Each of the divisions would also be urged to consider whether all those affiliated with it as specialists should be obliged, as a condition of continuing affiliation, to devote a specified amount of time, for example, 24 hours a year, to qualified professional education in the area of their specialization.

Responsibility for carrying out the specialization activities would be lodged in the executive committees of the appropriate divisions of the Institute. The principal functions would be as follows:

- Develop and approve specialist examinations — with the concurrence of the AICPA Board of Examiners and with the assistance of the staff of the examinations division.
- Establish, with the approval of the Board of Directors and Council, the requirements for membership in the specialist divisions.
- Conduct national or regional conferences for members of the divisions — though such meetings would be open to all AICPA members.
- Issue technical standards and statements on matters in the name of the Institute — in accordance with the authority already vested in the senior committees by the bylaws and resolutions of Council.
- Publish technical articles.
- Review, advise, and provide assistance in the development of continuing professional education courses and material.

As mentioned earlier, in order to perform the full range of services expected of it, the profession has needed an extensive array of talents.

It was once assumed that everyone likely to occupy responsible positions in practice would enter the profession through the common portal of the Uniform CPA Examination. That assumption rested on another one: that an adequate quantity and degree of skills required to perform the full range of services expected of the profession could be acquired through individuals possessing the CPA certificate. But this has not occurred in the past, nor is it likely to occur in the future. The primary focus of the CPA examination is on the profession's attest function — and necessarily so because it is this function, which so clearly affects the public interest, that prompted the enactment of state accountancy legislation in the first place. In order to enhance their chances of success (and, in fact, to be eligible to sit for the examination in some jurisdictions),

most candidates for the certificate are obliged to concentrate their formal educational and other developmental efforts on acquiring a thorough familiarity with the subject matters covered in the examination. Admittedly, once having earned the CPA title, many have acquired the additional know-how to perform with distinction in diversified areas of practice. But the supply of such people has always been inadequate, and the prospects are dim that the shortage will be eliminated in the foreseeable future.

Consequently, as mentioned earlier, firms have been forced to look beyond the ranks of CPAs to those trained in other disciplines. It is estimated, for example, that nearly three-quarters of the approximately 5,000 individuals who perform management advisory services on a full-time basis within the larger accounting firms and who contribute their expertise in such fields as computer sciences and statistical sampling to the conduct of audit engagements are not certified public accountants. These are men and women of stature, with outstanding academic credentials in terms of their own special fields of knowledge; and they are a vital factor in the ability of their firms to render the wide range of services being sought from them.

It might be argued that the only appropriate way for them to achieve recognition within the profession is to become certified public accountants. But this would be asking more than can be reasonably expected of them. They have already expended considerable time in developing their own specialized skills and, while the additional knowledge needed for passage of the CPA examination might be beneficial, it can hardly be deemed essential for the effective performance of the tasks assigned to them.

It might also be contended that instead of employing such specialized talents on a full-time basis, accounting firms should collaborate with other organizations possessing the required competence. This kind of cooperative effort does occur, of course; and it may well occur with increasing frequency on engagements demanding a multi-discipline approach (e.g., in conducting reviews of the effectiveness of highly complex social programs). But there are compelling advantages in having immediate and continuing access to the needed skills within a firm. It facilitates the maintenance of quality standards; it encourages an integrated approach to client problems; it permits a freer interchange between experts in various disciplines to the benefit of all; and it results in a more efficient deployment of personnel.

In view of these factors, it seems highly desirable that the non-CPA specialists employed by public accounting firms should

be allowed to participate in any Institute program for the recognition of specialists.

The exclusion of them would have the serious defect of failing to recognize the realities of present-day practice.

This could lead to two results, neither of which is pleasant to contemplate. It could deprive accounting firms of the valuable skills of non-CPAs by discouraging them from pursuing their specialties within the profession, and it could impel the non-CPAs to seek recognition elsewhere and thus impede efforts to nurture unity within the profession.

Consequently, once the specialist examinations have been developed, consideration should be given to making them available to a non-CPA specialist if he meets the following requirements:

- He is employed on the professional staff of a firm which is represented by one or more partners in the membership of the Institute.
- He has earned a baccalaureate degree from an accredited college or university.

In order to be granted a document attesting to his proficiency in a specialist area, he would also be required to —

- Pass the business law and the auditing sections of the Uniform CPA Examination. (Conditioning requirements would be those applied in the state in which he took the examination.)
- Satisfactorily complete the professional ethics course offered by the AICPA's continuing professional education division which includes an open-book examination to evaluate the performance of the participant.
- Pass the specialist examination.

When sufficient experience has been gained with the specialist examinations and their level of difficulty has been clearly demonstrated, consideration should also be given to granting membership status in the divisions to those non-CPAs who have completed the required qualifying process. This should entitle them, like their CPA counterparts, to refer to their affiliation with a division. But their membership status would be surrendered if they ceased to be employed by a firm represented in the AICPA membership, and it could be suspended or revoked if, under the regular disciplinary procedures of the Institute, they were found to have violated the Institute's Code of Professional Ethics. If a continuing

education requirement had been established, it would apply to them as well as the CPA specialist members.

The eventual admission of these non-CPAs to the specialist divisions on the basis of these stringent requirements would have a number of benefits:

- It would be helpful in developing an even stronger sense of identity with the accounting profession.
- It would be equally useful in promoting a deeper appreciation of the profession's overall responsibilities. This awareness would be enhanced by bringing the non-CPA specialists employed by firms more directly within the purview of the profession's disciplinary machinery for any departures from the Institute's Code of Professional Ethics.
- It would doubtless assist firms in attracting and retaining individuals who can contribute significantly to the firms' abilities to meet the expanding needs of the public as well as to elevate the quality of their existing services.
- Finally, it would enable the Institute to gain more ready access to individuals whose specialized talents would be valuable in formulating guidelines to assist members in performing services, including some aspects of audit engagements, which increasingly demand a multi-discipline approach.

It should be emphasized that this proposed program for formal recognition of specialization is designed to strengthen the ability of the Institute to serve the needs of its members and those qualified individuals who are associated with them in practice. The proposed arrangement, in other words, is a supplement to, not a substitute for, any part of the present organizational setup. The Institute must continue to serve all of its members, whether or not they are qualified as specialists, through its current structure of Council, Board of Directors, and existing committees.

The scope and structure committee recognizes that the authority to determine whether or not these recommendations are to be implemented – and the timing of such implementation – rests with the policy-making bodies of the Institute.

However, in order to set forth clearly the needed actions, the committee suggests that the following timetable be considered:

- *As soon as practicable.* The Board of Directors should authorize the distribution of this report, as a discussion

draft, to members of Council, to appropriate state society officers and committees, and to members planning to attend the 1974 annual meeting of the Institute as background for a series of sessions at that meeting. This would be the beginning of a year-long exploration of the report throughout the profession.

- *Prior to the 1975 fall meeting of Council.* The Board of Directors should approve the report, as finalized by the committee in the light of the discussions, for submission to the Council.
- *At the 1975 fall meeting of Council.* The Council should approve the report for implementation, with the exception that action on the proposal to offer membership status in the divisions to qualified non-CPAs would be deferred until sufficient experience had been gained with the specialist examinations.
- *In 1976-1977.* Consideration should be given by the Board of Directors and Council to submitting a bylaw amendment to a membership vote which would permit membership status in the divisions to be bestowed upon the qualified non-CPAs.

During the next year or so while these policy reviews are in progress, the appropriate senior technical divisions should be devoting at least preliminary study to implementing the plan outlined in this report. When the clearance procedures have been completed, they should be in a position to discharge promptly the main responsibilities assigned to them, i.e., the development and field testing of the specialization examinations and the inauguration of a program of activities which meets the needs of members of the divisions.

This schedule provides an ample amount of time for full consideration of the report; and this is clearly warranted by the long-term significance of the proposals advanced in it.

At the same time, the suggested timetable ought to encourage an orderly resolution of some vital issues which, in the committee's view, should be settled as promptly as due regard for prudence and a commitment to the democratic process will permit.

Obviously, the implementation of these proposals will require members of the profession to adopt a hospitable, if not uncritical, attitude toward new ideas.

That will not be easy.

In his history of the profession, John Carey makes this pertinent comment:

“The accounting profession today is the product of an industrial, free-enterprise economy, supported mainly by private capital, but subject to widespread government regulation. Economic and social change created the *need* for an accounting profession — but accountants themselves *created* the profession by constantly raising their standards of performance, by improving their own education and training, by enlarging the scope of their services, and by accepting heavier responsibilities.

“All this has not been easy. Progress at times has seemed slow, and often it has been painful. CPAs, being human, have rarely embraced change with enthusiasm, or happily abandoned the security of the familiar. Many of their advances, indeed, have been the result of outside pressures. But to do them credit, the CPAs have had the intelligence to recognize the significance of those pressures — and to react to them before it was too late. Much of the progress must be credited to a succession of gifted, perceptive and courageous leaders who have foreseen the need for change and persuaded their colleagues to accept it — not always without internal conflict, and almost always only after protracted debate.”¹⁵

This report is also likely to produce extensive discussion within the profession.

Such a result will be welcomed by the committee — not only because it will provide evidence of the vitality of the profession, but because it will increase the likelihood that the ultimate decisions will be soundly conceived.

¹⁵ *The Rise of the Accounting Profession*, vol. 1, pp. 4-5.

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