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Profession Under Attack

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Over the last several years the accounting profession has come under attack from public interest groups, congressional committees, the press, and business writers. However, accounting is just one of several professions being beseiged by the advocates of public responsibility. To better understand accounting's problems, it is important to take a broad look at the nature of American professions in the late 20th century.

A profession is an institution and possibly a monopoly; it must have a definite purpose and require special training. In order to comply with society's requirements for a profession, educational standards are established, competency examinations are administered, and various codes governing behavior are required. However, below the surface, the professions successfully create a guild calling for restraint of competition in the name of better service to the public. The public often views this as a move toward elitism. Thus, the profession's members are set apart from the general public and a monopoly is created.[1]

Because a profession's functions center on public service, its members are necessarily at the mercy of the public's will. Society allows the profession a limited set of privileges expecting the members to perform these functions efficiently and effectively. However, expecting a profession composed of individuals to act in a uniformly expert manner is unrealistic. There will, inevitably, be superior performance by some members of a profession, failures by others, and much performance which falls into the median between these two. Failure to meet a changing society's standards leads to public displeasure and sometimes distrust endangering the profession's privileges.[2]

The current public assault on the accounting profession is an outgrowth of the Watergate investigations, corporate failures, frauds, and briberies encountered in the early 1970s. These events brought the attention of the public and government to the business community in general, and specifically to the accounting profession. As a result, Congress conducted several investigations into the Securities Exchange Commission's (SEC) management of matters involving corporate accountability, accounting, and auditing.

The first Congressional report came from Congressman John E. Moss's subcommittee in October 1976. They concluded that the SEC should not continue to rely on self-regulation in the accounting profession because of the Financial Accounting Standards Board's (FASB) tarnished image. Similarly, the staff report prepared by the late Senator Lee Metcalf for subcommittee hearings on the accounting profession was critical of the SEC's oversight; it proposed that more legislation was needed to regulate accountants.

While Metcalf and other critics of the accounting profession and the FASB discussed federal standards for accounting and auditing, the American Institute of CPA's (AICPA) Commission on Auditors Responsibilities (The Cohen Commission) concluded that the present combination of private and government regulation effectively maintained audit quality. However, the Cohen Commission documented that there was substantial room for improvement in the area of self-regulation. As a result of the SEC's continued support of self-regulation, the Metcalf subcommittee's recommendations issued in November 1977 emphasized self-regulation for the accounting profession with SEC oversight.

Structure For Self-Regulation

Following the 1977 Senate Subcommittee hearings, the accounting profession was faced with either the prospect of revising its present regulatory processes or submitting to public regulation. The profession chose the former option and formulated a self-regulatory plan through the AICPA. The principal elements of the plan were a SEC Practice Section monitored by non-CPAs and peer review.

The SEC Practice Section (SECPS) is one of two sections created in 1977 when the AICPA established a Division for CPA Firms. Membership in the SECPS dictates that a firm follow rigid quality control standards and meet numerous requirements, including peer review. An Executive committee oversees the Section's activities; it can impose sanctions such as additional continuing education requirements, special peer reviews, censures, fines, and expulsion from membership. The Public Oversight Board (POB), in turn, oversees the Executive Committee of the SECPS.

Another element of the SECPS is a special investigations committee (SIC). The SIC examines evidence of alleged audit failures and makes recommendations concerning further investigation and sanctions to the Executive Committee.

Members of both the SECPS and the Private Companies Practice Section (PCPS) are required to undergo a peer review every three years. The purpose of peer review is to evaluate a firm's quality control system and determine if there is reasonable assurance that the firm is meeting professional standards. Accordingly, the peer review process is the foundation of self-regulation.

Before the peer review can begin, the firm being reviewed prepares a quality control document which describes their quality control system and checks for compliance with prescribed measures by examining working paper files and reports. Compliance with membership requirements of the division for firms is also examined during the review. At the conclusion of the review, a written report is presented at a meeting called an exit conference. Both the SECPS peer review committee and the POB are notified of upcoming exit conferences involving members of the SECPS.

For self-regulation to be effective, more than the self-interest of those regulated must be considered.

Several rules have been established to govern the composition and qualifications of those conducting reviews. Review teams may be provided by the AICPA, an association or a state CPA society or one firm may engage another. However, reciprocal reviews are not allowed; the two firms must be independent of each other. Members of the review team must be CPAs and be highly knowledgable in the reviewed firm's specialty areas. In addition to the work of the SECPS peer review committee, the POB monitors the peer review process.

The POB was forced to oversee the activities of the SECPS. The composition of the POB reflects the profession's desire to represent the users of financial statements and to improve public service. Of its five members, four must be nonaccountants. Because of the profession's desire to maintain a self-regulation program, the POB has line authority. Its real power results from the right to attend the meetings and activities of every section committee and the duty to report to the SEC and the public on the adequacy of the profession's self-regulatory program.[3] Specific POB duties include consulting with SECPS executive committee on current issues, overseeing the peer reviews of member firms, attending exit conferences, examining the investigative efforts resulting from the SIC, and consulting with the SEC.

The AICPA's formation of an SEC practice section, a peer review process, and a POB has illustrated the profession's commitment to oversight and quality control. However, the oversight and peer review process require that disciplinary bodies penalize those who perform substandard work. The failure of the oversight and peer review process to adequately discipline the profession is just one of the self-regulatory problems that remains to be solved.[4]

Self-Regulation Problems and Considerations

In order for self-regulation to be effective, more than the self-interest of those regulated must be considered. A problem facing self-regulation is that of overcoming the reservations of both members of the profession and the public. A few members of a profession naturally resist all forms of regulation while some citizens see private regulation as a collusion of members aiming to deceive those who are supposed to be served.[5]

Other matters which must be considered are the misconceptions on the part of the public and members of the profession concerning self-regulation and public regulation. Some individuals expect to see a great deal of activity, indicating that self-regulation is functioning properly. However, the activity level in a self-regulatory process is a less useful measure of control than in public regulation. As mentioned earlier, some members of the regulated profession will not perceive a change from their unregulated state and will be uncooperative regarding new or formal regulation.[6]

Public regulation emphasizes punishment; self-regulation stresses remedies and avoidance.

Further, problems can occur in the relationship between the profession being regulated and the group who is responsible for oversight. A lack of attention to oversight leads to unquestioned self-regulation; too much attention can lead to public regulation.[7]

Perhaps, the biggest problem in the current self-regulatory system is the failure of the AICPA to make membership in the SECPS or PCPS mandatory. This failure is especially noteworthy in light of the recent decline in SECPS membership. Reasons cited for this decline include peer review costs and unwillingness to undergo peer review.[8] Without increased involvement in the division, the profession's commitment to oversight and quality control is questionable.

A final consideration involves the level of competition in the profession. While the number of accounting firms has increased, the client base has remained essentially at the same level. The result of firms' efforts to maintain or expand their client base has often led to price cutting. Unfortunately, a decline in the quality of service offered has frequently accompanied these price cutting measures.

Need For Proper Balance

Although public regulation and self-regulation are directed toward similar ends, they vary significantly in the means used to achieve those ends. For example, requirements dictated by public regulation are enforced through state and federal authority; self-regulation can only invoke sanctions or exclude members from group benefits.[9]

If self-regulation is to work, a moral regeneration is needed.

While public regulation emphasizes punishment for misconduct, self-regulation stresses remedies and avoidance. One reason for this difference in methods is that the public demands intensified public regulation after it perceives misconduct; in their eyes punishment is viewed as a strong deterrent. Self-regulation's emphasis on remedy is based on a desire to treat the profession's members fairly, in addition to serving the public. It is felt that the public is best served by dealing with the cause of the problem.[10]

Prospects For the Future

A balance of private rights and public responsibility is necessary to measure how well professions meet standards. According to Jacques Barzun in "The Professions Under Siege," long-time monopoly status has caused professions to forget that their privileges were given in return for public benefit. In order to achieve a balancing of private rights and public responsibility. Barzun proposes that a moral regeneration is needed. Moral regeneration will not develop as a result of internal minimum standards or policing from the outside; it "can come about only when the members of a group feel once more confident that ethical behavior is desirable, widely practiced, approved, and admired."[11] Self-regulation of the accounting profession will be successful only when it embraces these conditions wholeheartedly and unreservedly.

Despite skepticism about regulation and the quality of service offered by the profession, the public and government want accountants to take more responsibility to ensure the accountability of major institutions. Thus, the role of the accounting profession has expanded as corporate and governmental accountability have come under the scrutiny of public interest groups. The greater influence of the accounting profession further arouses its critics to demand stronger supervision from the outside. "Thus, the major challenge facing the profession in the next decade is to remain a self-regulating entity in the private sector even as its public mission and responsibility grow."[12]

Summary and Conclusions

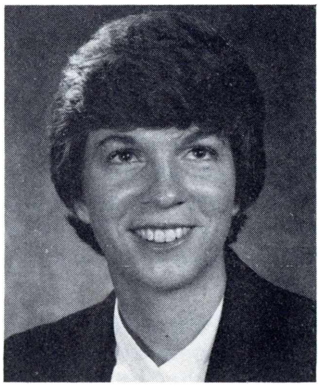
In recent years there has been a change in outsiders' views of the accounting profession. No longer seeing the profession as an institution dedicated to quality service and integrity, public interest groups, the press, and congressional committees have threatened the profession with much more stringent regulation from external sources. The accounting profession has responded to such threats by revising its self-regulatory program to include the SECPS, peer review, and the POB. Despite the various concerns from external sources about this form of self-regulation, its goal of service parallels goals usually cited for public regulation.

The accounting profession now finds itself at a juncture. The FASB continues to be criticized; self-regulation has probably not worked as well as it should because of practitioners' resistance; and increased competition has led some to conclude that many members have forgotten their primary service responsibility.

If self-regulation is to work, a moral regeneration is needed. Members must once more believe that ethical behavior is essential, that service is far more important than market share or profits, and that inferior performance cannot be tolerated. Ω

NOTES

[1]Jacques Barzun, "The Professions Under Siege," *Harper's*, October 1978, pp. 62-63.
[2]Ibid., p. 63.
[3]J. Michael Cook and Haldon G. Robinson, "Peer Review — The Accounting Profession's Program," *The CPA Journal*, March 1979, p. 12.
[4]John C. Burton, "A Critical Look at Professionalism and Scope of Services," *Journal of Accountancy*, April 1980, p. 55.
[5]Robert K. Mautz, "Self-Regulation — Perils and Problems," *Journal of Accountancy*, May 1983, p. 78.
[6]Ibid., p. 78.
[7]Ibid., p. 80.
[8]John J. McCloy, "Accomplishments of the SECPS: the POB's Assessment," *Journal of Accountancy*, August 1983, p. 60.
[9]Mautz, p. 77.
[10]Ibid., p. 78.
[11]Barzun, p. 68.
[12]Gilbert Simonetti, Jr., "Remaining Self-Regulating," *The CPA Journal*, February 1980, pp. 5, 7.



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