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Improving Professional Quality

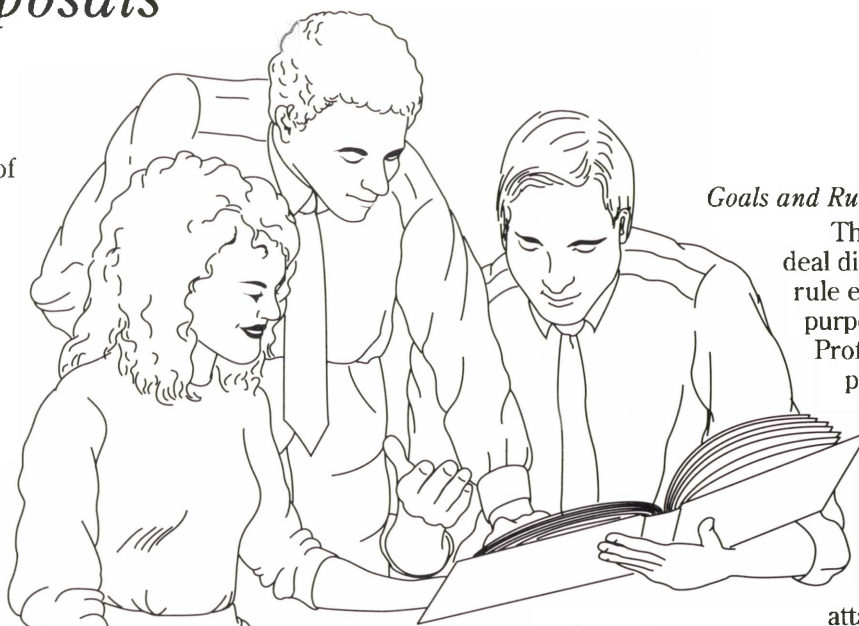
Three Proposals

By Penne Ainsworth

Improving the quality of audits and other work undertaken by certified public accountants (CPAs) is certainly not a new idea. However, in these times of increased threat of more government regulation, issues relating to the quality of work done by CPAs must be addressed, debated, and acted on. In order for the profession to remain self-regulatory, it is imperative that the profession strive to employ, retain, and continue to educate qualified people. The goals of the profession should be to improve professional quality through 1) increased uniformity of licensing requirements among the states, and 2) increased quality control measures. This paper will address these goals by introducing three proposals. Following a brief discussion of the American Institute of Certified Public Accountants' resolutions, this paper will then introduce the proposed role of state CPA societies and state boards of accountancy in improving audit quality. These proposals are designed to enhance and build on the resolutions passed by the American Institute of Certified Public Accountants (AICPA).

AICPA Resolutions

The AICPA has adopted resolutions designed to promote excellence in public accounting. The current move by the AICPA is only a first step toward improving the quality of work done by professional accountants. The resolutions adopted by the AICPA include: 1) replacing the Code of Professional Ethics with a Code of Professional Conduct, 2) restructuring the trial board system, 3) increasing continuing education requirements, 4) requiring peer or quality review programs, and 5) increasing educational requirements for CPAs entering the profession after the year 2000.



Goals and Rule Enforcement

The first two resolutions deal directly with goals and rule enforcement. The purpose of the Code of Professional Conduct is to provide goals for guidance of professional conduct for all members of the AICPA. The new code is designed to provide goals for professionals to strive to attain rather than rules

which delineate minimum performance.

The purpose of restructuring the trial board system is to improve coordination, reduce duplication of enforcement procedures, and promote uniformity of findings. This move is necessary due to the reluctance of some state boards of accountancy to enforce standards of conduct aggressively. Only time will tell if the new Code and trial board system are sufficient to improve the quality of CPA services.

Education

The remaining three resolutions deal directly or indirectly with education of CPAs. The first of these resolutions increases the continuing professional education (CPE) requirement for some members in public practice, and for the first time, imposes a CPA requirement for members not in public practice. Presently, many states have CPE requirements which exceed the requirements of the AICPA.

The second of these resolutions requires that firms in public practice be enrolled in an approved practice-monitoring program. The AICPA intends to establish and conduct these practice-monitoring requirements in cooperation with state societies. The third of the educational resolutions requires the completion of 150 hours of education from an accredited college or university, including a bachelor's degree, for all persons applying for

membership in the AICPA after the year 2000. Eight states have already moved to implement the 150-hour requirement and many more are in the discussion stage. The purpose of this last resolution is to ensure that new members of the profession have the necessary academic education to succeed in the complex business environment. The purpose of the three educational resolutions, taken as a whole, is to ensure that members of the AICPA have, and continue to receive, sufficient education to be competent professionals.

Three Proposals

The resolutions adopted by the AICPA are an excellent beginning in an effort to improve accounting practice. However, these resolutions fall short because they apply only to members of the AICPA. Not all accountants are members of the AICPA and some of these professionals may be performing "substandard" work. To meet the goals of increased uniformity and increased quality control, the three proposals are offered. The proposals concern continuing education for accountants who are not members of the AICPA, initial licensing requirements, and a program of license renewal. The first two proposals are designed to meet the goal of increased uniformity among states, and the last proposal is designed to increase quality control.

Continuing Professional Education

First, the AICPA should urge state CPA societies and state boards of accountancy to require a minimum amount of CPA credit for each licensed CPA in the state. Currently, each state sets its own rules governing CPA and this results in an inequity across the states and perhaps a perception by the public that CPE is not taken seriously in some states. CPE requirements vary among states. While most states require an average of 40 hours of CPE per year, four states have no CPE requirement and seven additional states require fewer than 40 hours per year. If the states and the AICPA work together to set minimum standards, continuing education will be more uniform throughout the United States. Although uniformity does not ensure improved quality,

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a move by the states to set minimum standards of practice will help raise the standards in states where few, if any, standards criteria exist. The National Association of State Boards of Accountancy (NASBA) supports a more uniform approach to CPE and mandatory CPE as a condition for renewal of permits to practice. In addition, a provision for recognition of CPE requirements in other states is favored by NASBA to lessen the burdens on professionals who practice in several states. This should improve the quality of work done by all CPAs, not just the members of the AICPA.

Initial Licensing Requirements

Secondly, the AICPA should support uniform licensing requirements throughout the United States. While all states presently require prospective CPAs to pass the nationally administered Uniform Certified Public Accountant Examination to become CPAs, the states have varied requirements concerning professional practical experience and additional testing on ethics. For example, some states reduce the practical experience requirement for persons possessing a master's degree while other states do not. Five states require only a high school education plus experience in order to practice accounting as a licensed professional. Five states have no experience requirement and twenty states reduce the experience require-

A license renewal program would help promote continuing high standards for professional accountants both in and out of public practice.

ment if an advanced college degree is obtained. Fourteen states require no formal ethics program participation and/or testing. Clearly, one cannot generalize about the minimum requirements to become a CPA. In addition, there are seven other classes of licensed accountants used by one or more of 15 states. These factors, when taken together, may give the lay public the impression that CPAs in some states are more qualified to practice than are CPAs in other states. The elimination of these inconsistencies among states would guarantee that all practicing, licensed CPAs have the same minimum qualifications. State CPA societies working with the state boards of accountancy and the AICPA can accomplish this task.

One of the fundamental principles of the Model Public Accountancy Bill of the NASBA is the desirability of uniformity among states in the areas of education and experience requirements for initial licensing. The NASBA supports an experience requirement for initial licensing and as means of providing for reciprocal recognition of licenses of other states.

License Renewal

Finally, a program of license renewal should be implemented. At the present time no such system exists, but times are changing and the profession must be willing to change also. As Charles Kaiser, Jr., vice-chairman of the AICPA's board of directors, states, "It's important that the accounting profession always strive to be better."¹⁴ A license renewal program would help promote continuing high standards for professional accountants both in and out of public practice. In addition, a license renewal program will help fill any quality control gaps not addressed by CPE or other quality review programs. A program of license renewal via national examination will aid in the uniformity of license requirements, and thus, reciprocity of licenses, across states. Most importantly, a license renewal program should apply to all licensed accountants, not just members of the

¹⁴"The Mandatory SECPS Membership Vote", (an interview with Charles Kaiser, Jr.), Journal of Accountancy, August 1989, p. 40.

AICPA. A license renewal program could be established as the following scenario describes.

Every four years, any person holding a CPA license would apply for license renewal. If the person had not been cited for any violations of the quality review programs discussed previously, the person would be admitted to testing. If the person had been cited for quality review violations, the examination could not be taken until the penalties for violation had been met. Once the penalty had been cleared, the person would be admitted for testing.

The renewal examination would be self-administered as is presently the case of the ethics examinations. Thus, each license renewal candidate would receive from his/her state board of accountancy an examination book and exam. The examination would cover all the areas covered by the CPA examination, although not in as much detail. The objective of the examination would be to instill in CPAs the awareness of the need to keep abreast of developments and changes which concern the profession. The purpose would not be to deny licenses to qualified people.

In the event that the license renewal candidate failed to pass the license renewal test, completion of a mandatory review session would be required before the exam could be retaken. This mandatory review session would not count toward CPE credit. Should the license renewal candidate's license expire during this period, he/she would not be allowed to practice public accounting until the situation was rectified.

The license renewal examination would be a national examination that would be offered once a year. In addition, the exam could be expanded to enable states to issue specialists' licenses. Thus, the candidate for license renewal could take an additional exam (or exams) to obtain a specialist's license.

Summary Comments

The benefits of these alternatives are threefold. Benefits accrue to the professional as an individual, to the profession as a whole, and to society in general.

The benefits to the individual of eliminating the diversity of require-

ments of continuing education and initial licensing among the states arise from two sources. First, eliminating diversity among states will afford professionals greater mobility throughout their careers - an increasingly important consideration. Second, by requiring continuing education for all licensed accountants, nonmembers of the AICPA will receive continuing education that they may not currently be obtaining and which is vital in a constantly changing business environment.

The benefits of license renewal in addition to CPE accrue through increased awareness of recently emerged (or emerging) accounting issues. An individual, whether a member of the AICPA or not, when choosing which CPE classes to attend in a given time period is forced by circumstances to choose courses based on location and time, as well as content. Thus, the individual may not be receiving the broad base of continuing education that is required in a complex business environment. The license renewal examination, being broader based, would force the individual to address issues which may not have been covered in CPE courses attended. Therefore, the individual is exposed to a wider variety of issues than those encountered through CPE classes.

The profession benefits through improving the quality of all licensed accountants and by sending a signal to the public that accountants are concerned about professional expertise and quality work. The costs of requiring CPE for all accountants is outweighed by the benefits derived from quality work. Eliminating diverse requirements throughout the United States increases the strength of the profession as a unified body. In addition, license renewal is a way to tell the public that only quality people are allowed to obtain and keep a CPA license. The costs associated with license renewal would not be as high as the costs of the loss of public confidence in the profession. The benefits to be derived by license renewal are immeasurable.

Finally, society in general benefits through a united accounting profession which is dedicated to quality

work. The public confidence in the profession would be restored with the knowledge that the profession takes quality control and continuing education seriously. In the ever changing complex business world of today, this confidence is vital if the profession is to remain strong and self-regulated.

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