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AICPA Seminar: Warwick Hotel, Philadelphia, Pa. Friday, November 12, 1965: First Session

American Institute of Certified Public Accountants. Long Range Objectives Committee

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AICPA SEMINAR

WARWICK HOTEL, PHILADELPHIA, PA.

FRIDAY, NOVEMBER 12, 1965

FIRST SESSION

JOSEPH M. CORMAN
REPORTING SERVICES, INC.
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JUNIPER AND ARCH STREETS
PHILADELPHIA 7, PA.

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AICPA Seminar
Warwick Hotel, Philadelphia
November 12 and 13, 1965

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Philadelphia 19102

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Laventhol, Krekstein, Griffith & Co.
1528 Walnut Street
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Bernard L. McDevitt
Main, Lafrentz & Co.
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Richard J. Bryant
Arthur Young & Company
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Eugene J. Minahan, Controller
The Atlantic Refining Company
260 South Broad Street
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Raymond E. Graichen
Lybrand, Ross Bros. & Montgomery
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Dr. Richard S. Woods
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Ralph E. Lee, Jr.
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AICPA SEMINAR

WARWICK HOTEL, PHILADELPHIA, PA.

FRIDAY, NOVEMBER 12, 1965

COMMENCING AT 9:00 A.M.

HARRY C. ZUG, Moderator

1 THE MODERATOR: I think I might mention first as to
2 how this group was picked. It seems to be after the
3 letters went out there was a little interest as to how
4 we were all picked. We are supposed to be a group of
5 intelligent, progressive, young CPA's with the accent on
6 people under age 45, like John Ricketts.

7 The actual selection and determination was my own.
8 I was asked to see that the national firms be limited in
9 number and so include adequate local and regional firm
10 representation. The group should include specialists in
11 taxation and management services and there is no objec-
12 tion to including a professor of accounting, so we have
13 two, or controller, or financial vice-president, so we
14 have one. It certainly must be that we have a fine group
15 here, because only one of the people selected was unable
16 to be here, for the reason that he was taking his wife
17 on one of those rare planned vacations that he had.

18 So, we think we have the right people to have an
19 interesting session.

20 Now, we have a steno-typist here, Mr. Ruane. The
21 American Institute would like a recording of the proceed-
22 ings and it will be turned over to the Long Range Objec-
23 tive Committee of the institute.

24 There will be some other seminars of this type. This

1 is the third I know of. The first John Carey was the
2 moderator of; that was in New York in May.

3 The second was in Illinois and Professor Sydney
4 Davidson was the moderator, that was last month. This is
5 the third and the American Institute, we are their guests,
6 they are picking up the tab for the expenses.

7 I think these name tags are useful for the first few
8 hours here, because most of us know about everybody, but
9 there are a few here I am sure who will be helped by the
10 name tags, so let's use them through this morning anyway.

11 As Moderator my job is to keep the thing moving, thus
12 there could be occasion to cut off the discussion and get
13 on to the next topic, because we have to cover all topics,
14 especially when people have accepted an assignment on a
15 subject we must get to it.

16 **Reading** from my script handed to me, the moderator
17 will encourage participants who seem reluctant to speak
18 by asking them for their views. I don't think anyone will
19 be reluctant. He will discourage others who talk too much
20 by asking people to raise their hands so I could recog-
21 nize them. So if I do these things you know I feel I
22 will be in trouble.

23 To repeat the letter, one of the letters to everybody,
24 the people said in there explained it a bit, we are

1 looking at the future of accountancy and related matters
2 as we think they may be ten, fifteen, twenty years ahead,
3 this is the reason for the accent on young CPA's attend-
4 ing this session, people who will be in practice twenty
5 years from now. Therefore, the subject matter is in-
6 tended to focus on areas that are going to change, and
7 we are to have an exchange of views as to what we think
8 those changes will be, and perhaps what we think they
9 should be, and what leadership we should give the
10 changed people.

11 The people whose name are assigned to a topic, all
12 that's going to happen there is, I am going to call on them
13 first to lead us off, and they may comment for a minute
14 or two, or they may comment for five minutes, I think it
15 should be not more than ten at the start, because we
16 want to get others in on each topic.

17 It seems to me this covered what I can think of
18 needs to be covered in the preliminaries.

19 I would like to go around the table here and well
20 everybody knows everyone else by name, it would be use-
21 ful to identify ourselves a little bit. I think it might
22 be because we have a few people here, speaking for my-
23 self, and we will go around past Frank.

24 I am Harry Zug, a partner of Lybrand, Ross Bros. &

1 Montgomery, in Philadelphia.

2 VOICE: I am Frank Laudenslayer, partner in John
3 A. Beard & Company, Reading, Pennsylvania. Probably the
4 smallest firm here. Is that right?

5 Do I represent the smallest firm?

6 MODERATOR: Five partners and eight staff, eight
7 girls, that is the extent of our operation.

8 So I just want to keep on focus here on this first
9 subject, especially there are a lot of complaints from
10 the small practitioners in that area, and the big fellows
11 don't have any complaints, they are only rubbing their
12 hands.

13 That is all I have to say.

14 VOICE: I am Richard Woods, I think I know everybody
15 here. I am Professor of Accounting at the University of
16 Pennsylvania, and Chairman of the Department.

17 VOICE: I'm Albert Zanger of Lawrence E. Brown & Co.,
18 and I think we are just a little bit under your size,
19 Frank.

20 VOICE: I am Eugene J. Minahan, Controller of the
21 Atlantic Refining Company. It has been about 18 years
22 since I have been in public practice. We have a few more
23 employees than my two colleagues to my left.

24 VOICE: I am Raymond E. Graichen, partner, Lybrand,

1 Ross Bros. & Montgomery, I spend most of my time in
2 taxing.

3 VOICE: I am Henry Jaenicke of Franklin and Marshall
4 College in Lancaster, Pa. My main interest in accounting
5 or accounting theory might be called in basic, inter-
6 mediate, and advanced accounting.

7 VOICE: I am John Ricketts, partner in Stockton,
8 Bates & Company.

9 We have about three partners and 28 staff.

10 VOICE: I am Willard Heintzelman of the Pennsylvania
11 Institute of Certified Public Accountants, and Executive
12 Director of the Institute.

13 VOICE: I am George O. Tonks, Administrative partner
14 in the Philadelphia office of Touche, Ross, Bailey &
15 Smart.

16 VOICE: Bernard McDevitt, partner in Main, Lafrentz
17 & Co., Philadelphia.

18 VOICE: I am Richard J. Bryant, administrative partner
19 of Arthur Young & Company, Philadelphia. And I think in
20 Philadelphia we are smaller than Frank's concern.

21 VOICE: George L. Bernstein, partner in Laventhol,
22 Krekstein, Griffith & Co., Philadelphia.

23 My specialty is management advisory services.

24

1 VOICE: I am Ralph E. Lee, I am partner in the
2 Philadelphia office of Arthur Andersen & Co. and my
3 activities are primarily on the audit side.

4 VOICE: Robert L. Leonard, of Adler, Faunce & Leonard
5 of Philadelphia.

6 VOICE: Harold Shreckengast, I am a partner in Price
7 Waterhouse, Philadelphia.

8 THE MODERATOR: I think that we can see that we have
9 all areas covered and I particularly know that we in
10 practice appreciate our two professors and our controller,
11 Gene Minahan, for enriching these sessions by coming
12 here. It was very nice of them to do it, and we are
13 delighted that you did.

14 I think we ought to proceed to the program. We will
15 start with the Implication of Automation, the first sub-
16 ject.

17 VOICE: I haven't discussed this with my partner on
18 the subject at all, and I don't know what he has to say
19 on it, but we will find out later.

20 When I think of automation I think of the complaints
21 that the small practitioner has of losing write-up worker
22 and so on, and I am a small practitioner, but I don't
23 see any particular concern there myself.

24 Of course, we don't have much write up, and second I

1 can remember Mail Me Monday and it wasn't too successful
2 in our area. And I think we got the same situation all
3 over again.

4 What I am concerned about is that banks in particular
5 are getting into this field and I understand that they
6 are performing audits at the correspondent banks, which
7 wouldn't necessarily have anything to do with their com-
8 puters, but I can see that they could take their com-
9 puter set-ups and get into larger companies, and not
10 only perform the accountings but also perform the attest
11 function, just one step further than what their commer-
12 cial loan offices are doing now where they come in and
13 help the farmer and what have you and make up his ballot
14 sheets for credit purposes.

15 That area I am concerned about and we have discussed
16 it in the Legislative set-up in the institute from time
17 to time. How a regulatory bill, perhaps, if we could get
18 one through would help in that situation.

19 Then we have the computer service centers, such as
20 CompuTax and all the rest of them to make up individual
21 income tax returns which may or may not be good, but from
22 where I sit I am not too worried about that either.

23 I could be 100% wrong, but at the moment we are not
24 getting into it and we don't see where it is going to help

1 us too much.

2 Having looked at this thing, going back ten or fifteen
3 years ago when Remington Rand first started to sell these
4 machines to CPA's to do bookkeeping, some of our fellows
5 got into and got out later on much sorry for the exper-
6 ience.

7 So, I don't know that the computer service centers
8 are going to be any competition for us. Of course, they
9 certainly will be helpful and we would certainly not be
10 reluctant to have our clients use them wherever possible,
11 and they don't have the standing in the community that
12 the banks have. Therefore, I am not concerned about
13 them near so much as I am with the banks. However, the
14 computer service centers run by CPA's would be perhaps
15 able to develop the same standing and reputation.

16 Getting off into another area, when you think of a
17 situation like Yale Express --

18 VOICE: They are not represented here today.

19 VOICE: They aren't? Well, maybe it is just as well
20 they aren't.

21 I am not saying that of criticism of anyone, because
22 we have had situations where CPA firms, large firms have
23 gotten into trouble over the years, we little guys are
24 too small to write about in the papers when we get into

1 trouble. But I can see in this computer set-up and we
2 don't have any clients having computers. Inasmuch as our
3 clients, I think the largest one might have eight or nine
4 million in sales, and we have National Cash Burroughs,
5 Cincinnati and all that sort of thing, but we don't have
6 computers.

7 But I had occasions to get into a number of large
8 firms, particularly in a court case. I had to go down
9 to one of the large insurance companies to get some in-
10 formation and talking to the controller, I spent about
11 five days down there, and I can see where this thing can
12 get out of hand pretty goldarned quick. When they talk
13 about $1\frac{1}{2}\%$ error and so on, in my own mind I just wonder
14 what this $1\frac{1}{2}\%$ error is And then of course,
15 the Yale Express case points out if we aren't on our
16 toes and we don't have experienced people getting into
17 these things, we could have more black eyes in the future.
18 It might be that maybe Yale Express is just the first of
19 a long series, I hope not, but that of course isn't the
20 only case that is on the agenda at the moment over the
21 country. But the other cases, I am not so sure that they
22 stem from computers, not knowing too much about them.

23 I think that is as far as I need go at this point.

24 THE MODERATOR: Thank you.

1 Let's call on the other man assigned this subject,
2 because he probably has some prepared thoughts to give
3 us.

4 VOICE: I think there is one development underway on
5 computers that John Carey didn't touch on in his book,
6 and that is this idea of information utilities. By that
7 we mean computer centers that would function somewhat as
8 a large telephone company, large electric company, where
9 in effect each business which couldn't support a tremen-
10 dous system such as US Steel would be on line with the
11 information utility. Therefore, they would feed directly
12 from their own premises all the information that would be
13 transcribed into the computer with some feed back infor-
14 mation made on the premises also.

15 I firmly believe that this will become a reality, or
16 probably will become a reality in perhaps as few as ten
17 years. The reason I feel so strongly about this is that
18 the cost of this service varies inversely, of course,
19 with the size of the units that are processing the infor-
20 mation. Therefore, I think even your small service cen-
21 ters today, your banks, and what have you that are in this
22 field today couldn't possibly compete on a cost basis with
23 a tremendous information utility.

24 Now, this isn't a pie in the sky idea but, I don't

1 think, because if some of you read the Wall Street Journal
2 recently you might have seen that, for example, US Steel
3 has turned all of their varied pieces of equipment and
4 systems for one tremendous Burroughs System whereby every
5 location in effect is on line with one massive computer,
6 and there is no reason why the same thing couldn't apply
7 to small and medium businesses.

8 The ramifications of this for the CPA, I think, are
9 tremendous. For example, obviously, systems would have
10 to be standarized, retailed, manufacturing, and whatever
11 services type of organization.

12 Who, for example, would design these standard systems,
13 what effect does this have on generally accepted account-
14 ing principles that CPA's don't get, in effect, involved
15 in the designs of the systems.

16 One other thing I would like to talk about is this
17 statement that any CPA who wants to stay in this pro-
18 fession, it doesn't say he should familiarize himself it
19 states must familiarize himself. And in our own firm
20 during the past two years, we have insisted that every
21 partner, manager, supervisor, and now we are getting down
22 to the lower echelon, must attend one full week computer
23 training session in Chicago.

24 This has been a collaborative effort between I.B.M.

1 and experts on our staff.

2 It is just an indoctrination of what computers do,
3 how they do it, what the limitations are, some of the
4 methods of monitoring effectively through the computers.

5 We plan to incorporate this kind of thing into our
6 training program for junior, semi-seniors and seniors.

7 VOICE: I have a comment to make on statements made
8 by both of these gentlemen.

9 My comment with respect to the second speaker's
10 statement -- well, I have two comments, one of which is
11 that CPA's didn't seem to be terribly interested in this
12 problem as little as four or five years ago, when I per-
13 sonally thought that they should, but now I am wondering
14 whether the question that the profession is interested
15 in is one that has to do with accounting principles and
16 interpretation of financial statements on the one hand
17 or the question of competition in terms of who will per-
18 form data processing services.

19 It is my understanding of public accounting that the
20 interpretation of statements and the audit functions that
21 lead to public interpretation of statements is the major
22 function; the data processing is not considered to be a
23 major service of CPA firms.

24 I may be dead wrong on that, I am speaking from a

1 well of ignorance as to what the CPA firm does.

2 The first speaker talked about his fear of bank
3 automation services.

4 He made one statement that I think ties in with what
5 Mr. Carey said. I may be stealing some of George Ber-
6 stein's thunder here.

7 Carey said that he foresaw a possible loss of the
8 verdict function as used perhaps foresaw this in connec-
9 tion with banks. Carey, however, did not see this com-
10 ing from banks, he saw it as coming from engineers,
11 economists and aviation research people who would create
12 a new breed of what he called, "Information specialists "

13 These would be people who, I would think, would be
14 definitely concerned with data processing perse. I am
15 not so sure that it follows from this logically that
16 they would take over the audit function.

17 Carey stated that he thought they might take over the
18 audit function because they would be better informed as
19 to the information systems of business than the CPA would
20 be.

21 VOICE: I think that the most practical aspect of
22 this problem of automation right now, is the problem that
23 the small firm has with competition, so to speak, from
24 the banks, from the service bureaus, from those who are

1 selling excess time on their computer equipment.

2 And indeed, this gets us into the very area of data
3 processing because many CPA's, smaller firms, particularly,
4 with their so-called write up work or some of them call
5 it special services, whatever the designation may be,
6 they derive a significant part of their fees, and, there-
7 fore, livelihood from this very type of work.

8 Recently I spoke to a CPA from Conneticut who was
9 telling me of the very sad tale operation for whom he had
10 been attempting to do various auditing services, includ-
11 ing some write-up work over a period of years, and just
12 as he was ready to get this as a new client, a bank came
13 in and offered a service to do all of the data processing,
14 perhaps it could be something like the Lennox and Lennox
15 operation in Staten Island, for a much lower cost than
16 he could possibly do it.

17 Now, this is not in the area of accounting principles,
18 this is not the audit function although it may be loose-
19 ly connected with the audit function, I think it does
20 affect the income potential and livelihood of many
21 smaller firms, and I think this was one of the things
22 that the first speaker was getting at to a certain degree.

23 Perhaps I misinterpreted his comments, but many of
24 the smaller practitioners are concerned that the com-

1 petition from data processing is going to steal some of
2 their write up work.

3 Now, I think we as a profession have to be prepared
4 to meet this. Some of the suggestions have been, let's
5 pass legislation which forbids the banks to do certain
6 data processing work or bookkeeping services. I don't
7 know whether this can be done constitutionally, whether
8 we can or not, I think the economics are such that if
9 they can do the job cheaper than what CPA's are doing,
10 they have a right to do it and, therefore, the CPA has
11 to redirect his efforts and, if I may use the term, up-
12 grade his services from bookkeeping or write up work to
13 truly audit and management services and additional tax
14 work.

15 This, I think, is really the heart of the problem
16 for the smaller firms, and it is unfortunate that more
17 smaller firms are not represented here, because I agree
18 with practically everything that the second speaker has
19 said.

20 I feel that the computer opens up a tremendous worth
21 of services that my firm, and many of the firms who are
22 represented here can offer to clients, whether they be
23 dealing with a bank to do certain specialized date pro-
24 cessing; whether it is with an information utility, some-

1 body has got to design the system, somebody has got to
2 review the controls, somebody has got to audit that
3 system, and I believe we are that somebody.

4 But we are not doing write-up work, and the smaller
5 CPA does, and when the bank or the utility information
6 takes over that bookkeeping service, the smaller CPA
7 suffers.

8 If I may speak up on behalf of the smaller CPA's,
9 this is, I think, what Jack Carey is addressing himself
10 to in his editorial of several months ago in the CPA, and
11 I think he hints at it here although he doesn't come out
12 quite as sharply in his book here on that particular
13 problem.

14 VOICE: Actually, I don't have too much to add to
15 what the second speaker has said, because I think he said
16 it very well. But I am concerned that the Professor
17 might get the idea that maybe we aren't as professional
18 in our work or concerned with the interpretive part of
19 accounting and the attest function.

20 I don't know how many of you heard John Carey speak
21 here on Tuesday. He had an excellent talk and unfortun-
22 ately the newspaper men who had been invited to attend
23 only got one thing out of the message and that was the
24 CPA's were warned of the computer and this appeared in

1 the Evening Bulletin with big headlines, "CPA's warned
2 of computers and loss of business."

3 Now, John Carey mentioned this, but this was, and it
4 is a problem as everyone has mentioned here, but it is
5 only a problem if we don't adjust to it.

6 John Carey made this point very clear that probably
7 one of the greatest impacts for the future of the pro-
8 fession is that income tax preparation has traditionally
9 been the way that young men who started out as individual
10 practitioners developed their practices. This was some-
11 thing that was available to them immediately, they could
12 get engagements preparing income tax returns and write-
13 up work.

14 Now, hopefully they would go beyond that, and as the
15 second speaker said, grade-up to professional work which
16 did involve statements, auditing and preparation of
17 statements, and attesting of financial information for
18 third parties, assisting the client in interpreting these
19 facts and figures.

20 There is certainly today and has been through the
21 years, many, many practitioners who probably didn't get
22 too far beyond the monthly service which involved, maybe,
23 posting the books, taking of statements, typing statements
24 and maybe sitting down and helping interpret them.

1 Now, these are the services that are going to be
2 done by mechanical means, and Compu Tax is going to pre-
3 pare the tax as such, but I personally feel that if we
4 analyze the problem properly, it presents more oppor-
5 tunities than it does dangers, because I think the pro-
6 gressive CPA welcomes the opportunity to free himself from
7 the detail that has, in many cases, kept him from going
8 on to purely professional work. But I do think, and
9 the second speaker has mentioned this, and everyone that
10 has spoken has mentioned, that the CPA does have to be
11 familiar with it, and the best defense against the bank
12 and the service bureau is not legislation or hiding be-
13 hind the problem, but he should get there first and
14 suggest that the client do this work on the computer and
15 in the process he will be the man who can assist in set-
16 ting up the system, in guiding the man through it; he
17 will be the man that will help the client interpret it
18 and get the most benefit out of it, because this offers
19 a great deal more information than has ever been avail-
20 able, and many businesses will not have the internal
21 staffs to know what they want or how to use it, and the
22 CPA is going to come in on -- and I am talking now about
23 the small practitioner -- is going to come in on two
24 phases of this, forgetting the audit and the attest

1 function, he is going to have more opportunity to be a
2 business consultant to his client, at both ends, both
3 in developing the system and also in the utilization of
4 the information which is available.

5 But he better understand it and get there first so
6 that he gets credit. I don't mean that quite the way it
7 sounds but it will be the way to establish confidence in
8 the client's mind as to, "Here is the man I want to assist
9 me."

10 John mentioned this, if he didn't mention it in his
11 speech, he mentioned it in his book, that in this re-
12 spect the small practitioner may be in a better position
13 than some of the larger firms because their clients are
14 small and they do not have adequate trained, sophisticated
15 internal staff, so that they are going to have to rely
16 on the CPA, if he will equip himself to do it.

17 VOICE: This is a particular subject, I think it is
18 a very important one, and just sticking on this automation
19 and this computer field, maybe we are giving a little
20 more accent on the small firms, I think it is important
21 at this point, but what I think the first speaker's idea --
22 and we are all speaking out here -- were a little negative
23 here.

24 In other words, we were small, we are still not too

1 big, but I think as one man mentioned, we got to do it,
2 be ahead and be the guy they look for, not do it by
3 legislation or try to keep them out.

4 This is something that is going to happen, and I
5 am even a little further advanced in what we think we
6 should do.

7 It is not a question of telling the man where to go,
8 but I hope someday we, the accounting profession, will
9 be the place that they come to for the old service.

10 I think this book is the greatest, because he, John
11 Carey, is trying to inspire us into this whole concept.

12 Where does a firm like ours fit? I think that some-
13 day we will have to have our own computer. Now, the
14 only thing that scares me there is the thought and the
15 idea that the second speaker brought out, these great
16 big computers are going to eliminate a lot of the small
17 ones and perhaps your time sharing and so forth is going
18 to put the small computer or the small service center
19 out of business.

20 However, I feel that from our experience with ser-
21 vice centers that we as accountants perform a much
22 better service or could if we have the operator knowhow
23 with the machine and with the accountants. We have
24 dealt with service centers, and usually have problems.

1 Now, the one thing you have here, a couple of points
2 like the second speaker was saying, their men are going
3 for a week, personally I would like to ask him and Al
4 was there and took a week's course, do you really get
5 anything out of a week?

6 It seems to me you have got to have men on our staff,
7 and a number of them who are going to have to spend weeks
8 and be programmers, because it seems to me, and this was
9 some of the feeling I got from some of the men who spoke
10 out at Dallas, that you got to really know the whole
11 ball of wax to really do the job.

12 Now, following up a little bit more on write-up
13 work, I think it is often degraded or mentioned in a
14 derogatory term, I don't know any successful accountant,
15 whether he is small or medium, if he does so-called write-
16 up work -- we do very little of it -- we started, but it
17 just disappeared, our accounts grew and they no longer
18 need write-up work. They became bigger and we grew up
19 with them.

20 The successful accountant even if it appears he is
21 doing vital work, he is doing a great deal more, he is
22 servicing the accounts in the guise of a comptroller and
23 advisor and everything else that a comptroller would do
24 and what other financial experts would do with a large

1 corporation. So I don't think that this fact that the
2 work can be done on a machine or a computer will knock
3 all the small and medium size accounting firms out of
4 business, but it is going to make a greater need for
5 them and it is going to enable them to do more important
6 work and more profitable work, also.

7 One thing about a computer that I understand, and I
8 think it is going to make the greatest impact on system
9 work and everything else, it has got to be logical, and
10 I think this is where a lot of accountants and a lot of
11 the systems men and so forth make the mistake in not
12 following logic through when we go into this particular
13 line of work. You have got to follow it all the way
14 through.

15 One other item here which you don't think about
16 sometimes is Compu-Tax. Now, I got involved in it last
17 year, and I think it is just going to move on and on.
18 If we try to ignore it, we are in trouble. I got the
19 biggest surprise or concept or thought when one of the
20 fellows from Commerce Clearing House -- you know, they
21 are out pushing this now, they own half of it -- he said
22 the lawyers were eating it up, and when you think about
23 it this solves all their problems.

24 To lawyers up until now preparing tax returns, it

1 was a problem because it was drawing in lines, and mak-
2 ing computations and worry.

3 Now, they get this pad of forms -- if you haven't
4 seen it, you get a pad of forms, it is all logical, you
5 don't need to know practically anything about taxes, on
6 the average return, you just fill in here, there, dot the
7 i, don't even add it up, he sends it away, doesn't bother
8 their staff, they are going to eat it up.

9 Now, this is worse than the bank as far as I am con-
10 cerned.

11 VOICE: That is better than a bank. Those guys are
12 going to get into trouble and we will get good clients
13 out of them. Some of our best clients are in fraud
14 trouble one time or another and we got them out of it.
15 That just leads for a good fee and those guys are going
16 to get themselves in real trouble.

17 VOICE: It's in the business return we're talking
18 about. As far as lawyers are concerned it has to be on
19 this particular form, it can't be that kind of a deal.

20 I think that we have got to think very positive about
21 this and move into it with both feet.

22 THE MODERATOR: Did you actually use Compu-Tax?

23 VOICE: Yes. We found it was a timing problem be-
24 cause you don't like to have the return go out of your

1 office for over a week or over a week especially as you
2 get near the end of the period.

3 We found that the work that was done was very satis-
4 factory. One of the items that you will find very help-
5 ful, of course, when it comes back it is all collated.
6 It is all set up. It even comes back with a letter you
7 can mail out to your client which you can use if you
8 want, so that for the mass production fellow you can
9 really get something out of it.

10 VOICE: Can I say something?

11 I think maybe I was misunderstood here some place
12 along the line. When I talk about legislation I was
13 talking about the attest function only.

14 To tie in with that, as far as write-ups are con-
15 cerned, as far as I am concerned that is gone by the
16 boards, any CPA who is doing that is just on the wrong
17 track. You can't see the forest if you have been watch-
18 ing the trees, and that is what happens to these little
19 guys; that has gone by the boards, and it should have
20 been gone by already.

21 Another thing, it is a question as to whether these
22 fellows who are doing this write-up work, which some of
23 them do could even be rendering opinion statements on the
24 basis of this write-up work, as it is contrary to SEC

1 regulations, and of course we haven't got that far yet,
2 but I can see that coming. So as a national thing that
3 is out as far as I am concerned.

4 As far as this Compu-Tax deal is concerned, I don't
5 see where Compu-Tax does a thing for the CPA. When a
6 man comes into me, he wants to know what his tax liabil-
7 ity is, and whether he has got tax planning of his own,
8 I am putting my name on the line and this is it. I can't
9 let Compu-Tax take that responsibility for me as the
10 attorney, perhaps, can.

11 I have to tell him what the tax is now, I can't wait
12 for some guy to tell me what it is, and if he does tell
13 me, I have to check it.

14 I can't see where it saves me much. I can run
15 through that photocopy machine as fast as they can.

16 Go ahead.

17 VOICE: I have a number of comments here. I don't
18 even know where to start and where to stop.

19 I think really at four o'clock tomorrow afternoon
20 if any of us could give a few words as to what the theme
21 of our discussion was, I think it is going to be, "What
22 does public accounting consist of now," and, "What should
23 public accounting consist of in the future."

24 I agree with the first speaker in that the write-up

1 work really is not the public accounting that was con-
2 templated by the public when they voted that we would
3 have a law to provide for examinations and qualifications
4 of a CPA.

5 So I think we have gotten and maybe to a certain
6 extent it is good from the training standpoint that we
7 have gotten into a feeling that the realm of the CPA is
8 a bookkeeping rental. This is the thing that worries me
9 about the tremendous emphasis on computers, because I
10 think all the computer centers are doing is glorified
11 bookkeeping and glorified write-up work.

12 Now, we have a number of developments that I am quite
13 disturbed about and they are going through the Ethics
14 Committee and right now I happen to have one, here is a
15 data processing center in Chicago, Fedder Data Centers.

16 This is a CPA who had three men on his staff, has
17 a license for this. It is a corporation run by CPA's
18 for CPA's. So they, in effect, are set up to handle
19 sophisticated write-up work for CPA's in their own office
20 for their own bookkeeping as well as bookkeeping for
21 their clients.

22 I can see all sorts of problems when you get a num-
23 ber of clients going into one center with a number of
24 CPA's having responsibility for that center. I mean

1 this as opposed to the separate commercial enterprise
2 which has no implications of being handled by CPA's.

3 I think that at some point of time we are going to
4 have to make up our minds whether we are simply in
5 business for profit or are we going into any venture where
6 we feel we can make a profit, or whether we are going to
7 relate our work to the attest function and those things
8 that immediately grow out of the attest function.

9 I just feel that we don't have the time or don't have
10 the personnel to be all things to all people.

11 I have my own opinion, which isn't based on facts,
12 that some of the troubles that the profession is getting
13 into as far as auditing, is because we spread ourselves
14 too thin. I think our own firm's feeling on this is
15 that we just do not have the people or the time, or can
16 we anticipate the people or the time to keep competent
17 in the auditing function; that would include the train-
18 ing of personnel and the training of partners, to keep
19 them from becoming obsolescent, so they know enough about
20 computers to handle the audit.

21 In the management service area as far as the advisory,
22 we just think it is impossible to do all of these things
23 and at the same time set up a commercial enterprise to
24 run the data processing center, and this is the way it is

1 going and my own feeling is that if it continues to go
2 in this direction, we are going to have more and more
3 publicity for goofs in the auditing end, and the public
4 is going to get more and more dissatisfied and upset
5 about it, and we will find we will be pretty much just
6 like another commercial enterprise in business for pro-
7 fit.

8 I think maybe that the kind of thing I hope to get
9 out of this is, "What is public accounting?"

10 VOICE: I think in talking about the implications
11 of automation, we do know that very likely in ten or
12 15 years from now when this will occur what we are talk-
13 ing about, just about every business will have all its
14 record keeping automated, and they will be getting sub-
15 stantially all of the information that is practicable
16 for them to get and to utilize. This will be coming
17 through trade association to a great extent. Some of
18 them are now developing package programs to sell to the
19 members of their associations.

20 It will certainly be coming from service bureaus who
21 sometimes are specializing in particular industries and
22 are developing package programs and selling them around.

23 We have found to a great extent when these organi-
24 zations and these service bureaus try to put in a

1 package program or put in a program for a client, that,
2 in many cases the internal controls that they do set up
3 were very inferior, and we do get into, when we begin to
4 make audits, we just find the complete unreliability of
5 certain information on which we can base opinions.

6 So, the element of internal control from the view-
7 point of the accountant in connection with the computer,
8 whether it be service bureau, trade associations and so
9 on, it is certainly one we must keep our eye on and is
10 probably the most important gripe today.

11 In the future, I think we can guide them on the
12 information, but I think one of the implications or two
13 implications of this whole automation, is that it is
14 going to drive from our profession mediocrity.

15 We have today a great deal, unfortunately too much,
16 mediocrity. We have been constantly upgrading our pro-
17 fession in the last dozen or so years, but we may have a
18 another wave of mediocrity coming to us with the community
19 colleges, and so on. There may be a place for them,
20 there may not be a place. I think this is something that
21 will be developed later.

22 The fact that we are doing away with mediocrity
23 brings on the other implication which, I think, is very
24 vital, and that is that I believe this automation is

1 going to be a leveler of the large firms and the local
2 firms and the small practitioners.

3 Up to now, the thing that the local practitioner
4 could do, he could economically give a service that many
5 of us have learned that we just can't do; he could
6 service a client for \$200 or \$500 or \$800 a year, because
7 he was in there, he would be posting the books, maybe
8 preparing a monthly statement and he would be able, while
9 he was doing that, because he had that information, he
10 was able to give a certain amount of business consulta-
11 tion that the small client appreciated and I think made
12 great use of, and which went to build our profession a
13 great deal.

14 I think with the computers and with all of the small
15 businesses having all their information coming off the
16 computer, there is no longer the advantage that the in-
17 dividual practitioner had on being on the in, knowing
18 what postings were made to the books, and knowing sub-
19 stantially every transaction. This, then, is going to
20 mean that the larger firms will be able to do a better
21 job, really in my judgment, for a small client than the
22 small practitioner could.

23 I think we can develop a little bit later in this
24 session just how the larger firm can pretty nearly put

1 the small man out of business, unless something else is
2 worked with the small man, with some kind of cooperative
3 efforts.

4 VOICE: I know it seems that these radical changes
5 meet with resistance, and it is too bad that that seems
6 to be true in our own profession. I think automation
7 has a tremendous future, and like what was said here we
8 should rush to utilize it, not to block it.

9 Our future in the profession is in public service,
10 we must do everything to improve that public service.

11 Computers and automation is just the mechanics of
12 bookkeeping, it doesn't remove from us the judgment. The
13 judgment factor is a necessity for imagination, this is
14 what business wants from us. This business about judg-
15 ment, when you ask businessmen what about CPA's, he says,
16 "Well, the thing that is really missing is imagination,
17 suggestions," and the computer can't replace you there,
18 even on tax returns, the computer can't replace your
19 judgment and imagination factors.

20 I think for those who resist it, it is too bad there
21 are members of the profession who do most business, I
22 would say, because of write-up work and bookkeeping business,
23 they are going to have to upgrade their standards, they are
24 going to have to move further into the sophisticated

1 areas and services. Even a tax service, tax returns,
2 as far as the client goes is the least important of the
3 whole area of tax services. So I say like was said here,
4 let's not be afraid of the changes, this thing has a
5 tremendous potential for all of us. Let's be ready to
6 adjust to it, let's use it to our advantage, don't block
7 it.

8 THE MODERATOR: I would like to observe one thing,
9 if I may. It seems to me the difference of viewpoint
10 as to whether CPA firms should or should not have their
11 own computers and render computer service, that is actual
12 recording as part of their client's services.

13 One man questioned the wisdom of it at all, but at
14 the present time I know that in Norristown, I believe
15 Clyde Frye has a computer and renders services.

16 There is one in Long Island that wrote up the article
17 in the Journal of Accountancy, and it left me with the
18 feeling that is probably most of the business of that
19 firm. I know a firm in Florida that does this and I
20 understand one national firm, I have heard that Pete's
21 office in Honolulu has a computer and will use it for
22 services as a service center.

23 I just think we have different points of view here,
24 and I guess what we would like to know is, what is

1 actually going to happen, where will we be in the future?

2 I think one man here thinks we will probably have
3 computers.

4 VOICE: This is a question of where will we go or
5 where should we go?

6 Personally, as far as computers, from that point,
7 personally, I think the day of the real small practitioner
8 is gone; he is going to lose his write-up, he is not
9 going to be able to do it successfully, he is not going
10 to be able to perform the services of specialists, and
11 so forth. So the computer is going to help this with
12 all of the other complexities, to make him merge or put
13 him out of business.

14 There is a second place, this is not with the big
15 firms. Of course, this is our problem, this is going to
16 be our problem all the time here, looking at it from the
17 two viewpoints. I am looking at it from the viewpoint
18 of the place where a firm has 15 or 25 or 30 or 40 men,
19 and your clientele is the clientele of medium sized
20 firms and actually the attest function isn't as important,
21 you have sold it, you have given it to him, and you could
22 go to half of your clients and say, "Look, do you want
23 that?"

24 They will say, "Well, we don't need it." Even the

1 banks don't appreciate it. This is the greatest thing
2 that kills you, but we have built this up, and I think
3 it is an important segment, but for the average client
4 who is not on the big stock exchange or not on the
5 stock exchange, he is not public, he doesn't have a
6 couple hundred stockholders, we have got to look at it
7 from the other viewpoint, somebody has to serve these
8 people.

9 There are a lot of them, they are not going to have
10 their own computer, they are going to look for somebody
11 to do the job for them.

12 I don't believe in setting up a service center for
13 everybody or for other accountants or anything like that,
14 I think it has got to be kept separate from your own
15 group but where it is coordinated enough if you can
16 assist a man in rendering the proper service, you can.

17 I think we got to recognize here that again going
18 back to Compu-Tax; Compu-Tax is only the processing of
19 the return, this is what you got to remember in saying --
20 of course this is what the computer is, it only processes,
21 it doesn't do any of your thinking for you, it relieves
22 us to do the more important work, to do the thinking and
23 the planning.

24 I was down in Virginia at a seminar on management

1 and accounting practices. We finally got down to pro-
2 cessing and how many of you fellows don't use the Multi-
3 lith -- not Multilith but Xerox.

4 Nobody did, they all still believed that a beautiful
5 typed return is very necessary. For some clients, we
6 need it for sure, but they were amazed, and this is the
7 old style, the old thinking, yet a new breed of account-
8 ing, the most beautiful report. Fellows down there
9 were showing me some of their reports, beautiful ribbons,
10 I said, "Don't you use a wax seal?"

11 I challenged them, I said that you take a Compu-Tax --
12 not a Compu-Tax -- but a Xeroxed tax return and take it
13 to a businessman and say, "Now, look, I Xeroxed this, I
14 can do this automatically on a machine, or here is a
15 typed one, which will you want, with which will you be
16 satisfied?"

17 Any businessman, if he is a good, successful busi-
18 nessman will say, "Give me the Xerox, this is what I
19 want," because he knows that is good business.

20 This is the difference, you have got to get the
21 thinking -- even on what was said here on this little
22 point -- at this meeting down in Dallas you always get
23 just maybe one or two little things.

24 The president of IBM talked about George Watson, the

1 former president of IBM, and this is the only thing I
2 remember about his speech.

3 He said the purpose of a business -- this is Watson's
4 story -- that the purpose of a business is to make money.

5 Of course, we are professionals, but I don't know
6 anybody in his firm or our firm or anybody around here
7 that doesn't have to make money or isn't in business or
8 isn't running our business to make a profit.

9 We have to do this, we cannot get away from this.

10 THE MODERATOR: I am going to do something I
11 shouldn't, but I am going to say what I think the speaker
12 said on that subject.

13 I think he said that if this diverts our attention
14 too far away from our more conventional services, we will
15 make more errors in them, and if the public loses confi-
16 dence in our conventional services, then our livelihood
17 will be greatly diminished.

18 VOICE: The main thing is in there he mentioned if
19 we look into this thing to make money, we are not looking
20 at them to the detriment of anything else, like any
21 business you have got to do your work and whatever your
22 work is it has got to be 100% right.

23 VOICE: I am wondering if there isn't too big a gap,
24 perhaps, within particular CPA firms between the

1 knowledge of the computer and the use of it, which the
2 management services staff has in the knowledge and the
3 use of a computer which an audit man has.

4 What I am really getting at here, I guess, is that
5 the CPA, it seems to me, is going to have problems on
6 the computer no matter where that computer is situated.

7 There are three different possibilities here, one is
8 the use of the computer for write-up and bookkeeping
9 work. It can be located at the client, owned by the
10 client.

11 The second possibility, it can be owned by the CPA.
12 This can be done as a service to the client.

13 The third possibility is that as you suggested, as
14 a utility service to the client.

15 I think that there are problems no matter where the
16 computer is. If it is with the CPA it serves to assist
17 him as part of the attest function and his independence.

18 If it is at the utility, you have got the problem
19 how do you audit the utility in the sense, what kind of
20 controls can you have? Will there be any necessary ex-
21 tensions of auditing procedures necessary here, as we have
22 required the extensions in the past.

23 Most important of all, I guess, is the situation with
24 a large company, where they have their own computer, is

1 the audit staff adequately prepared to really check out
2 the computer? Is the audit staff really prepared to
3 evaluate the internal control of a large client who
4 doesn't have a computer.

5 Then this gets into my baliwick, and on the basis of
6 what I know, the type of students I am turning out, the
7 answer is, "No."

8 Well, if the larger firms in the institute for their
9 training programs can instruct the staff men in the uses
10 of automation, and even the possibility of getting some
11 programming here for the computer, then they can pick it
12 up and they will be informed. I am wondering again if
13 this can be done in a week, two weeks, or even a month.

14 VOICE: Really, I can't wait until every client I
15 have is on a computer, I don't care how big or how small.

16 I haven't read one of these famous cases that appeared
17 recently in the newspapers, Yale Express, the oil business,
18 without being perfectly honest with you --

19 VOICE: You mean the salad oil business?

20 (Laughter)

21 VOICE: Yes.

22 I will be perfectly honest and say, under our audit
23 procedures today, yes, this can happen to me. The reason
24 is, whether we like to admit it or not, our audit pro-

1 cedures are necessarily disjointed.

2 In other words, we do a test of transaction, but
3 because of the flow of paper work, you really can't see
4 every single bill at the end of the year or the inven-
5 tory balance at the end of the year. But think of the
6 grand possibility of the computer. You go out and ob-
7 serve a physical inventory, there are 10,000 units on
8 hand. Now, right now we go out and say, okay, does this
9 make sense in terms of what happened during the year.
10 Unless there is a computer, you really don't know, be-
11 cause it is impossible within limitations of time to say,
12 yes, we had 10,000 at the beginning, we produced a hun-
13 dred thousand, we sold a hundred thousand, we have 10,000
14 in.

15 We don't know, I mean it would take months to accu-
16 mulate this under some of these systems which exist today,
17 but the beautiful thing about the computer is, yes, you
18 can make this test like that and even tested transactions
19 or payrolls, you can ask the computer to tell you every
20 man on the payroll who got paid more than two weeks vaca-
21 tion, or how many men on the payroll got paid for three
22 weeks vacation.

23 VOICE: The computer can aid the auditor in this.

24 VOICE: It can aid the auditor, yet the auditor, is

1 merely sophisticated that you eliminate once and for
2 all these kind of cases that we have been reading about
3 recently.

4 I don't have the experience that you have, and I
5 agree with you, but I take a dim view of accountants,
6 regardless of the size, that are setting up computers to
7 do write-up work. To do this the client should have his
8 own computer or use a service center.

9 Now, the other thing, my limited experience is this,
10 whenever I go in at the end of the year, the IBM equip-
11 ment just broke down last week, so they are so far be-
12 hind they can do no print out for me at all.

13 They don't have any kind of trial programs. I read
14 all this junk, and as a practical matter you are going
15 to have to have a computer to test the client's program
16 on your own equipment or on a service center, you are
17 not going to get this stuff printed out, and I think
18 that is where some of the problems are, and I am only
19 reading between the lines, and I may be 100% wrong, but
20 you try and get these guys to turn anything out for you.
21 I have some former clients that were taken over by these
22 big guys, who are in computers and what have you, and
23 I get in to see them every now and then, not with the
24 idea of getting the account back, because I couldn't

1 possibly service them, but I know that they and their
2 management aren't getting as much print out as they
3 would like to have, and as much as I think they ought to
4 have.

5 Those guys don't even know at times who owes them,
6 and their accounts receivable are getting delinquent be-
7 cause they are not getting enough print out, because the
8 machines don't have enough time to bring this junk out.

9 VOICE: That is why you are going to have informa-
10 tion utilities.

11 VOICE: Well, that could be, like you say, US Steel
12 and all are getting into it, but these computers, the
13 way we are going about it doing write-up work -- which
14 is what we have been talking about right up to now --
15 that I think is for the birds, we are going to have
16 plenty of time to understand these computers and to be
17 able to do our testing, and we will have to use facilities
18 other than the clients to get the testing done, on an
19 independent basis, perhaps.

20 THE MODERATOR: I would like to go to the next topic.
21 As I gave the timetable, we ought to cover two more
22 topics, this morning.

23 This one flows so much in the next one that, as a
24 matter of fact, that maybe some of those who still want

1 to talk on this one will have an opportunity to talk
2 under the next topic.

3 I think I failed to say at the outset that the steno-
4 typists is not recording the names of the speakers and if
5 he has so far, he will eliminate them.

6 We do not want any comments identified with names,
7 but I don't think that is necessary, we all seem to be
8 speaking very freely.

9 I would like to go to the next topic: What is the
10 practice of accounting?

11 Let me first call on the two people listed there.

12 VOICE: I think there are two advantages in my having
13 been assigned to this topic.

14 One is that I can be completely unbiased, since I
15 am not in public practice, and the other one is that I
16 speak from a great well of ignorance.

17 As I see it, much of what I was going to say has
18 been partly said, I think that is obvious.

19 As I see it, there are two extremes in looking at
20 what is the practice of accountancy, at least from the
21 point of view of a CPA.

22 One extreme and one to which I know some people in
23 the profession subscribe is that it is a limited sort of
24 thing, it is a service licensed by the state to protect

1 the investing public and would seem to embrace the attest
2 function only.

3 I am reasonably sure from the conversation that no-
4 body here actually takes that extreme position.

5 The other is, of course, Carey's integrated service
6 thing, in which he states that this will cover all of
7 management needs in the measurement and communication of
8 the financial and economic data.

9 That to me is also quite an extreme for again, and
10 I know a range of accountants who would say that goes
11 quite far.

12 Furthermore, the interesting thing about Carey's
13 definition of his concept of the practice of accountancy,
14 is that it stresses management, it does not stress the
15 users of financial statements outside of management.

16 There are points, I think, for either of these ex-
17 tremes, and there is quite a range, obviously, of situ-
18 ations which might be construed to be the practice of
19 accountancy in between.

20 Certainly I am not in favor of limiting the services
21 performed by a professional man to the extent that he is
22 competent to furnish them, and there is a great deal to
23 be said for his viewpoint, that this embraces the
24 measurement and communication of all financial and

1 economic data, as opposed, let's say, to the dollar data.

2 Furthermore, Carey has argued for a broader concept
3 of the attest function, particularly looking at the
4 future than that which is conventional in the past,
5 attesting to such things for example as the effectiveness
6 of the internal information system, or perhaps in the
7 long run the attesting of the effectiveness of manage-
8 ment itself.

9 I rather like his, "Seamless Web" analogy with the
10 law. These points, which seem to support his position.

11 Against that I see one or two points, perhaps, that
12 ought to be brought out by a Devil's Advocate, and a
13 college professor can afford to be this more so than
14 a practitioner, I think.

15 His rationale lies in his point that the survival
16 of the profession is the thing we should be considering,
17 as if the survival of the public accounting profession
18 would be an end in itself.

19 He states specifically, among other things that there
20 must be a rational and systematic approach to the
21 selection and balance amongst objectives, so as to best
22 provide for survival and growth of the profession.

23 He also argues, and I think this argument goes
24 against his position, that the alternative of dividing

1 the CPA's practice into two parts, into two professions --
2 I would assume one would be to perform the attest func-
3 tion and the other would perform management advisory
4 services -- would involve a substantial economic loss.
5 This to me is not a good argument, it may be a good
6 argument if I am in business and my future hinges on
7 making money through these services, but it is not
8 necessarily a logical argument in favor of the integrated
9 concept of the accounting practice.

10 But the biggest and basic problem or argument against
11 his position that I see, is that no man can serve two
12 masters. I say this again as the Devil's Advocate.

13 Who is the CPA serving? Is he serving management,
14 or is he serving external parties?

15 I am not sure and I think that the profession itself
16 is going through where it argued one way, then perhaps
17 the other. It can be said that the official AICPA posi-
18 tion with respect to management services, in which we
19 are all interested apparently, that there is no reason
20 why service to management should impair the objectivity
21 of the independent auditor, so long as he does not par-
22 ticipate in managerial decisions. I think it can be
23 fairly said that that is a rationalization.

24 I think I better stop there, because I imagine there

1 are a lot of people who want to get at me, but please
2 remember that I speak as the Devil's Advocate here, I
3 am looking at one extreme and thinking perhaps what is
4 another extreme.

5 VOICE: I will just add a few words here.

6 One thing, it would be my impression where Carey was
7 speaking about the survival needs of the profession, I
8 felt he meant, as was mentioned here before the pro-
9 fession exists for the world and for the service of the
10 clients and people and so forth. I think this is what
11 he means, what do we have to do to continue to be a pro-
12 fession and recognize this fact.

13 We have to exist to serve our clients and the govern-
14 ment in that case from the standpoint of the understanding
15 of taxes and the public in the question of attesting. I
16 agree pretty much against what you have here, you have
17 certain people like myself who were raised up more
18 through the banks function and other people who have
19 been through management services and then others through
20 the attest function. There is one thing I found out in
21 this world, there's no all black and no all white. As he
22 mentioned here he is the Devil's Advocate in one place,
23 then we will move around somewhere else.

24 I think he covered this point, there is nothing more

1 for me to add to it.

2 VOICE: I must be the first to attack the Devil's
3 Advocate, if I may, and I will attack the analysis of
4 the Devil's Advocate from what I believe is a practical
5 rather than a rationalizing point of view.

6 I don't know whether we can truly raise the question,
7 who is the CPA serving without going back through a
8 certain amount of history. When the profession was
9 smaller and, indeed, looking at the practice of the
10 smaller practitioner as well as the larger practitioner
11 and say, "What does our market demand of us? What does
12 our client want of us?"

13 This I think is a key to shaping the type of services
14 that we, a service profession, will render.

15 I think first of all in many situations the CPA is
16 performing a service which is in no means an attest
17 service. There are many clients who have no need for the
18 attest function. There are many non-opinion audits,
19 there are many clients who merely need financial advice
20 from an outside counselor, who is familiar with finance
21 statements and interpretations and a system, and they
22 want tax services, to help them minimize their taxes.
23 And if I think back to the days, when I was a mere child
24 and I hear from many of my partners and associates the

a small,
1 way they would handle, growing client, the same client
2 that we consider a large client today, they would sit
3 down with that client and discuss financial statements
4 which they, the CPA had prepared.

5 They would then discuss tax problems, because you
6 cannot discuss financial matters without considering
7 the tax implications.

8 Then they would also discuss, as good business
9 counselors should, any management problems.

10 They would discuss the decisions that that particular
11 client was forced to make over the next five, six, seven,
12 eight months, weeks, days, whatever.

13 In otherwords, this is the seamless web concept.
14 They could not divorce themselves from discussing an
15 inventory control system with the financial statement.
16 They just couldn't because they could not advise the
17 client properly without getting into those areas. Nor
18 could they discuss the inventory control system without
19 getting into the question of average cost or something
20 else for tax purposes.

21 I think we have to consider what our market demands
22 of us. It seems to me that whether it is rationalization
23 or not the market has permitted the build-up of sizeable
24 audits and tax management services departments. Now,

1 whether we have been super salesmen, so to speak, which
2 I am reluctant to think we are because I think we have
3 been very conservative.

4 We have seen the demand for tax services and a tax
5 specialty has arisen; we have seen the demand for manage-
6 ment advisory services, and the management advisory
7 services departments have arisen from that. So that I
8 feel that the evolution of the accounting profession and
9 types of services we are rendering today is in answer
10 to what our clients are demanding of us.

11 I feel this is really the nub of what is our practice
12 all about and what it should be in the future.

13 There is one other comment I would like to make,
14 which carps back to what was said before, or I should say
15 back to an interpretation of what was said before, and
16 that was we may find difficulty in performing our conven-
17 tional -- and I underscore conventional -- services if
18 we go too far afield and spread ourselves too thin, and
19 I would merely like to make the statement, which I am
20 sure will come up time after time and which will be
21 challenged by many of us, that if we are going to stick
22 with the conventional type of services we are not going
23 to be a dynamic growing profession, we will not be meet-
24 ing the needs of our clients. We have to go beyond the

1 conventional in order to service our clients to the
2 fullest extent that they have to be served.

3 And only one more point, I should say that some
4 clients may demand certain types of services, perhaps
5 only the attest function, others may require the entire
6 integrated range of service, and I believe that we really
7 cannot come to any particular conclusion of a general
8 nature, but must look at each and every type of client
9 and make a decision with respect to that client.

10 VOICE: I don't know whether I will agree or dis-
11 agree with George, I wish I were sitting on the other
12 side of the table.

13 If by market and if by demand you mean the general
14 public, I think I could agree with you. I think at this
15 point we bear the CPA title because we have been licensed
16 by the general public, and so we have a responsibility
17 to the public and that would include all segments of it,
18 the management, the stockholder, the investor, and per-
19 haps, the union leader, and all of the gambits of the
20 entire public.

21 Now, I see a growing demand for the public. I had
22 a conversation with an attorney just yesterday, it was
23 not the Yale Express, because I can give another illus-
24 tration in our firm by saying, shouldn't the CPA issue

1 an opinion which the public could read as to the adequacy
2 of internal control and accounting procedures because,
3 although, we see a certificate which says that the bal-
4 ance sheet is fairly presented as of this date and the
5 earnings for the year and so forth. We do not know --
6 we meaning the investing public, we the stockholders --
7 whether in the CPA's mind the accounting system is so
8 set up that it could be reasonably expected to produce
9 figures and to have the right checks and balances.

10 Now, to give an illustration from our own firm, one
11 of the Gilberts was quite critical in connection with
12 Cudahy a couple of years ago, they closed a number of
13 warehouses and showed some substantial losses. And they
14 said in effect it was a result of sophisticated study and
15 changes in the accounting procedure and so on. Gilbert
16 raised the point well, where was Arthur Anderson during
17 these days when these procedures were poor. Well, for-
18 tunately and in this case we had some management letters,
19 they went to management, they did not go to the public.

20 Another area where there might be a response to the
21 public demand is an evaluation of testing of management's
22 competence.

23 I think that as long as we are licensed by the pub-
24 lic, as long as we state that these things are public

1 accounting, that we simply don't respond to the market
2 if the market is management alone, or if the market is,
3 you know, we can make a buck and this is something they
4 need, but I think our responsibility and our response
5 has to be to the public as long as we are in public
6 accounting, and if we want to get outside of the field,
7 well, that is something else again.

8 If we went to compete in all areas of business life,
9 that is fine, let's compete, but let's not say it is
10 public accounting and this is what the public has lic-
11 ensed us to do without feeling we have the responsibility
12 to it.

13 VOICE: The easiest way to lose professional status
14 would be to cater to every whim of the public or manage-
15 ment; I will stop there.

16 VOICE: Why?

17 VOICE: To me, this would be the same as asking a
18 doctor, say, to perform an operation which he feels
19 would violate his charge by the public when he got his
20 certificate to practice.

21 VOICE: I don't think the CPA would do that type of
22 service that would violate his ethical practice.

23 VOICE: Well, when you get into the borderline cases,
24 the question is where does the responsibility lie, to the

1 management or to the public? I think then this goes back
2 to the CPA or the public accountant licensed, if you
3 wish and to institute new services, if you wish even
4 management services to some extent which would cause the
5 accountant to lose the public nature of his practice, we
6 may lower the accounting professional status in the eyes
7 of the public.

8 VOICE: First let me say that I wholeheartedly endorse
9 the philosophies, George recited. We very definitely can
10 and should respond to -- I won't use the word whims --
11 the demands that might be imposed on us just in the
12 ordinary course of performing our attest functions and
13 dealing with our clients et cetera.

14 In that connection I would like to just make this
15 point in personal rebuttal to the way I interpreted their
16 remarks. The seamless web that seems to run through
17 their remarks is, and I think maybe a misinterpretation
18 the service, that is the reporting to and furnishing of
19 services to management is in some way mutually exclusive
20 of furnishing services to the public, that is to say it
21 is sufferable in some way, so that by furnishing services
22 to management we in some way are not furnishing services
23 to the particular class of people to whom we should be
24 involved.

1 Now, I say we may have a communication difficulty;
2 that is to say the vehicle, the management letter or
3 whatever it might be may be faulty, may be defective,
4 we can't perform this service and communicate our assis-
5 tance as directly to the public as we might like to do.
6 But nevertheless, that doesn't seem to me to preclude the
7 requirement or the need for this kind of service.

8 As I say, I may have misinterpreted what they have
9 recited, because I think it was specifically said that
10 in some cases it is a question of whether or not we can't
11 or can serve management or serve the public. I think
12 these are to be equated. I think that, for example, the
13 furnishing of an Arthur Anderson Management Letter to
14 management is certainly intended for the benefit of the
15 shareholders and for the public at large. The fact that
16 this in some way doesn't get across to the shareholders
17 and public is unfortunate obviously, and we need to in
18 some way improve this line of communication. Just how,
19 I am not sure, but it doesn't follow because we are
20 furnishing services to management addressing them more
21 directly, that we are not at the same time performing
22 whatever might be someone's concept of public accounting,
23 let's say.

24 VOICE: There are not that many public companies that

1 require the attest function to protect the investor.
2 Now, as far as third parties are concerned, in addition
3 to investing shareholders, you do have the third party
4 lenders, particularly your term and your bank lenders
5 that are interested in the attest function. So if we
6 just start talking about that and we don't begin to give
7 service to management, why then, we are materially limit-
8 ing the profession to -- we are excluding many, many,
9 many of the CPA's that we now have, I tend more to agree
10 with the comments that when you do sit down and discuss
11 with the client your findings and review some management
12 letter with him or whichever way it is used, it is very
13 difficult to begin to say that you won't give or express
14 or objective judgment on certain questions that they may
15 raise.

16 I think we have to fall into this thing with the
17 competence that we have, and I think this is where we
18 get into the difficulties.

19 Basically, I think what we are doing is we are lending
20 credibility to information to third parties, even to the
21 Federal Government and other governmental agencies, but
22 besides that I think that a real major function we have,
23 I think, is a real part of public accounting because the
24 probability is the objectivity we have with respect to

1 any kind of interpretation or any interpretation of any
2 business problem.

3 VOICE: Do you suppose, just continuing as Devil's
4 Advocate that we could split off a profession that would
5 perform only those audits of listed corporations and
6 leave the rest to another profession?

7 VOICE: I don't think that is the feasible thing to
8 do, because the listed corporations require these other
9 services just as well, and I think when you sit down with
10 the president or the executive officers of the listed
11 corporations, by golly, they have the same kind of ques-
12 tions that they want to pick your brains and your mind,
13 because you have gotten to know their companies.

14 VOICE: I think the question I really raised at the
15 outset and that I am not sure that I am getting an answer
16 to is, is there a conflict of interests?

17 I don't know. I took this position as Devil's
18 Advocate, is there a conflict of interests in the case
19 of the CPA firm who has a client for whom he performed
20 substantial management services. Let's say it is a
21 public corporation, he is the auditor, is there a conflict
22 of interests when you consider that the external report
23 which purportedly is a report of management has your seal
24 on it and this report is going to be used by investors.

1 VOICE: You cannot stop a man from asking you ques-
2 tions, you cannot appear, and this is something we
3 always trained our junior staff men, we can't stop a
4 man from thinking, we can't put a man or have a man in
5 an embarrassing position, if he is asked a question to
6 which he has answers, if he has the kind of judgment to
7 say, "I am sorry, this is out of our field, I can't
8 answer that," I think we would be doing ourselves irre-
9 parable harm.

10 VOICE: Would you infer from that, for example, the
11 assistance and the implementation of massive information
12 system now for a particular client let's say, by the in-
13 dependent accountant, by their auditors, which, of course,
14 may or may not substantially enhance their sale position
15 or what ever it might be, or what ever effect it may
16 have, that this position in some way then is going to
17 prejudice your views on whether or not their financial
18 statements fairly present their operation or financial
19 position.

20 The installation of this system may substantially
21 improve the profitability of this company or the system
22 may go hay wire and hurt the company. Nevertheless,
23 the end result, of course, is that the accountant, that
24 wouldn't prejudice his views in my opinion.

1 VOICE: I can see a conflict of interests in this
2 particular area, and it was touched on briefly before.

3 To perform an audit, let's say we have a report here
4 to outside stockholders, then you provide what we call
5 a management letter, where we might point out certain
6 weaknesses in the system, what have you. And like other
7 firms, we are always very happy when something goes
8 wrong we can point to these letters, and say, "Well, we
9 warned you about this possibility."

10 But we have had attorneys talk to us and say, "John,
11 really how long can you keep writing these letters and
12 you are pointing out the same things and management does
13 nothing about it?" How long then can you keep certifying
14 and the stockholders know nothing about these letters
15 and management is doing nothing about it, I think this
16 is one area where perhaps the whole profession is lax;
17 we all do it.

18 VOICE: There is one other question that occurred to
19 me, too, and that is this. I think everybody agrees it
20 was probably considered improper to audit the books of
21 a client for whom you have done write-up work, and look-
22 ing at it from the side of continuing work on their man-
23 agement information systems, or their information sys-
24 tems, are these two things different?

1 VOICE: Let me go back to your first point. I frank-
2 ly wouldn't see anything wrong with somebody doing write-
3 up work and a separate crew of staff go in.

4 VOICE: SEC does, though, don't they?

5 VOICE: I need a little time, I don't think it is
6 rebuttal, I think it is more of an explanation.

7 I think really our practice, and I don't see how
8 anyone can disagree with this and it rests on three
9 cornerstones, competence, independence and integrity.
10 And, of course, the competence and the independence rests
11 on integrity.

12 Now, to the extent that you get involved so that you
13 don't have the competence, to the extent you get involved
14 so you don't have integrity then you are losing your
15 public confidence, you will no longer be licensed by the
16 public.

17 I think a lot of this is state of mind. For example,
18 I had a little debate with Walter Frazee over at the
19 Accounting Principles Board at the Pennsylvania State
20 Conference, and I think this will give a good illustra-
21 tion of the state of mind in talking about accounting
22 principles.

23 Frazee made the statement completely, bald and
24 unequivocally that the principles board should wait for

1 management to accept and adopt principles before it took
2 action. So here was a man who -- and I think he in his
3 last vote on the accounting principles board -- he
4 followed this philosophy. Here was a man who was saying
5 in effect the CPA exists for management and should be
6 led by management and should serve management in what-
7 ever way it wants, so there was complete disregard for
8 the public responsibility, the responsibility of the
9 stockholder, and these days, of course, you have a pro-
10 fessional management, and in some cases in some companies
11 they don't even own any stock, and I think there is a
12 state of mind and I can't agree more with others if they
13 are thinking at the time they are serving management of
14 this ultimate responsibility to the public.

15 For example, I recall one ten years ago where we
16 were working for management services work, non-audit
17 client, and we found the fellow was filing fraudulent
18 tax returns. Well, now, if we had said we are just ser-
19 ving this man for strictly management services, which
20 was our engagement, then we had forgotten completely
21 about the public responsibility, so we said we would
22 help him to come clean with the Government. He said,
23 "No, thank you," so we withdrew.

24 This is the thing I am thinking about as a state of

1 mind, plus again the spreading too thin so you don't
2 maintain the competence and then again getting so involved
3 that you are making decisions for management rather than
4 actually giving advice based on facts so that you lose
5 your independence.

6 Now, you can't draw the line. I know the Management
7 Services Committee of the AICPA, they issued a bulletin,
8 No. 1 which was circulated. They got so many different
9 remarks on Bulletin No. 1, that it has now been withdrawn
10 to be rewritten again.

11 VOICE: I have a question that has threaded its way
12 through the entire morning in connection with taking over
13 write-up work on automated equipment, especially if a
14 CPA firm were to do this on a service bureau basis.

15 I want to ask this directly, would this be suffi-
16 cient impairment of independence to preclude a CPA from
17 certifying the financial statement if he had to render
18 an unqualified statement for that particular client.

19 I wonder whether there might be double standards in
20 this connection between what the CPA might decide as an
21 answer to that question for a particular small client
22 who may only be accountable to a bank and have their own
23 closely knit ownership and management, and also between
24 clients who may not be large enough to have their own

1 computer installation or automation, and still be regis-
2 tered with the SEC. Would the SEC have a different view-
3 point than what we as CPA's sometimes might regard as a
4 condition on this question.

5 I would like to know what some of the others feel
6 about this. My own feeling is that in a case like that
7 and I recall hearing John Barr talking about this at one
8 of the institute meetings, that if there is write-up
9 work done on a particular client, the official SEC posi-
10 tion would be that this is sufficient impairment to keep
11 a CPA from rendering an opinion. Now, what about smaller
12 clients and how do some of the rest of you feel about
13 that?

14 VOICE: This is not a direct answer to a question,
15 but I think it has a lot of bearing on it. I always
16 felt that maybe there was too much emphasis on who did
17 the bookkeeping, and in this case, who did the book-
18 keeping on the computer, because for many years, whether
19 we recognized it or not, the CPA and probably more par-
20 ticularly the small firms of CPA's or individual practi-
21 tioner has been much more than an accountant or book-
22 keeper to a client.

23 In many cases, as was mentioned earlier, he has been
24 a part of management in a much more direct way than a

1 management service engagement, in that he sat at the
2 righthand of the owner of the business and helped him
3 make decisions of everything he did, every business
4 decision down the line, and yet we kind of ignored that
5 fact, and yet that has existed for years. I guess it is
6 with large firms with larger clients too, but it becomes
7 more apparent, I think, when the CPA thought of his
8 client as his friend and the client never made a decision
9 without talking to the CPA. So I think this is much
10 more important than who does the bookkeeping, because
11 I can see those entries and so forth can be done pretty
12 mechanically.

13 VOICE: That isn't what I wanted to say awhile ago.

14 VOICE: In answer to your question and the example
15 of the installation of the systems, I think the impor-
16 tant point here is not whether the accountant in fact
17 loses his independence or whether the accountant can no
18 longer exercise his judgment, but whether the public
19 will suspect or think there may be a conflict there.
20 Whether there is one or not may be secondary, but whether
21 the public thinks there is one, and I would suspect that
22 the public may think there is one in that case.

23 VOICE: If I may respond to that, the public may
24 think that, yes but in my view, of course, their think-

1 along those lines is incorrect. Now, that is not going
2 to solve the problem to the extent that they become
3 aware that the accountant is furnishing substantial man-
4 agement services to the client and this in some way
5 jeopardizes his independence, it is a serious problem;
6 it is a serious problem to have the public think that
7 way.

8 VOICE: If I can reply to this, I think the reason
9 the public would think that way is it recognizes the
10 fact that the possibility it may exist.

11 VOICE: I think I can draw an analogy here with the
12 performance of the write-up and then alter it as though
13 furnishing an opinion on these accounts. It seems to me
14 it is probably implicit in the SEC view when they were
15 dismayed with this kind of process they, in effect, pre-
16 sumed that the eventual result is not really the clients.
17 In other words, the eventual result is the accountant's
18 financial statement rather than the client's financial
19 statement, because in the course of making the book-
20 keeping entries and the like the accountant sways the
21 client to the point where whatever is ultimately pre-
22 sented or whatever accounting principles or procedures
23 are selected are those of the accountant. Now, that
24 doesn't make them wrong, it doesn't make them wrong at

1 all to the extent they are appropriate principles and
2 procedures, the accountant can still be in a position
3 to give the same opinion on the account, whether or not
4 he originated or devised the accounting principles or
5 the client initially did.

6 I don't think any of us would not admit that even
7 for the very large clients you often have the situation
8 where, let's say, all the routine clerical accounting
9 procedures are performed now for the client you come to
10 the end and you pull off the initial trial balance and
11 substantial adjustments are required to the accounts
12 before they can have unqualified opinions. What happens?
13 The adjustments are effected in the accounts.

14 Now, they are effected through the persuasive efforts
15 or whatever other powers of the accountants. It is
16 almost tantamount to writing up the things in the first
17 place, because you come to the same results.

18 Now, that does not in any way make those financial
19 statements any less fair than they would have been had
20 the client booked all these adjustments before we saw
21 the accounts.

22 VOICE: Where is the line drawn?

23 VOICE: Well, the SCC draws the line, I am aware of
24 that.

1 VOICE: One thing that hasn't been touched on here
2 and we have discussed this in our firm for a good many
3 years -- we are on the small side, but it is a question
4 of who hires these accountants.

5 Now, technically the shareholders hire the account-
6 ants but, of course, you know that management hires them,
7 and any company I can think of that is publicly owned
8 and ready has not only Price, Waterhouse; Lybrand, Arthur
9 Anderson, and anybody else, look at the top accounting
10 people, where did those people get their training, they
11 got their training in this particular accounting firm
12 that is still doing their work for the last fifteen years.
13 There are some exceptions to that across the country.

14 When I get these proxy statements from the stocks
15 that I own, I kind of laugh, they say that they suggest
16 so and so to be hired to do the audit next year. Well,
17 of course, he has been hired for the last ten years and
18 will be hired for the next ten years.

19 Now, if we want real independence we got to have the
20 guy hire the accountant who is going to do the job for
21 him. Now, in England I understand someone other than
22 the management hires the accountant, I understand that a
23 government agency of some sort tells which accountants
24 are going to audit which industry. Now, if we take that

1 a step further and try to get all these people to rely
2 on our statements, as John Carey suggests, the labor
3 unions, for instance, we have got to have someone else
4 hire these CPA's than the way we are hiring them now.

5 VOICE: May I make only one comment on this, the
6 most ornery, most independent person to get along with
7 is an alumnus of your own firm.

8 VOICE: I think from all the discussions that have
9 gone on here that the basic problem is the problem of
10 communications and education of the public. I have to
11 agree wholeheartedly we can't get into this work or
12 attempt to service our client if we are to reach dead
13 end streets by saying this is beyond the realm of what
14 we are permitted to do or what we should do and maintain
15 our independence.

16 I think if we are guided by the principles of our
17 profession and in particular with respect to integrity
18 so long as we are satisfied in our own mind this work
19 can be done in no matter what area, then it should be
20 done, and that the basic problem is to educate the public,
21 that this in fact is being done, then we are maintaining
22 our independence.

23 VOICE: I would like to go out a little further than
24 what we have talked about so far in this topic. We have

1 been going pretty much on management services, independ-
2 ence and let me say that I am in agreement entirely with
3 the position of George as to management services.

4 I think that this is behind this, I don't know that
5 you can really do much now to change that. I personally
6 feel we should not attempt to change it within the pro-
7 fession.

8 I think we should be concentrating on what will the
9 practice of accounting be fifteen years from now or for
10 some period ahead and then look at it and try to come
11 back, look at what we think it will be and then try to
12 come back.

13 What will happen if we don't do anything to attempt
14 to control or regulate it within the profession? I per-
15 sonally feel it would probably be a mistake for the
16 profession to attempt to regulate the growth. It might
17 be done in some minor ways, perhaps, but I seriously doubt
18 you can control this just because all of the firms are
19 interested in growth. This is certainly a natural con-
20 cept. You can't avoid profit motivation. I realize
21 that there is some conflict between profit motivation
22 and professionalism. But I think, I guess, the thing
23 that really disturbs me is, where does all this stop?

24 We have talked about management services and independ-

1 ence, management services as we know it today but how
2 far does this go? Where should we be when we talk about
3 accounting fifteen years from now.

4 I am personally satisfied where we are now including
5 management services but I question whether we should get
6 into other areas as in the past that are unrelated to
7 our work. This is maybe a kind of a general statement.

8 THE MODERATOR: I am going to ask the Devil's
9 Advocate whether he really meant what we thought he said.

10 VOICE: I raised the question, but I did not state
11 that to be my opinion nor do I feel that. As a matter
12 of fact, my primary interest as a teacher of accounting
13 is in accounting systems. I wouldn't be interested in
14 the American Institute of Certified Public Accountants
15 if I didn't feel that certified public accountants didn't
16 have something to do with accounting systems.

17 Nevertheless this point was overlooked in Carey's
18 discussion and I felt that it had to be raised and look-
19 ing to one man's worry the alternative Devil's Advocate
20 question is will the attest function wither in the fore-
21 seeable future by reason of the increase and importance
22 of management services activity by CPA firms.

23 VOICE: Looking directly to the question, what is
24 public accounting it seems rather clear from this

1 discussion that public accounting breaks down into three
2 areas today, the audit, tax services, and management
3 services, possibly there are some others.

4 With respect to this -- am I correct, we are all
5 generally agreed on that?

6 VOICE: I get the impression that bookkeeping is
7 a substantial part of it; write-up work there seems to
8 be a strong concern about this.

9 VOICE: On the lower levels, yes.

10 VOICE: Speaking of this attest function, speaking
11 in terms of the impression the public has of us as a
12 profession this attest function I think we have to be
13 very careful with. It is certainly a vital and important
14 part of our services. I think we must also bear in mind,
15 there is something like nine million businesses in the
16 U.S. and at the most there are a million three hundred
17 thousand corporations, and if I go away out there can't
18 be any more than 50,000 of the one million three hundred
19 thousand who have gone public, so if we try to make an
20 impression on the public that our principal function is
21 attest function that would be making a mistake, because
22 it isn't actually.

23 Like was said here, speaking of the profession as a
24 whole I think that the great majority or great percentage

1 of our services and our fees come from areas which, in
2 fact, are not attest functions.

3 Let me go to this matter, this impression that we
4 do services strictly for management. Gee, I hope that is
5 not the impression that is actually what we are doing,
6 but one thing is sure, I don't think that you can stop
7 the story to the effect that it is safe to assume that
8 management has a responsibility to the public.

9 If we are serving management, it is safe to assume
10 basically we are also serving the public because so is
11 management. And if management is not serving the public
12 it can't last.

13 Just let me add one more thing about this whole matter,
14 "What is public accounting?"

15 I think Jack Carey has a definition in his book which
16 I think is cute -- I really mean it in that sense. He
17 says, "What is a profession?" I don't know whether he
18 got this some place else or put this together himself,
19 but anyway it goes like this, anyway it cuts across all
20 these areas we are talking about, and if you think about
21 this definition in the context of what is a profession
22 as being what is a public accountant, no. 1 and accord-
23 ing to Jack it is technical competence and a feeling of
24 knowledge requiring advanced intellectual training. Let

1 me skip over that for the time being because it runs into
2 education.

3 No. 2, use of judgment, the acceptance of responsi-
4 bility and the assumption of authority in your own field.

5 Judgment, responsibility and assumption of authority.

6 No. 3 is fine to, a sense of mission, a desire to
7 help people -- thank goodness he doesn't say business
8 management -- a desire to help people. A willingness --
9 a willingness, now this is important -- a willingness to
10 share the worries to aid their hard decisions.

11 Some how this gets to our definition of what is
12 public accounting in a broad way.

13 I can't become too excited about this independence
14 factor, but the competent business I agree.

15 THE MODERATOR: I think that should end that coverage
16 and we should go on now to the next subject.

17 VOICE: I am a little bit outside the practice but
18 what has been just said I would like to suggest maybe
19 looking at it from a different point of view.

20 It may be that the profession or a CPA practice is
21 concerned with 50,000 corporations and a lot of the
22 nine million businesses, but really the profession, I
23 think, is trying to wrestle with how does it adapt to
24 society's needs.

1 In our country a society is probably measured in so
2 many ways that we can't focus on too many of them at once.

3 Let's say GNP, let's say the economic barometers --
4 I have seen numbers, I don't recall them, but I would
5 guess that 75% of our GNP are economic accomplishments,
6 are progress in technology, the jobs of our people easily
7 would fall within the accomplishment of 500 corporations,
8 maybe a thousand, but I would guess 500.

9 So society is concerned with how do these relate to
10 economic accomplishment, not just the practice of the
11 CPA in dealing with the individual businessmen.

12 The genius of American Government, it seems to me, is
13 capacity for constantly inventing new ways of governing
14 without direct regulation or pluralistic society.

15 In answer to the question, is there a conflict of
16 interests, I think that we are finding society has said
17 there haven't been enough conflict of interest. Let's
18 get society's interest a little bit more on the back of
19 the CPA so he is not under the pressure to have to go
20 along with management in too many cases. Let's make this
21 conflict of interest work, so instead of being independ-
22 ent I think the CPA is more and more the man in the middle

23 This isn't a bad situation, because really a viable
24 and dynamic situation is never one of status, it is never

1 static, it is constantly striving toward equilibrium,
2 balancing forces.

3 I think there is a conflict of interest, and I think
4 it is wholesome that it is so.

5 THE MODERATOR: Let's go to the next topic, "External
6 reports for various purposes."

7 VOICE: The issue here really revolves around again,
8 the extension of the attest function into different areas
9 beyond balance sheets and income statements and general
10 purpose reports to the public.

11 What we are concerned with here is a situation where
12 the auditor has been or may be asked to attest to a, I
13 guess what we should call a special purpose report and
14 primarily suggest that these will be special purpose
15 reports for special interest groups, particularly for
16 various governmental agencies.

17 I think that three issues are raised by considering
18 the CPA's role in expanding the attest function to
19 special purpose reports.

20 The audit, I think, is significant to these issues.
21 In one case it is suggested that in the special purpose
22 reports to various governmental agencies the auditor may
23 be acting as an arm of the governmental agency. The
24 suggestion is made that the CPA's can do the work or

1 save the governmental agencies the troubles, if you wish,
2 of appointing their own examiners or auditors and send
3 them in to a particular company to prepare a very special
4 purpose report.

5 The issue that is raised here, of course, is again
6 what we have been discussing, the possible conflict of
7 interest here between the auditors duty to the corporate
8 client he is representing and his duty to the government,
9 if, in fact, he is acting as an arm of the government
10 agency.

11 There is another main issue involved here, that is
12 in the special purpose reports there are frequently --
13 it would seem to me I would guess from this statement of
14 facts that it would appear to me that there frequently
15 is no generally accepted accounting principle again,
16 whatever that may be to guide them. Special purpose
17 reports may, in fact, as has been suggested require the
18 audit to go beyond accounting data, beyond, let's say,
19 ledger data.

20 If in fact there are no general principles, whether
21 they be accounting or otherwise, to guide the auditor in
22 this situation, what problems does this cause, since
23 there are no standards? What kind of an opinion can be
24 issued to the conformity of the special purpose report

1 with generally accepted standards in the field.

2 A third area here, I think this is somewhat minor,
3 is this suggestion in the chapter that in the audit of
4 non-profit agencies the main thing or one important
5 thing the auditor should be concerned with is possible
6 misuse of funds.

7 In other words, a suggestion is made here that per-
8 haps in this situation the role of the auditor in detect-
9 ing the fraud, frankly, should be given more importance,
10 and if, in fact, this is so, I am just wondering how
11 great an extension of auditing tests this will entail.

12 I am much more concerned with the area here of com-
13 petence of the CPA, where there are no generally accepted
14 principles to guide him in the preparation of special
15 purpose reports.

16 THE MODERATOR: Who would like to comment on that?

17 VOICE: I would only make this comment, first of all
18 there are guidelines for the preparation and the conduct
19 and examinations with respect to public reports. There
20 are publications of the Institute for example, which
21 guide this very problem.

22 Of course, the government agencies, at least certain
23 of them have promulgated certain guidelines and rules,
24 etc. -- school districts in Pennsylvania for example.

1 VOICE: Again, I am suggesting we are all looking to
2 the future, fifteen years ahead. This involves the
3 whole area of the extension of the attest function in-
4 to the role of the accountant in using non-accounting
5 data; again this may cause problems.

6 VOICE: This whole idea of external reports is, I
7 think, a question going back to what is demanded of us
8 and expected of us from the public, and external reports
9 here obviously mean something going out from the manage-
10 ment, which means going directly to the public.

11 There is no question about the need of reports for
12 other than businesses. This is clear and this goes back
13 again to being able to educate those who may need them,
14 that they are needed for a valid purpose, criticising
15 some things about reports for external purposes, you
16 certainly see and have seen in the past couple of years
17 reports being published for non-profit organizations,
18 where they don't publish any opinion, where they merely
19 say there is a report that is in the office of the organi-
20 zation, and this clearly is something that I think hurts
21 the profession tremendously.

22 This has happened with major non-profit agencies
23 where it goes to the thousands of people.

24 I think when we get into management letters, whether

1 or not this should be part of any report that is going
2 to the public, and also when we get into certain kinds
3 of information away from the routine, basic I should say,
4 financial statements, there has certainly been a trend
5 since I have been in the profession to go from a certain
6 very voluminous type of report down to the simplest and
7 most concise type of report.

8 I think in reporting to the public, whether it be for
9 non-profit or whether it be for third parties or equity
10 investors or creditors, we should be getting back to dis-
11 closing more data that would be helpful to that purpose,
12 to the reader in evaluating without having to go back
13 to the company.

14 It comes up in buy-sell situations, it comes up,
15 certainly, in lending and I think a lot of the black eyes
16 that the profession has gotten in the past several years,
17 perhaps, could have been avoided if there was a little
18 more information put into the reports.

19 Now, as to the kind of attesting you do to it, that
20 is something you can't work out yet.

21 VOICE: What I had specifically in mind, and there is
22 really very little play in this chapter, really is this
23 future business.

24 Let me just read a very short thing here, the

1 extension of the attest function to unfamiliar fields is
2 more than likely.

3 Sociologists -- of all people -- have suggested that
4 CPA's could be used for many activities involving measure-
5 ment techniques, outside of the business world. For
6 example, objective evaluation of sampling techniques,
7 used in attitude and opinion surveys and so on, and in
8 budgeting and auditing costs of scientific research pro-
9 jects particularly over the allocations. Well, in these
10 areas, this is certainly beyond the ledger data. I am
11 not suggesting here, there may be no standard, and what
12 will the standards be and are standards needed.

13 The answer is probably no, it is possibly going to
14 be ad hoc for each situation, but what will guarantee the
15 independence of the auditor?

16 THE MODERATOR: The accounting profession has been
17 issued a number of reports on these extra areas in fields
18 such as conflict of interests.

19 A lot of us here called in to request and issue a
20 report to the Board of Directors where we find undue
21 conflicts of interest in the top management.

22 We have people here who have given opinions on the
23 purchasing function, for example, whether it is carried
24 out well. Of course, in many other things closely re-

1 lated, like appraisal of the computer function of the
2 company.

3 Now, most of these reports go to management or the
4 Board of Directors. I think what you would be interested
5 to know, will these reports go to the public, the share-
6 holders, 15, 20 years from now in the same sense as does
7 the report on the financial statement today.

8 VOICE: I don't see that as the main point of this
9 chapter. I may be reading the same thing and seeing
10 that John Carey is saying two different things, but I
11 don't think it is here to raise an issue as to whether
12 or not this should go to the public, he is suggesting
13 that the attest function is going to be extended to
14 special reports, particularly to government, but to man-
15 agement also. These will not be in the same type of what
16 we call general purpose reports the public is getting to-
17 day and the public probably will not be interested in this.

18 VOICE: This may sound like a broken record, but I
19 think here again it is the thing in the future we will
20 have to remember as we did in the past, it is competence
21 and independence.

22 I recall this was a special report the first year I
23 got into AA in the midwest. We had been engaged in
24 finding some facts in connection with a rate case.

1 I recall that one of the headlines in the Chicago
2 papers was, "Anderson report thrown out." Neither side,
3 neither the Public Utility Commission nor the Telephone
4 Company, in this case, would accept it.

5 That made quite an impression on me, even though in
6 this case the Telephone Company was paying our bill and
7 we went in at their suggestion with the approval of the
8 Commission, our findings were thrown out completely.

9 I think there is more of a danger in the special
10 type report of being an advocate than there is with your
11 opinion on the financial statement.

12 VOICE: Can the attest function be extended where
13 you have been in fact an advocate?

14 VOICE: I think you can, but I think you have to be
15 certainly aware. I know we have had the situation in
16 a couple of companies where we made purchase investiga-
17 tions, and subsequently the board said, "Well, we are
18 not going to call you in to make purchase investigations,
19 because you find things that make us decide not to buy
20 the company, and we want to buy them anyway," you know.

21 So I think you can be independent in every case, and
22 if you can't, then you should refuse the investigation.

23 VOICE: I think that Carey is talking there, too,
24 where a lot of people are trading on the name of the

1 CPA and his reputation. For instance, when Nixon was in
2 trouble, he got a report out quick, and Johnson gets a
3 report out, and I think we are going to have more and
4 more of that as our reputation grows, and I don't see
5 anything wrong with it except that we can get ourselves
6 in hot water in some of these special report areas.

7 One thing that bothered me the other day, talking
8 about black eyes, and our reputation, I saw an article
9 in Poor's Magazine, which I sent over to John Harvey who
10 is chairman of our member Auditing-Accounting Procedure
11 Committee, and it was talking about the steel reports,
12 and it looks as though the earnings are going to go down.

13 This fellow from one of the big brokerage houses
14 said don't worry about that, with depreciation and pension
15 and contributions and what-have-you, that they keep kick-
16 ing around there, your earnings will be all right.

17 Now, those are the things that will really give us
18 a black eye, and these are the things that I get back to
19 this independence, that we are influenced a lot about
20 management as to how these reports are going to be shown
21 up. These management letters we give these people, they
22 go on five and six years without any action, I don't know
23 how independent we are, I guess, we say it is not material,
24 so we let it go.

1 I don't know how independent we are in many areas
2 and these are the things that in the outside,

3 Forbes also, and you people probably know, every
4 year compare companies by industry, all the cement com-
5 panies, the railroads and what-have-you, they try to
6 evaluate management by the results of the financial
7 statements, by earnings returned on investment and what-
8 have-you.

9 Now, we are getting more sophisticated all the time,
10 and we go to buy stock the information we can get, what
11 is available, and the public is going to demand more and
12 more of our reports and they get into more and more
13 special areas, such as the order backlog and all this.
14 I can see the cash and all these things are developing,
15 and somebody is going to be in the middle here, somebody
16 is going to get the information out. I think that is
17 an extension of what we are talking about, and these
18 reports are good, I think, but they will only be so good
19 as long as our reputation holds up.

20 THE MODERATOR: I think there is nothing more im-
21 portant than to keep the schedule by the clock and as
22 such, I think we shall adjourn to the Valley Forge Room
23 on the Mezzanine floor.

24 (Whereupon the meeting recessed at 12:00 o'clock p.m.)

AFTERNOON SESSION

1
2 THE MODERATOR: We will lead off with the subject
3 of, "Auditing,"

4 VOICE: This is obviously a pretty big broad problem
5 and it certainly is the basis of the original need that
6 the profession filled since its inception, and I think
7 some of the problems that we have to face up to are
8 these: no. 1, what should the purpose of the audit be
9 other than for an opinion on the past to investors and
10 creditors?

11 Is there any way that we should be involved in con-
12 tributing to profit through our audit rather than having
13 it be clearly defined as overhead item that may or may
14 not be fixed.

15 We have pretty much concluded over the past number
16 of years that the purpose of an audit is not to detect
17 fraud. I think that some events that have taken place
18 over the years and more recently, that there is a ques-
19 tion as to whether the purpose of the auditors is to
20 protect the creditors and investors. The confidence of
21 the public has certainly been shaken, there are many
22 credit agencies that want to put in their own auditors
23 to do some double checking, they do not accept only the
24 opinion of the auditors, they are afraid the public

1 auditors, don't go far enough. The banks send their
2 people in. The finance companies send their people in
3 and sometimes the insurance companies send their people
4 in to get into that phase of auditing that we apparently
5 have abandoned.

6 We have the question are the costs getting so high
7 now in order to prevent our client from feeling that this
8 overhead item is getting to be ridiculous, that we begin
9 to cut corners, begin to see what we can eliminate in
10 the audit and carry out the judgment factor a little bit
11 too far, and say that we will gamble in making decisions,
12 that out of a hundred decisions we will make 95 good
13 decisions and five bad decisions than not make any
14 decisions at all.

15 Another question that comes up are the caliber of
16 men that we are striving to bring into the field, are
17 many of them getting bored when they review some of the
18 detail that must be reviewed in order to make a good
19 audit, or do they perhaps not concentrate and miss the
20 point or miss the trend they should be getting. The
21 question is should we take a step backwards maybe, may-
22 be we should not have all the high quality creative minds
23 that many of us think should be, and should we have at
24 least some not so creative minds, men whose minds do not

1 get confused with new things, but men whose mind can
2 concentrate on the details before them.

3 I think another question that comes up was what was
4 referred to this morning, is the question of management
5 letters. How can we really issue a management letter
6 criticising certain internal controls, and at the same
7 time issue an opinion that the financial statements are
8 as they purport to be.

9 Isn't it true that if we think the internal controls
10 are so weak that we use that for protection, that maybe
11 we shouldn't be giving an opinion in the first place.

12 Then we get back to some of the other things that
13 we discussed this morning, and that is what do the
14 clients want from an audit. I feel that many clients
15 want an audit, and we found, by the way, by questionnaires
16 to our clients and it amazed our M.S. boys, that by far
17 the primary service that our clients looked to, was the
18 opinion audit, not these other things, the other things
19 flow from it, but they do think that that is the most
20 valuable service they get.

21 The question is, what are they looking for when they
22 get this opinion audit? I think it is the fact that the
23 auditor is supposed to get to know the business, he gets
24 to know the client, and when he is getting a complete

1 examination he, in effect is educating the auditor so
2 that that auditor can then sit with him and discuss with
3 him intelligently and objectively his business problems.

4 Now, the last thing I wanted to say is that the
5 audit programs, I think, have to be designed so that they
6 do stimulate creative thinking for those creative thinkers
7 that are on the audit, I don't think you have all creative
8 thinkers on the audit. So that the purpose of the audit
9 will not be solely to render an opinion, the purpose of
10 the audit will be to ferret out problems, and would be
11 sort of a form of watchdog, so that these problems can
12 be presented to management, or to the third parties, the
13 public whatever it may be, by someone who is not so close
14 to the situation that he may not be able to see those
15 problems.

16 So we do have the job of teaching our people how to
17 pull out a problem, how to create a problem, then being
18 able to summarize these in such a way and interpret them
19 in such a way, that they will have value to the company,
20 to the stockholders, and to the creditors, and be used
21 in a way more than merely to make a judgment as to
22 whether the statements represent them fairly.

23 VOICE: I would like to comment on the subject of
24 the creative minds that are going to help accounting.

1 There are all kinds of feelings, and the students
2 have the feeling too in the sense of reporting to you
3 as it comes to me, is that the profession may be a little
4 bit ahead of itself, they have a higher quality of juniors
5 and staff people than it needs or perhaps, in fact, de-
6 serves.

7 Do the people at the junior level have a lot more
8 accounting than they obviously need, not too little, but
9 too much, for the junior level grade.

10 This gets back to the student level, and this may
11 not be true in all cases, but the students feel it is
12 true, and I have quite a few of my accounting majors who
13 say in their sophomore year, their junior year who look
14 on public accounting as their probable end of what they are
15 aiming at, end up in graduate schools because they have
16 received substantial accounting training, but they do
17 not want to be accountants because they are afraid they
18 will be doing repetitive work and this is both in public
19 and industrial accounting, they will not be using their
20 knowledge to the fullest extent.

21 VOICE: I would like to comment also about the
22 caliber of personnel that are acquired.

23 It seems to me that the question as to whether we
24 need a better caliber or possibly a lower caliber of

1 junior, maybe answered if we can find out how much de-
2 tailed auditing is going to have to be done in the future
3 with greater and greater use of computers, whether it is
4 on the client's premises or on our premises. For in-
5 stance, if we use computers ourselves to audit certain
6 input data that the client may have, whatever it may be,
7 and it seems to me, and I think this ties in with the
8 comment you just made also, it seems to me that this gap
9 of education of over-qualification of juniors, so to
10 speak, may narrow down very rapidly. Depending on how
11 rapidly we as auditors in our audit role can take ad-
12 vantage of the use of computers. I don't know how much
13 actually is being done today to further the audit to
14 streamline the audit, to mechanise the audit, so to
15 speak. I have seen a lot of literature. We have gotten
16 resistance from our clients who have computers, they
17 just won't give us time to experiment, so to speak, be-
18 cause it is a matter of experimentation, and I think
19 ultimately we will have to have a high caliber of man
20 even at the junior level to understand what is happening
21 during the course of the audit, because he is not just
22 going to be ticking off the transactions and examining
23 a great number of documents as is usually the case.

24 VOICE: Is he going to have to understand computer

1 programming?

2 VOICE: To a certain degree, yes, he will have to
3 understand it, although not necessarily be able to spend
4 hours and hours doing programming itself.

5 VOICE: I think the question is that not all of them
6 will have to understand that.

7 VOICE: But this is an implication for education,
8 of course?

9 VOICE: Yes.

10 VOICE: Well, I am not so sure that his knowledge of
11 programming must come from the college or university.
12 See, that level of detail regarding the operation of
13 computers can be learned in other fashions, just as the
14 duties of the junior accountant, as they are now consti-
15 tuted, vouching transactions, need not necessarily be
16 taught in the college or university, good staff training
17 courses teach the individual that.

18 VOICE: I think to a certain extent it depends on,
19 perhaps, how some of the accounting courses are taught.

20 I think, for example, a course in consolidation has
21 been getting sophisticated consolidation is perhaps good,
22 if it teaches the student to think and he realizes it is
23 teaching him to think, but if it is teaching him to handle
24 sophisticated consolidation, the chances of his using that

1 remote, so he is going to be unhappy if he isn't doing
2 consolidations and yet this doesn't stop him from think-
3 ing when he is making a bank reconciliation.

4 VOICE: I am just suggesting, be careful of the im-
5 plications of this, this may imply then that a math
6 major may be better training.

7 VOICE: I can give you an illustration in this.

8 The man who was in charge of our own management ser-
9 vices said give us a man who can think and communicate
10 and we don't care if he is a major in archeology, if he
11 can think and communicate.

12 I think maybe on the other hand we perhaps are at
13 fault in that when we are giving a man some detail work
14 to do we do not tell him at the same time, that in check-
15 ing your bank reconciliation this is an opportunity for
16 you to become aware of where the company has its cash,
17 for example, or become aware of the type of forms that
18 are used, if you are having any trouble getting informa-
19 tion, they are having trouble getting information, and
20 so on, but this isn't as much a detailed -- well, it is
21 a detailed check to determine the bank reconciliation is
22 right, but it is also an opportunity to think and come
23 up with constructive suggestions.

24 I think the gap isn't so much there, unless you are

1 thinking of it along the lines that the minute a man is
2 sprung from college he is able to be technically pro-
3 ficient in what he is going to do right at the next
4 moment.

5 Really, what we are after is someone to think.

6 VOICE: I think this is a very interesting point that
7 has been brought up, and I gather that it has been con-
8 curred with, and I think it has been answered pretty well,
9 and I can't help but feel that it is a mistake, I mean
10 it is a wrong conception that auditing doesn't require
11 imagination, initiative, and resourcefulness, certainly
12 it does. If you don't have men that can bring this to
13 the audit level I think we are in trouble, and certainly
14 there will be less detail in future auditing, as I under-
15 stand it, it is going to be more review of old procedures
16 rather than detailed checks.

17 Your comments about mathematics, Dean Roy in speak-
18 ing at this session in Dallas, at this common body of
19 knowledge, made a statement that the average CPA in
20 practice today unless he takes additional mathematics
21 won't be able to communicate with juniors ten years from
22 now, so maybe this is important that we need less account-
23 ing in the college curriculum and more basic knowledge,
24 and then you won't have quite the same problem. He isn't

1 going to run in to consolidations in the first year, but
2 he is going to have to think and he is going to have to
3 have this background, and this is the place he is going
4 to have to study, he is going to have to come out of
5 college with that background.

6 VOICE: I would like to bring up one thing that was
7 discussed in this chapter, and that is I wonder sometimes
8 whether our standard opinion hasn't out lived its use-
9 fulness, and by that I mean, I am sure many of you have
10 had the same experience I have, to try to fit a given
11 situation into our standard opinion, and sometimes it
12 seems to me to require an inordinate amount of time.

13 I have spent three or four days just hassling over
14 how are you going to write an opinion under a given set
15 of circumstances.

16 Just to throw out a couple of more ideas, for example,
17 more and more modern management, for example, is really
18 thinking seriously about adjusting certain assets from
19 price level changes, and we all know, of course, this
20 has not been accepted by the AICPA, and so if we really
21 have a forward looking management who came up with a very
22 unique way of adjusting, let's say, fixed assets from
23 price level changes, we would be in the awkward position
24 under our rules today, in effect, of even denying or giving

1 an adverse opinion, even though in our own minds we may
2 feel that this is better than the cost concept.

3 I have seen an AA report that got out of this awk-
4 ward situation rather carefully I would say, I wonder
5 really if it isn't time to put a little more flexibility
6 into the standard opinion than what we presently have.

7 VOICE: I think maybe you are talking about less
8 flexibility in a way. I know we used to have a three
9 opinion paragraph, then we found that no one understood
10 it but ourselves, and I guess we didn't really have the
11 guts or didn't apply it, because we used to say that in
12 our opinion the financial statements are fairly presented,
13 and were prepared in accordance with, in other words,
14 what we have said is a fair presentation in AA's opinion,
15 and then further it was or it was not in accordance with
16 generally accepted accounting principles.

17 Very few people understood the distinction, and also
18 we began to feel that we were making some rules that
19 were a little bit too tough for ourselves and the price
20 level was one of them, that if we felt that here was a
21 situation you should have had a price level depreciation
22 in order to have a fair presentation, then we should say
23 so. And then, of course, the companies would scream
24 like mad as far as that was concerned and say this isn't

1 in accordance with the rules and so on, and so we changed
2 our opinion to the standard which is a fair presentation
3 only within the realm of generally accepted accounting
4 principles. You don't say it is a fair presentation.

5 So I think that you are getting toward something
6 that may be less flexible, because it would have to put
7 the auditor on the spot as to whether this is a fair
8 presentation, period regardless of what the rules are,
9 what's my opinion.

10 THE MODERATOR: In some of the things I have either
11 read or been in discussions, I don't know where this
12 point you make of possibly revising the opinion is under
13 consideration, whether the auditing committee has it,
14 I don't know, but have you thought about this deeply
15 enough to tell us what sort of changes you have in mind,
16 what criteria or what standards, or anything else that
17 might be incorporated in the language?

18 VOICE: I just think that we're perhaps generally
19 accepted accounting principles are running a little bit
20 behind some ideas that are being given serious considera-
21 tion today.

22 Now, there is a specific point I am thinking of on
23 this price level change and if I remember this correctly
24 Arthur Anderson was in the awkward position of coming

1 down and saying in effect that it fairly presents in
2 according with generally accepted accounting principles,
3 except with respect to price level depreciation, then
4 they went on to say, which in our opinion more fairly
5 presents then what would be true under generally accepted
6 accounting principles.

7 I say this gets us into a terrible situation. For
8 example, let's say you are asked to review a forecast
9 and a tremendous amount of effort has gone into a fore-
10 cast, and all they want you to say is that in your opinion
11 sound judgment or philosophy has gone into the presenta-
12 tion of this forecast, but because of our rules under
13 which we operate today, none of us would feel free to do
14 this.

15 VOICE: I think the canon of ethics is involved there.

16 VOICE: I may suggest that this is a fruitful area
17 for the extension of the attest function into projections.

18 VOICE: I think so too. All I am saying, I think
19 maybe we are running a little bit behind the times on
20 things where we should be taking the bull by the horns
21 and coming up with some AICPA pronouncement.

22 VOICE: Don't you think these destroy comparability?
23 Let's say they were acceptable and your company put out
24 an opinion statement like this, one using price level

1 and someone else didn't and the analyst or anybody else
2 looking at it -- isn't this one of our problems now, no-
3 body understands them?

4 VOICE: I think as long as the handles are given in
5 the report, in other words, these fixed assets have been
6 adjusted for price level changes in the following manner,
7 and describe how this was accomplished. In almost every
8 report I have seen that give, in effect, price level
9 changes, does show the difference between cost and price
10 level adjustment, both on the asset side and deprecia-
11 tion.

12 VOICE: Profit per share?

13 VOICE: Even there.

14 VOICE: There was an article by Mr. Plenty in July,
15 it dealt with, "Applicability versus Uniformity."

16 In the course of this article he pointed out, in
17 fact he stated quite strongly, but perhaps too strongly,
18 that it was possible for you as corporations to do almost
19 what he claimed your PM companies could do under "Gen-
20 eral Accounting Principles Today." When they decide
21 what their dividend is going to be, and then through the
22 use of flexible accounting principles, with the appropri-
23 ate profit to justify that dividend.

24 I don't know whether you gentlemen saw it, I took it

1 off and made a case out of it for my students.

2 So I think we have a lot of flexibility in accounting
3 principles now, and a lot of people argue that there is
4 too much flexibility.

5 VOICE: We have it in the principles, but not in the
6 opinions.

7 VOICE: I am in the middle of Tom Higgins' book, he
8 is a partner in Arthur Young, and he has just written a
9 book on his experiences.

10 Either last night or the night before he had in one
11 of the earlier chapters examples of opinions in 1925,
12 when he had been about four years in the profession, and
13 he had one from about four different firms, and they seemed
14 to me to conform with what you are seeking, they say
15 fairly present, but they don't get into the standards by
16 which they are presenting them. But I think the discus-
17 sions that I have been in on in this thing always say the
18 extension of our auditing to other areas other than fin-
19 ancial statements and expressing opinions to the public,
20 can be done and will be done 15 to 20 years from now, as
21 we develop standards against which to measure them.

22 I don't know whether this is harmonious with your
23 views or not.

24 VOICE: Probably before we get more flexible in

1 opinions, we have to get more rigid in standards of
2 disclosures.

3 VOICE: Could I ask someone to comment further?

4 You suggested that the auditing for the purpose of
5 protection of fraud is out moded and we don't do that.

6 VOICE: Not quite -- yes, it is substantially out,
7 I think we try to take less and less responsibility for
8 being able to pick up all fraud.

9 Now, certainly we all know that our eyes are opened
10 and in reviewing the internal control, we are looking
11 to see for the possibilities of fraud, but I don't think
12 we hold out ourselves, when we accept an engagement,
13 that we are going to be able to pick up fraud, except
14 as it would be material, if it affected our opinion.

15 I am just saying this is a point. I think we started
16 out big in this area years ago, and this is just one
17 place, I think, where we cut back and it may be as we
18 learn, of course, as we learn how to build the proper
19 controls to the computer and how to audit these controls
20 properly, we will get back into that, I think in the
21 next 10 or 15 years we will have the problem of cutting
22 corners.

23 VOICE: I suspect that that is one of those areas
24 in which the only safe way to discuss it, let's say with

1 laymen and with others, but with people other than our-
2 selves is to literally refer to the entire context of
3 the institute's pronouncements on the subject, where the
4 whole thing is spelled out, and it is all defined and
5 explained etc.

6 In other words, to make this statement to a prospec-
7 tive client or to a layman that the purpose of our ex-
8 amination is not to detect fraud, without all the elabor-
9 ations and the like that go into the pronouncement is
10 that -- I don't know whether it is misleading, it is a
11 little dangerous, let's say, they are liable to inter-
12 pret it in a way we don't intend.

13 VOICE: Do you feel that there is any sort of inclin-
14 ation in the movement to, in effect, be governed by rules
15 that perhaps there are too many rules, in other words,
16 since we do follow a,b,c,d,e as far as set up and working
17 standard and this book and the other book and so forth,
18 therefore we have implied without really thinking as to
19 just what the end result of all these procedures should
20 be.

21 I think of a situation on the West Coast where there
22 is some question as to just whether the auditor really
23 had a responsibility or the bank had a responsibility for
24 something, and I just feel and I think this is true in

1 the ethics area, and this is true of what is management
2 services, what is bucket accounting and so forth, and
3 of the inclination of, "Let's go to the rule book,"
4 rather than, as we used to do on our old certificate to
5 stand up and say, "This is the way we feel, regardless
6 about the rules, if you disagree, sue us," and using the
7 common horse sense rather than trying to say, "Now that
8 I have gone down through the rules I have satisfied the
9 requirements," I don't know whether this is the answer
10 or not.

11 VOICE: Isn't the public asking for conformity with
12 the rules? They don't want two different accounting
13 firms to say everything is fair and they don't know what
14 they are looking at, isn't that the public's attitude
15 today?

16 VOICE: I think the public is more interested in
17 that the result is fair rather than the manner in which
18 it was attained.

19 In other words, well, I don't know, I have gotten
20 into a lot of situations where I just think it is sloppy
21 on account of the rules which upsets me extremely, just
22 not using good sound business judgment.

23 VOICE: This is all auditing leading to the attest
24 function. To what extent is there concern for such

1 possibly modest extension of the audit job that may have
2 substantial by-product benefits to the general management
3 within the plant?

4 I am conscious of occasions and in discussing similiar
5 experiences with my counterpart with other companies and
6 I think it is a general experience that quite possibly
7 a 5% additional investment of time audit for the attest
8 function is a significant reinforcement of management
9 need and substantiation of management assumptions and
10 building upon the management objectives within the organi-
11 zation could be accomplished.

12 I don't get the impression in most places it has
13 been made explicitly available, or even in some cases
14 explicitly considered.

15 VOICE: I think that this is certainly the problem
16 we do have, we have tried to cut back so much to keep the
17 fee in line, I think this is a real basic problem, that
18 we in many cases have lost sight of the fact that the
19 purpose of an audit should be something more than the
20 attest function, and you say 5% more time, it may be 5,
21 it may be 10, but clearly it is the caliber of the men
22 and the broadmindedness of the men that are on the job,
23 that they have to have training in something other than
24 just auditing, and this is why that becomes important.

1 I think it has to be, and I think all of us are hear-
2 ing our clients say more and more, let's talk about this
3 and let's talk about that, you know, that is the over-
4 head item, we have to have that, because we have to re-
5 port to so forth and so on. They like to get their
6 money's worth and I think it is a real area where we
7 should be giving money's worth, and making it an invest-
8 ment where they hire a firm rather than to make it just
9 an expense as a necessary evil.

10 VOICE: I think both these points are very important,
11 particularly for a small firm. This has been the basis
12 of our growth by doing these kind of things.

13 For instance, if I have a client or prospective
14 client who was looking for us and had the capacity to
15 see us, and one of the things I tell him if I come in or
16 we come in our firm -- this is the way we train all our
17 men -- all we are going to wind up with is saying, "Your
18 comptroller did a beautiful job, the statement is 100%
19 correct," then we have failed if that is all we can do.
20 Because I think in his mind, as has been said, as
21 accountants we have often failed if that is all we were
22 doing. That man, he expects that and that you have to
23 give him. Of course, that is your first deal.

24 On top of that is the frosting on the cake, and it is

1 something that he looks for, and it is not overhead.
2 The second thing the institute has put out all their
3 brochures which nobody reads, particularly the clients,
4 what does he think when you have defalcations, you might
5 have explained it ahead of time and so forth, but it is
6 still your problem you got to angle out of it. We can
7 bury it and keep saying it, but I think 90% of our
8 smaller clients, that is the smaller firms, that fellow
9 thinks this is what you are doing and this is your re-
10 sponsibility, and probably 100% of the public, every
11 time they see one of these deals, American Express or
12 Soy Bean Oil, they look to the accountant. In spite of
13 all we write in the book, nobody reads that.

14 VOICE: As you know, we have been working with the
15 legislature and various organizations in Harrisburg
16 trying to amend the various statutes to incorporate
17 audits in accordance with generally accepted auditing
18 standards in school districts, boroughs, townships and
19 so forth, and it looks as though we might be successful
20 this year, but in these discussions this is always a
21 very big point.

22 The purpose of the audit, and there definitely is a
23 feeling that the audit of the school district and the
24 audit of the borough from the public standpoint should

1 have as one of its goals the detection of fraud.

2 Nobody has been willing to come out and accept this
3 yet, I don't know if we should, but it is a very real
4 thing, and the question comes up in all these discussions.

5 VOICE: I don't know if we can ever communicate with
6 the public at large or what our responsibility is re-
7 garding an audit because an audit is not a dramatic sort
8 of a thing, it is not a situation where many trial
9 attorneys get themselves in with a great deal of public-
10 ity etc. Our publicity, unfortunately, comes greater if
11 there are problems regarding the audit and, I think, per-
12 haps from a realistic point of view we are going to have
13 to start with the client and in our own literature to
14 protect ourselves and to confirm in writing to the
15 client or new engagements, and perhaps, even periodically
16 thereafter that the primary purpose or a primary purpose
17 of our audit is not to detect fraud, that we are using
18 sampling procedures that would be prohibited to do a
19 detailed sort of an audit. This at least will protect
20 us and maybe some of those at the top ecelon of manage-
21 ment of our clients will understand this.

22 VOICE: Just a standard letter of representation?

23 VOICE: That's right. It's a letter which they sign
24 that they agree and we confirm in writing what we are

1 going to do according to generally accepted accounting
2 principles, and we have beautiful language in there and
3 all they look at, perhaps, is a confirmation as to what
4 the fee is, but nevertheless I think we do have this
5 problem of communicating with our clients as best we can
6 as to what an audit means and to what our legal responsi-
7 bility is. Now, beyond that I think that the more
8 rationalization or rationale we have in our own literature
9 as to what a reasonable responsibility should be in light
10 of the fact that we are merely doing certain test checks
11 based upon judgment or statistical sampling so that we
12 protect ourselves in case of litigation which I think
13 we've done fairly well with up to now.

14 VOICE: Do you think that does protect us?

15 VOICE: The more we have in writing, I think, and
16 the better reason the opinions are in our literature I
17 think the better off we are. We are not insurers or
18 guarantors, and I think that stands to reason, and any
19 reasonable man should be able to appreciate that, any
20 reasonable attorneys or judge should be able to appreciate
21 this.

22 But I don't know if we can convince everybody of this,
23 we are dealing with a difficult service to sell, it's
24 not the medical profession, or the legal profession and,

1 I don't know whether we touched upon the question of
2 public relations here today or tomorrow -- I was very
3 much intrigued by that chapter.

4 VOICE: This is just the opposite of what we have
5 had this morning, here is the situation where the public
6 wants something, the detection of fraud and we are not
7 giving it to him.

8 VOICE: Even here, suppose you read about a certain
9 automobile dealer, a bank or whatever else is in ques-
10 tion? What is the first question, who are the auditors,
11 who were the accountants, you are not blaming them, you
12 don't know anything about the whole thing, this is just
13 instinctive. I think we are trying to bury something
14 that we just can't bury or get rid of. We can restrict
15 our responsibility to a degree and the greater we can the
16 better. It is a problem I don't think we are ever going
17 to get out of the public's mind about an auditor, this
18 is one of his jobs.

19 VOICE: I would submit that many of our problems
20 with management in this area is whether we are responsi-
21 ble for fraud. It probably stems from the fact that
22 management is interested in throwing as much of their
23 responsibility on anyone they can, including the auditors.
24 I don't think we should ever be responsible for fraud,

1 so the only solution in my mind is we have to continuously
2 or periodically communicate to the client that we do not
3 accept this responsibility when we undertake an engage-
4 ment. We do this in our initial engagement letters and
5 I think periodically we refer to it in any of the letters,
6 but you can't get someone to understand something if they
7 are unwilling to understand it or to accept it.

8 VOICE: I personally feel that the biggest practical
9 problem that faces the auditor and one to which I have
10 ever found a solution is this, there is a presumption
11 that the scope of our examination and the size of the
12 tests is predicated on our evaluation of the system of
13 internal control. But in my mind, I am sorry to say
14 this, I have yet to see any direct correlation between
15 the evaluation of internal control and the tests that
16 are performed.

17 In other words, I can examine the situation where
18 a company supposedly has the finest degree of internal
19 control and look at the scope of the examination and the
20 procedures that are followed, I can then go to another
21 company, a very small company, which by the very limi-
22 tation of its size has very poor internal control, and
23 I defy anybody to find a correlation between the scope
24 of the examination, the number of tests that are per-

1 formed between the examination where you have outstanding
2 control and where you have little or no control. I
3 think all of us are extremely guilty or we don't take
4 this properly into account. In fact, I dare say there
5 are too many situations where there absolutely should be
6 no opinion given unless you are going to audit every
7 transaction for the year. Yet, I dare say many opinions
8 are given under those conditions.

9 VOICE: I am not so sure that he is wrong there, I
10 think he has an excellent point, I think this is one of
11 the areas of so-called judgment of the auditor, and having
12 dealt with computers in the last few years and trying to
13 get down to numerical evaluations, I certainly would like
14 to say some method of correlating internal controls and
15 the extent or scope of detailed checking. I know that
16 there is an article in the Journal of Accountancy several
17 years ago attempting to come up with an evaluation or
18 percentage factor for how good the internal controls
19 were and to see the movement for better or worse, from
20 year to year, and I think in that particular article it
21 was 78% good internal control and presumably the balance
22 was not so good.

23 By weighting each question on its relative importance
24 to the balance sheet and the P & L statement. Now, I

1 think this is an area where a great deal of research has
2 to be done and whether this research should be done on
3 the university level or the American Institute I don't
4 know, but it is very nebulous area of judgment which,
5 perhaps, can be reduced to a certain degree to numerical
6 terms, at least its a guide.

7 VOICE: I think there is extensive difference in the
8 scope of the audit, turning on what the internal control
9 review shows. I think there is a lack of evidence in
10 working papers perhaps as to what was done to cover this
11 weakness in internal control wherein the program was
12 made different. I think at times it was discussed in the
13 review and it is made different because of it. I think
14 there is a vast difference turning on the amount of
15 control. I would like to make one other point, it was
16 mentioned extending the audit extensively because the
17 controls were very weak. I would say that such exten-
18 sion of the scope of the audit must be made at the area
19 of the financial statements, if they are going to be
20 misleading, but if it is the type of weakness which would
21 permit fraud but you are verifying the year-in balances
22 and they are buried in the expense accounts, unless in
23 the material and the amounts, you are not under obliga-
24 tion to extend your examination, it may be good policy

1 to give warning to your client.

2 VOICE: This is my point, that unless you really
3 extend these detailed tests and I don't mean instead of
4 doing one month you do three because I don't think that
5 is adequate if the control is very poor, but what I mean
6 is if the scope of the fraud that you fail to uncover is
7 so broad, then I don't think you can take comfort in the
8 fact the balances as shown in the balance sheet in fact
9 are correct because maybe they should be twice as much
10 as that if this fraud hadn't occurred and which is buried
11 in the expense account.

12 VOICE: You mean maybe they should be now or they
13 are not now, maybe they would have otherwise have been?
14 You have got to measure the materiality of it and be
15 satisfied it is not material. I am sure we can agree on
16 that. I think to measure it beyond the fine point of
17 materiality you have got to certify, and if you decide it
18 is not material, then I think it is a separate engagement
19 with your client and not a part of certification or spec-
20 ial service as to the type of and extent of the fraud and
21 the procedures to cure it.

22 VOICE: I think you have to go one step further, I
23 think you made the statement that perhaps you would have
24 to check any individual transaction to render an opinion.

1 I don't think that is the end of the line, in fact I
2 could name a number of our clients that I wouldn't even
3 begin to try to give an opinion for this very reason, be-
4 cause I know they are knocking down and you can't check
5 anything that isn't there. If they don't put it in the
6 books, you can't check it.

7 I heard this up at Penn State about five or six years
8 ago, I think you have to go further than that, there are
9 some situations that you positively can't give a certi-
10 fied opinion on regardless of how many transactions you
11 checked if there isn't any internal controls.

12 VOICE: There is room for me in interpreting the
13 general character of these discussions to infer that
14 public accountants generally identify internal control
15 as essentially that set of influences within a business
16 which protect against fraud. I was equally struck by
17 the fact that in Carey's book he doesn't touch on the
18 whole area of what we might call management control which
19 is bigger than this.

20 Robert Anthony who, I believe, is a professor at
21 Harvard, and who has recently become an assistant to
22 McNamara in the Department of Defense has just published
23 a book on management control which it seems to me is the
24 most far seeing new thing in management control that

1 embraces internal control.

2 One of our biggest concerns is to broaden our people
3 in thinking about internal control, which is the separa-
4 tion of functions and all these kind of fraud protected
5 kind of things into something bigger.

6 For example, isn't it possible that a social psy-
7 chology has something to say about it, about protection,
8 about assurance that the wishes of management to assist
9 them with delegation that its strategic objectives are
10 pursued down the line, even though they can't check up
11 too much without inhibiting the delegatee too much?
12 Isn't there something to be said about incorporating this
13 into what the auditor looks at?

14 This is the area I was thinking about in going be-
15 yond, not just protection against fraud. I see very
16 little evidence that any of the public practice litera-
17 ture that thinking goes beyond mainly protection.

18 VOICE: I would like to differ on that. I feel
19 that generally your review of procedures is not done
20 with fraud in mind, it is done more whether you have a
21 fair presentation of the financial statement. Just to
22 use an illustration, I would be tremendously upset if I
23 was auditing a client with 25,000 parts inventory and
24 they had no means at all of determining an over stocking

1 and obsolescence and that sort of review. I would just
2 throw up my hands and say we can't do it, it is impossi-
3 ble with that much activity.

4 While I have the floor, may I make a comment out of
5 context, I just want to throw this out and see if any-
6 one wants to pick it up. I get the feeling and I think
7 it is true with the fellows on the staff, and I think it
8 is sometimes true with the fellows on the partner level,
9 that there is a real inclination in our auditing practice
10 to avoid problems and to not raise problems, to accept
11 rather than challenge, so that when you go into discussing
12 problems with the president, eyeball to eyeball, you are
13 hoping that he will convince you that you will not have
14 to spend three or four hundred more hours in determining
15 whether he should write down his inventory 25 to 30%. I
16 think, I just feel that most of our problems have been at
17 the level, management to accountants, that we haven't had
18 the guts in many cases where we should have had them.
19 Does anyone agree with that?

20 I think there's a tendency on our staff too, you know,
21 make a time schedule, leave it in the fee so we want to
22 get an answer to keep us from doing work rather than
23 create a problem.

24 VOICE: In the light of that I have talked with my

1 opposite numbers in relation to the external auditor
2 office, and I know and they know that we haven't done a
3 perfect job. We know where we have fallen down and we
4 know we have failed to reach our own aspirations and so
5 far we are seriously concerned. We rarely get confronted
6 with this thing and there is an honest recognition of it.
7 Sometimes we begin to wonder, are they aware of it; are
8 they being charitable, or is it just not being challenged.

9 CHAIRMAN: I think we ought to go to the next topic,
10 but I will let one more speaker have an opportunity to
11 speak on this.

12 VOICE: Sort of following through on what has been
13 said, we certainly have a tendency in this profession to
14 back away and to take as little responsibility as we can.
15 When we begin to go out of our way to educate the public
16 as to what we don't do is the kind of backward psychology
17 I think, in that we should be looking toward the next
18 twenty years. We should be trying to educate the public
19 as to just what we do do and to what value we really have.

20 I think if the public demands that we look out for
21 fraud, if this is what the constituents, and the voters,
22 and the Commonwealth of Pennsylvania wants, then, by golly,
23 we have to find a way, it seems to me, to be able to sat-
24 isfy them because somebody has got to do it.

1 We clearly know that the governmental bodies don't
2 do it. We know that the kind of auditors that the govern-
3 ment has are the kind we weren't hire on our staff 20 or
4 30 years ago in many cases. So we do, I think, have to
5 push, we have to know what auditing is, and I don't think
6 we know what we are trying to tell the public. We cer-
7 tainly have to get more into the evaluation of people
8 because it is the people that are really the internal
9 control.

10 I think accounting literature going all the way back
11 in the definition of internal control clearly divides it
12 into two parts. With the administrative on one hand and
13 the record keeping on the other. Now, maybe we have de-
14 emphasized the administrative, but there again that is
15 because we were afraid to take responsibility, we were
16 afraid to be aggressive, we were afraid to be eye to eye
17 or eyeball to eyeball and to take a position against some-
18 thing because we may be afraid that if management don't
19 like what we are going to say we would have to go back
20 and do more work, and if we are stuck on a fixed fee or
21 something like that -- and finally on the overall I just
22 think we have to worry less about protecting ourselves
23 in being a defensive kind of a profession and be more of
24 an offensive kind of a profession and we just have to think

1 that way, be ourselves that way and continue in that
2 direction.

3 VOICE: Does anybody ever issue a report, that is
4 just between us friends, as a public report, this is for
5 public consumption and here is a management letter which
6 in part says let's get it on the record which is in part
7 a by-product of the service to the client. Does anybody
8 just ever write, even longhand, three or four page evalu-
9 ation of the quality of this client's financing and
10 accounting as observed through the special exposure of
11 the audit?

12 I know my boss would sure like to have it, I wouldn't
13 like to have it, I wouldn't like him to have it unless
14 I had a chance to talk to him about it.

15 VOICE: You couldn't issue the two letters to the
16 same client and be honest presumably. In other words,
17 you couldn't at one and the same time, I don't believe,
18 say that the financial status is fairly presented and
19 simultaneously issue a letter that says your company
20 records are so mixed up you can't arrive at the right
21 answer.

22 VOICE: I can't see what you are saying, because you
23 are saying if you don't put it in writing it is all right,
24 but if you put it in writing you can't.

1 VOICE: I think the kind of management letter that he
2 is talking about and which is commonly issued to clients
3 recite that there are deficiencies of one sort or another
4 in your internal controls, and the underlying presumption
5 in all those letters is that these deficiencies are not
6 to such an extent that in the aggregate they invalidate
7 your financial statements, because if they did you can't
8 have it in a situation like that.

9 VOICE: We did this, our management letters follows,
10 I think, comments about internal controls, and a couple
11 of years ago we very strongly suggested that we had some
12 reservations about the capability of a controller and the
13 very next year they changed accountants.

14 CHAIRMAN: I think we might go ahead to the next topic,
15 management services, do you want to start us on this?

16 VOICE: I am so inspired by this last comment of
17 intellectual integrity, and in spite of the outcome I
18 am speech less, but in spite of that difficulty I do have
19 one comment, I think we sort of touched upon, and didn't
20 quite come to grips with the audit of management perfor-
21 mance which was being driven at and mentioned and which
22 was just stated here, and the big question in my mind
23 which we might want to discuss in the course of discussing
24 management services is this: are we as a profession in a

1 position now or in the near future with the increase
2 caliber or better caliber of personnel on our staffs,
3 presumably which the colleges are turning out, with the
4 more sophisticated training programs; with the joint
5 cooperative use of our management services department
6 personnel, in a position to prepare reports which evalu-
7 ate performance of management.

8 If we do evaluate the performance of management, do
9 we have standards against which we can evaluate them,
10 and if we do have such standards and are capable of mak-
11 ing such evaluations should the report merely go to in-
12 ternal management or should the stockholders get a copy
13 of it?

14 If the stockholders, perhaps would like a copy, but
15 management who retains us doesn't want them to get a
16 copy, will some outside agency, such as a governmental
17 agency require this as a portion of our financial state-
18 ment or some sort of an opinion at a later date.

19 These are many questions that I have in my mind which
20 merely touch upon some of the management services areas.

21 In looking over the chapter of management services,
22 based upon some of the work that the Pennsylvania Insti-
23 tute Committee on Management Services has done over the
24 last three, four or five years or so, I feel there are

1 several major problems, one of which was alluded to this
2 morning, the ethics debate.

3 What I would like to do is merely state one of these
4 problems as I see them, get one or two comments of my
5 own then I am sure we will have a great deal to talk
6 about.

7 I think the most outstanding issue today, the most
8 outstanding to date is that of scope; how far should we
9 go; what is the proper realm of our management services
10 operations?

11 There are those who believe that we should be re-
12 stricted to the so-called information system type of work;
13 there are those who feel we are not restricted by any-
14 thing other than legislation, ethics, and confidence.
15 That is the scope to date and this is one of the problems
16 that the American Institute Committee on Management Ser-
17 vices is now dealing with.

18 The number two problem, as I see it, is the problem
19 of breaking the ice for the smaller firm, that is estab-
20 lishing the formalized type of management advisory ser-
21 vices practice that I think we are talking about. Every
22 CPA does a certain amount of management services work
23 always has done, but what we talk about today, I believe
24 is a formalized approach, a better discipline, a more

1 competent type of work, and I have gotten a sense of
2 reluctance on the part of many smaller practitioners,
3 particularly individual practitioners and very small firms.
4 To break the ice even in one area, such as budgeting or
5 cost accounting, and to begin developing a higher quality
6 service to render to their clients.

7 Another problem as I see it, is that of standards of
8 performance. How do we measure, the caliber of work that
9 is being done today by our respective management services
10 people?

11 The management consultant firms who have done this
12 work for many, many years develop certain aspects of it
13 to a much higher degree than we have in certain areas;
14 they haven't come up with standards of performance. The
15 various professional or semi-professional societies, such
16 as the System and Procedures Association, they haven't
17 come up with standards of performance.

18 I just wonder what, if anything, we have to do so
19 that we can truly sign our names to our reports, what
20 standards of performance are we using when we issue re-
21 ports involving management advisory services work?

22 The last point I would like to raise is that of the
23 so-called ethics debate, the independent issue in which
24 where we had played the role of the devil's advocate so

1 well pointed up, and I think he has made me think a great
2 deal more about this subject.

3 I feel that we have, at least in my mind, put this
4 whole subject to bed. The American Institute came out
5 with an ethics opinion, that as long as we are not making
6 the decisions for management, as long as we are merely
7 advising and recommending, and guiding them, there is no
8 ethics problem, and whether it be rationalization on their
9 part, I am inclined to agree. And the one comment that
10 is sort of an holdover from this morning that I have to
11 offer is this: we are not talking about financial in-
12 terests in a client which would impair independence, we
13 are talking about, I think, the subject of the untenable
14 position of auditing what we ourselves do. This is why
15 if we write up the books and records we can't audit those
16 books and records ourselves independently; at least this
17 is the position the SEC takes. If we make decisions for
18 management, if we act as controller for the client, if
19 we run the business for the client we are not independent
20 because we are making decisions, and we cannot get our-
21 selves in that position of conflict of interests, or what
22 ever you want to call it, which would permit us to be
23 independent and render an opinion.

24 I don't think that where properly controlled manage-

1 ment services is rendered that we are in this position
2 of auditing what we have done. It is a very narrow line
3 indeed between advising the client and making decisions
4 for him. Many clients rely so heavily upon the advice
5 and opinions of their outside counselors that sometimes
6 you just wonder whether you are really making decisions.

7 Nevertheless, with the proper controls over the ren-
8 dering of management advisory services, where the client
9 indeed has the final say, the final decision to make, I
10 believe that we can contribute to the welfare of the
11 client and still remain independent; that is as I call it,
12 the ethics debate.

13 These are the four areas, scope, breaking the ice for
14 the smaller firms, standards of performance and the ethics
15 debate and I am quite interested in hearing what everybody
16 has to say about these.

17 CHAIRMAN: Shall we have the next speaker now or
18 shall we discuss some questions on this?

19 VOICE: I think it would be better to have these
20 questions discussed.

21 VOICE: I would like to comment on this question of
22 point of ethics debate. We talked about independence
23 this morning, and this is very difficult for me to
24 appreciate really. The management services people are

1 really independent, using the independent word in another
2 sense, and yet I can't get all excited and concerned
3 about our independence as auditors or the attest function.
4 You have to see these people work. You would think that
5 the things that are written, that they are working side-
6 by-side, the same people, and this isn't so at all, and
7 this is the reason they pretty much go their own way,
8 make their own decisions and hopefully and periodically
9 they will give a progress report to the audit people so
10 they will know what they are doing.

11 VOICE: What happens to the seamless web.

12 VOICE: It is another department, it is truly another
13 department.

14 The real problem I think is trying to keep them to-
15 gether as one firm.

16 VOICE: Maybe the seamless web is not a good analogy.

17 VOICE: Doesn't the ethics question come up, suppose
18 they made a goof and in doing the audit you become aware
19 of this, aren't you under a certain pressure not to air
20 the criticisms?

21 VOICE: I think one of the advantages that the client
22 has in using CPA's as compared to a consulting firm, when
23 we undertake a management services engagement for an audit
24 client, we are in effect putting the audit on the line,

1 and I think if anyone MS or tax people or audit people
2 find some short coming in the work being done we have to
3 tell the client about it.

4 I don't think there is any alternative really, if
5 anyone finds anything that in their judgment is wrong,
6 you have to tell the client about it.

7 VOICE: I might say this too, just to support what
8 has been said here, in very many cases, inevitably it is
9 found out, so to speak. In other words, the management
10 service job, whatever it might be, let's say, the in-
11 stallation of the particular system, something that might
12 be described as leading to cost setting. Let's say, once
13 upon being implemented it will lead to cost setting.
14 Well, it leads to cost setting or it does not. The work
15 is either more deficiently performed and there are sav-
16 ings that can be identified and pinpointed or there are
17 not. Now, if they are, this is one of the standards of
18 performance that was mentioned, this is the sort of thing
19 that shows and therefore the presumption might be the
20 work was effectively and efficiently done, but whether
21 or not the cost savings result, the financial statements
22 are what they are.

23 VOICE: That is not quite true. Suppose the client
24 says why do I have choices on particular items?

1 VOICE: The main result is was this particular man-
2 agement services job done.

3 VOICE: But the use of alternative accounting prin-
4 ciples, which are generally --

5 VOICE: You are suggesting, that you might in some
6 way be influenced to use a particular accounting principle
7 or the client might be --

8 VOICE: I am not suggesting that anyone might be so
9 influenced, but the possibility exists.

10 VOICE: I just want to throw out a question, it seems
11 to me that ~~we~~ ^{when you} mentioned evaluating management, it seems
12 to me that some years ago I saw an article from National
13 Gypsum or one of the other big firms, in their annual
14 report or in one of their quarterly statements, they
15 referred to the fact that they had been evaluated by
16 some outfit and I can't remember who this was, but they
17 went on to say that they had gotten a clean bill of health.

18 Now, it seems to me we do that sort of thing with
19 school systems for accreditation and so on, and it seems
20 to me that some outfit or some organization has already
21 started that, and it seems to me I've seen it five or
22 six years or even longer, years ago, but I haven't seen
23 any recently, does anybody know anything about that
24 situation?

1 VOICE: The American Institute of Management publishes
2 a formal evaluation of managements of maybe a hundred or
3 more firms.

4 VOICE: The manual of excellent management?

5 VOICE: Yes.

6 VOICE: And then there are some that don't quite
7 rate up, don't they, so they don't talk about them, or
8 the relative companies. For instance, if you had planned
9 to audit a company and maybe they evaluated the company
10 and it didn't come up to par, maybe you should take a
11 look at it to see whether they were rated lately before
12 you made your audit.

13 VOICE: I think one of the things worries me in this
14 regard -- incidentally, I have helped draft this ethics
15 opinion on special services -- is that to a certain ex-
16 tent in the area of management services we don't have the
17 checks and balances that we do in our audit work.

18 For example, the comptroller and company comes up
19 with a statement, the financial position and this is then
20 re-checked by you. Now, in some of these management ser-
21 vices areas the type of work that we do is maybe so so-
22 phisticated, as far as the company, there is no one to
23 say, "Now, there is another way to do this, a better way
24 to do it."

1 Also in some cases it is so sophisticated that the
2 answer is almost obvious, so you find yourself making
3 management's decision, and by the very virtue of this is
4 what we come up with as our recommendation. The decision
5 is pointed in only that one direction, so the thought
6 occurs well maybe at that point management might be well
7 advised to if AA made the initial study and recommendation,
8 to call in Lybrands or P & W and say, "What do you think
9 about this, is he good, because we would like to have
10 some of the thing because we have no one qualified in the
11 company to follow these OR techniques," or what-have-you.
12 So that concerns me a little bit.

13 Another thing that you get involved in, and I think
14 that the protection of the audit can sometimes be very
15 harmful in cases like this. I recall speaking to the
16 vice-president of a fairly large firm, and I am inclined
17 to think that he wasn't talking about CPA's so that was
18 helpful, he said the management consultant does something
19 like this and the board will call him in and say we have
20 a job for you. We would like to decide whether we need
21 four or three divisions now, but don't let this influence
22 you, but we think we really need three divisions. So,
23 sure enough after a year's work and so forth they come
24 back and they say, "What you really need is three divisions

1 instead of four." And the board says, "Oh, why didn't we
2 think of that.

3 I think there is an exposure to that extent that in
4 certain areas you are under pressure to give management
5 the answer that they want. And so here again I think we
6 need the guts and independence just as much as you do in
7 the area of auditing. Just one other thought and I think
8 this is very important in this line, and I think this is
9 between the audit boys and the management services boys,
10 I think it is very important in every management services
11 engagement for the client that the audit side is tied in
12 right from the word go, so that you don't have this kind
13 of thing.

14 CHAIRMAN: I think it is time for the comments from
15 the second speaker on this topic.

16 VOICE: I inferred that possibly you thought that if
17 the management consultant was put in a position of having
18 to come up with the answer that there might be a little
19 bit of surrendering of integrity. I can see a number of
20 circumstances under which this is the right thing to do.
21 Very often management is confronted with the recognition
22 that the need for something, that in the social psychology
23 environment that exists, let's say the political environment
24 that exists, and I think we have to recognize that large

1 and complex organizations as a centrally political in
2 the main, this is the right way for them to go to be
3 affected for them to mandate this with the chance that
4 it might turn out to wrong and shake the faith -- and
5 there is always this possibility -- shake the faith of
6 the organization and the investment community and enter
7 their judgment incur the resistance, the overt resistance
8 of the people who are affected by it, and I think all
9 things considered I see this as the right way to do it.
10 So it seems to me if CPA's want to engage in management
11 consultant on a broad base they will sometimes accede to
12 this need of management or we will have to come in gen-
13 eral to be management consultants.

14 VOICE: I was thinking more from the standpoint this
15 would be the case where you say you would like integrity
16 and it may be a phrase but we would really prefer to say
17 thus and so, but however management prefers this, so
18 again you must call your shots as you see them.

19 I was interested in the comment on the other side
20 that this was the impression they had of management con-
21 sultants.

22 VOICE: I think this happens more often than not.
23 Management has an idea in its mind and is willing to be
24 talked out of it, you have got real good evidence.

1 Atlantic uses management consultants. I guess we have
2 fifty of them every year, certainly 25. We get them to
3 appraise, salesmen, effectiveness, we have had some pub-
4 lic accounting firms that indicated that they could do
5 this. Technical operations, warehousing, operations,
6 research, everything, everybody has this. Pension plans,
7 actuarial plans. You get into purchasing and the report
8 structure, structure of management reports, budgeting,
9 and the organization of financing and accounting areas,
10 this is everybody's area. Maybe the best kind of example
11 I can make to this group is to describe what we have been
12 through recently just a little bit.

13 An accounting organization, centralized of about
14 1200 people, brought in management consultants and always
15 this has to be seen in the light of political circum-
16 stances, dynamics and change in the organization. There
17 was no serious consideration given to the public account-
18 ing firms to do this although it was in the accounting
19 area. It is really superficial cynicism to just dismiss
20 it as being the fact the firm liked me, but this was
21 also the firm of which the now president used to be a
22 partner and you can very slyly say this is why he feels
23 more comfortable, but there are a lot of reasons, partly
24 there is he is going to get a pretty good quality of

1 individual, informally as well as formally; they come in
2 organized teams very effectively in which one of the
3 management consultants, one of the inside accounting
4 people from the area to be examined and an accounting
5 man from a different area, and sometimes an operating
6 man served as part of this unit. They intensively went
7 over this accounting areas function and spent about a
8 quarter of a million dollars on it, they crolled out
9 about 12%, they recommended about 15% of the people, and
10 of their recommendations we were able to implement about
11 twelve. A million and a quarter dollars a year saving.
12 It is very easy to say, "Why the devil wasn't this done
13 before?" We can say, "Wasn't it evident from the auditing
14 that this situation existed?"

15 So you could have easily said, "Yes, but it was
16 tolerated and the political enviornment in the company was
17 such that somebody, the auditors, for example had they
18 proposed aggressively that this was in existence and this
19 should be eliminated, it would not have been received
20 with open arms, they probably did as much as they could,
21 so the condition hasn't changed before this could be con-
22 fronted.

23 Aren't we dealing with a more profound question, "What
24 is wrong with the management control system that can let

1 this come into being?" If you have to have an abortive
2 all out effort like this an invasion, a rescue attempt
3 from outside, what's wrong with keeping an aggression
4 readily. The climate is such in Atlantic now that we
5 are quite receptive to criticisms of this kind. We get
6 service of this kind from our public accountants.

7 We have had an experience which raises some questions,
8 what is fundamentally wrong with management that will
9 let something like this come into being? Atlantic's
10 personnel by similar efforts has been reduced over the
11 last five years from in excess of 16,000. Last month
12 we came down to lower than 9,000, and our volumes have
13 gone up. The home oil industry has done this, but it is
14 not alone, and our public accountants are not alone in
15 being associated with us in this. The home oil industry
16 has followed the same practice. We got fat and lazy,
17 corrections were slow in coming. Here is the kind of
18 massive problem of management consulting, it is mixed
19 up with politics, it is mixed up with big long term com-
20 panies. We are going to get some help on costing problems,
21 we are going to get some help on organizational unit
22 structures, these aren't so difficult, the big ones are
23 the money losers.

24 VOICE: You mentioned earlier in these comments that

1 you were concerned about the inadequacies of the manage-
2 ment control systems, and I wonder after hearing what you
3 said whether the problem wasn't so much one of management
4 control systems, but rather the basic trouble was the
5 political climate and it couldn't be corrected until
6 after this was corrected, isn't that so? I don't think
7 it is the fault of the system as such, or lack of a sys-
8 tem.

9 VOICE: Is a political climate something that has to
10 be accepted or does a management control system rise
11 above this? Does the management control system concept-
12 ually have to deal with the fact that politics prevades
13 always and forever our organizations, and I don't mean
14 politics in a petty sense.

15 VOICE: Kenneth effectively dealt with that, your
16 system consists of people and these people are quite
17 strong persons in some cases with differing personalities
18 and I fail to see how any control system in the abstract
19 could cope with this adequately.

20 VOICE: The Sewell Avery in particular, people like
21 that.

22 VOICE: Chrysler, Sears Roebuck, how many of these
23 turn around situations, and CPA's in the sense are very
24 lofty concept of possible service that John Carey seems

1 to suggest, could you go through an experience like
2 Curtis, like Chrysler and turn around there and allow
3 them to get into the situation from which such a dramatic
4 recovery is possible by the injection of one president,
5 the change has not been that great. If we are going to
6 conceive our functions on these lofty plains, couldn't we
7 have gone through that kind of experience and say that
8 if we had not contributed overtly some how to bringing
9 about this change that we haven't measured up to this.

10 VOICE: Without relating it to any company, isn't a
11 change as extensive as this usually related to a change
12 in top management? I mean, isn't this your problem, who
13 is going to change the control system when the top man is
14 still there?

15 VOICE: I will just go back to what we were talking
16 about this morning, this whole scope of inquiry, that the
17 accountants some day would report these things, perhaps,
18 to stockholders or someone else.

19 VOICE: I am saying John Carey has very lofty con-
20 cepts for these services.

21 VOICE: It gets back to the management letter, who
22 do you give it to. You give it to management, and nothing
23 happens.

24 VOICE: I think to a certain extent you have a

1 situation of economics and selling and I think there are
2 many cases where we as a result of our review and pro-
3 cedures and tests in order to determine the scope of our
4 audit, have a feeling that there is possibly that and
5 changes could be made and we so state to management. But
6 I rather doubt in your case that the management consul-
7 tants gave you a committment and an opinion without spend-
8 ing some time in actually digging in deeper than you would
9 in connection with an audit. So one point I think is,
10 if we ever get to the stage where we can sell our services
11 to the extent that we review procedures in depth suffi-
12 ciently enough to make strong recommendations as to what
13 changes should be made in the controls and so forth and
14 get paid for it, that would be wonderful.

15 Another fault occurs to me, I was telling this to
16 Bob on the side. I am firmly convinced that the main
17 trouble with the company is the Chairman of the Board and
18 the president and the largest stockholder. Yet, at this
19 point I certainly don't have enough knowledge and ability
20 to say that if by some strange reason I could report to
21 the stockholders and get them replaced that the replace-
22 ment would be any better.

23 I think and feel sure that at the point where this
24 man retires if he is replaced by someone that is tremen-

1 dously good there is going to be some traumatic changes
2 which will make everyone say, "Why wasn't this done be-
3 fore?"

4 On the other hand it could be a situation where they
5 could say, "Well, gee, the old boy was pretty good after
6 all when we look at what his replacement has done." I
7 think we are in this sort of a box in this area of evalu-
8 ation of management and current procedures.

9 VOICE: I don't know how many here have tried to
10 develop a management evaluation program, but we spend
11 several years trying to develop such a program. And we
12 tried it out with the different clients on different
13 bases, some we worked in where the management boys would
14 work along with the audit boys; some where we tried to
15 teach the audit boys a little bit more about the manage-
16 ment technique; some where we tried to get the management
17 boys to do it on their own, and we tried to write all
18 sorts of reports. Sometimes we did it on those jobs
19 which are opinion jobs, other times we tried it on those
20 jobs which we thought would afford a little bit extra
21 time, and sometimes we were able to charge extra for it.

22 I have to admit that it was not too many months ago
23 that we abandoned it. We came up with some real lofty
24 suggestions as to the problems of management, these are

1 not the sort of suggestions that you could give to the
2 public very well, it is the sort of suggestions that
3 bankers would love to have and it's the sort of things
4 if your client would authorize you you could discuss it
5 over luncheon or dinner with a banker or would be term
6 lenders so that he had the feel of the situation, but I
7 think that we are really so far away from being able to
8 come up with a precise kind of evaluation that is going
9 to be acceptable, and the greatest deterrent being able
10 to succeed with this -- and this was our experience --
11 was that management themselves were always, even when
12 they paid for it -- when they don't pay for it they fight
13 it right down the line -- but when they pay for it you
14 are going to step on somebody's toes, and when you get
15 in to audit clients and we did it -- I know in two
16 specific cases, where one very clear one, where we were
17 highly critical of a marketing program and the entire
18 sales department. Well, the manager of that department
19 just went to work and he did about all that he could do
20 to see that we got discharged after being in there for
21 many years.

22 Now, in this particular case we were able to work it
23 out, and they did accept it and they put it in and it
24 worked out fine and now everybody thinks we're great.

1 But the aggravation that you go through and the trials
2 and tribulations are just tremendous and the risks that
3 you take at this stage of the game in trying to be a
4 pioneer in this field is just entirely too much. It's
5 biggest objective for the ones who need it the most and
6 that is management, they just don't like to see them-
7 selves in mirrors, and that's it.

8 CHAIRMAN: We will recess now.

9 (Whereupon the meeting recessed for fifteen minutes)

10 CHAIRMAN: We now come to a subject which is a field
11 for all of us. I think everybody feels he is competent
12 to discuss education and training, and the request as
13 suggested subject matter this would certainly favor it.
14 I just thought maybe we would start with one in it, not
15 100%.

16 VOICE: I have been close to education for some 20
17 years in one capacity or another, particularly in tax
18 training. I don't want to spend my time talking about
19 tax training but I believe this is one of the great areas
20 where we need basic education and training. Somebody
21 said that in the next ten years between 1965 and 1975 if
22 we pay attention to our responsibilities in particular to
23 our education our services growth will double. Ten years
24 from 1965 to 1975 our services gross will double if we

1 accept our responsibilities and look at education and
2 training. If you read chapter 12 in John Carey's book
3 you get the feeling of a certain amount of frustration,
4 he sort of winds up throwing his hands in the air because
5 he comes up with the conclusion that we, the profession,
6 just prepare to assume full responsibility at some time
7 in the future for training our recruits in the mechanics
8 and techniques and procedures of the accounting practice.
9 It is too bad that we have to come to that conclusion.
10 If you are like I am just sitting and watching our pro-
11 fession spend millions of dollars on what we call con-
12 tinuing education. We call it continuing education, and
13 I think continuing education is absolutely necessary in
14 the sense that it is really bringing up education if it
15 is covering new developments. But I have a feeling that
16 much of this is nothing more than basic education which
17 we are not getting in our system of formal education in
18 our business schools.

19 Recently I had to make a presentation on the subject
20 of tax practice, and I think the opportunity over the
21 past six months to go over the last ten years of the
22 Journals of Accountancy; that was an education for me.
23 Incidentally, on the subject of basic education and train-
24 ing because I found so much said. For example, I found

1 that some time ago it was decided that liberal arts, of
2 course, weren't important to us, and they are, they are
3 quite important to us. I wouldn't for a moment want to
4 be classified as one who is against the liberal arts,
5 but someone in the American Accounting Association said
6 it ought to be fifty-fifty, 50% liberal arts and 50%
7 accounting subjects.

8 Well, in the last five years in particular, I think
9 if anybody started out on a fifty-fifty basis they got
10 lost somewhere because the accounting subjects on the
11 undergraduate level it seems to me now if you get 25%,
12 even if you get 10% you are fortunate. It seems we are
13 just raising the standard and drawing it out in the under-
14 graduate schools but even that is no longer adequate now
15 it seems, we are moving into the master's area, and even
16 there we find out there is a great deal of training to
17 be done before they are ready to proceed in this area of
18 public accounting.

19 You see, I believe we are going to head into serious
20 deficiency in the area of formal education in terms of
21 producing people for public accounting and maybe the key
22 to this lies here -- I don't want to put my foot in the
23 fire, let's face it, but John Carey in his book says
24 withdrawing from the undergraduate schools and so forth

1 and so on, almost without knowing it the accounting pro-
2 fession in the United States has turned over to the
3 colleges and universities practically full responsibility
4 for the basic education and much of the training of future
5 members of our profession. It goes on to point out that
6 wherever accounting has received preference in a country
7 that sort of thing has not happened. The practitioners
8 have been very much involved in the basic education and
9 training. Then I began to wonder is there some kind of
10 gap between those who practice public accounting and those
11 who teach it whereby we are not communicating. We know
12 what we think we should have in the form of basic educa-
13 tion, but you get the impression that the educators on
14 the top level don't understand this, we are not getting
15 our message to them.

16 In that connection there was a coincidence, and I
17 think everybody ought to take a look at this, in the
18 American Accounting Review, July, 1965, which has just
19 come out recently. Here are the results of a survey on
20 the subject of the professional school of accountancy,
21 I can't give you all of this at one time, but the people
22 who were approached in the survey consisted of certified
23 public accountants, accounting professors, corporate
24 executives, university presidents, business school deans

1 that is a group of five. And there must be a dozen or
2 15 specific inquiries made of these five groups. Every
3 single one of these inquiries you find, almost without
4 exception we find the company executives, the accounting
5 professors and the CPA's on one side, and the university
6 presidents and the business school deans on the other
7 side. It is odd to me that you should have such a clean
8 or such a line in between the two and so much no over-
9 lapping.

10 Just to give you an answer to a couple of these in-
11 quiries. This resolved around whether or not we should
12 have a school of professional accountancy. One of the
13 questions, was what was the most effective agency in con-
14 trolling free requisite courses covering curriculum.
15 Here on the side of the fence clearly for a school of
16 accountancy, and this is in the sense that we have a
17 medical school, we have a law school, we have an engineer-
18 ing school, the CPA's, the accounting professors, and
19 the corporate executives go for it, but the business school
20 deans and the university presidents are solidly against
21 it.

22 Going on a little further I think everybody admits
23 we need more basic education and they need more training
24 at the college level whether it is undergraduate or at the

1 graduate level that is not entirely clear, but in that
2 connection in this question of additional education the
3 question is should we have a four year accountancy major
4 or five years, that is an interesting one in which the
5 CPA's and the corporate executives and accounting pro-
6 fessors say we need five years, and the business school
7 deans and the university professors say nothing doing it
8 is a four year course.

9 I feel we do need more basic education. If I may
10 just go to the tax services because this is where I am
11 more at home. I can tell you none of these schools, or
12 almost none of them, are producing young men or preparing
13 them in any way to be CPA's who specialize in tax ser-
14 vices. As a consequence today in our business you are
15 all having problems developing tax specialists who are
16 CPA's. Many are frustrated, they are seeking them from
17 law schools because they figure this an additional step
18 and they are better prepared, but this sort of thing we
19 can't produce tax specialists prospect from a graduate
20 or undergraduate schools, and we can't beg, borrow or
21 steal it from some other profession. Suddenly you wonder
22 if you are still a CPA, whether you are going to be a
23 lawyer, an engineer, or something else. I would like to
24 feel that I am a CPA and that our formal system of

1 education produces CPA tax specialists and that sort of
2 thing. Perhaps I am going a little too far there, but
3 I know this when you introduce other professions into our
4 business you are spliting us up.

5 I had an occasion not so long ago to talk to the
6 honorary Phata Alpha Xi, National Accounting Honorary
7 Society right out here at Penn, class of 1962. And there
8 were twenty-one out of twenty-two graduating accounting
9 majors -- twenty-one out of twenty-two graduating account-
10 ting majors who were members of Beta Alpha Si went on to
11 law school. You couldn't have recruited them for love
12 nor money. Of course, my interest was the fellows in-
13 terested in tax services, and everyone I talked to said,
14 "Yes, we are interested in tax services, but you can't
15 be a tax man unless you go to law school." That really
16 stung and it hurt, because this is not good for our pro-
17 fession. I am suggesting perhaps this too is resulting
18 in other areas against us. My theme is we have to do a
19 better job. We have got to put more time, effort and
20 expense, somehow we have to reach these fellows. Look,
21 we are all technicians, let's face it. It is wonderful
22 to have a liberal arts education and the more we have of
23 it the better, but liberal arts education of itself is
24 not pertaining to public accounting and as John Carey

1 says, what is happening in our colleges today they are
2 teaching them how to become CPA's but not how to be them.

3 As a result we are winding up in our profession doing
4 a great deal of basic training which, I think, should be
5 done at the college level whether undergraduate or grad-
6 uate, I am not sure, but I don't see in the future, if
7 we think that by doing the training ourselves as a firm
8 we are going to have better standards than somebody else
9 this whole profession could get out of wack. We have
10 got to raise our standards to a common level or uniform
11 level, and one firm can't do that as opposed to another,
12 it has got to be done at some central point, some be-
13 ginning point.

14 I just leave that thought with you. I know that the
15 American Society of CPA's certainly feels that efficiency
16 in the tax area, we have got a tremendous professional
17 development program, which are intended for the sophisti-
18 cated man but which, in fact, being used more and more
19 for basic study, because we need it, we need it in our
20 professional tax services. You talk about liability, I
21 think more potential liability exists in the specialists
22 area. You are tax men, you give an opinion, and the whole
23 thing falls through you can be in real trouble. The
24 point is you better be competent or stay out of tax

1 services. Generally you better be competent in NCS or
2 stay out. There is no way to swing it, if you are only
3 half confident you should stay out of it. But again, I
4 think this all goes back to the beginning, how do we get
5 off on the right foot in our basic , formal system of
6 education. I just leave it at that.

7 VOICE: Many of the topics you have touched on have
8 been disgusted extensively in the American Institute
9 Committee on relations with universities. Two of us have
10 been members and I would like to have Dick comment on
11 some of the things that have been raised such as the
12 graduate program and the obvious problems that have been
13 raised.

14 VOICE: May I add one thing, I recently saw an article,
15 and again I hate to come back to tax services, but never-
16 the-less I remind you that tax services are 25% of our
17 gross fees in the profession, but there was a survey made
18 of business schools at graduate and undergraduate levels
19 in the matter of preparing young men for tax specialists.
20 As a matter of fact, I think it was one of your partners,
21 I think he said there was something like 300 universities
22 in the United States and I think that he found that ten
23 or fifteen offered a realistic in tax education, which
24 speaks for itself.

1 VOICE: I think it isn't necessary for me to take a
2 point of view on what has been raised here because I
3 think some of the practitioners here hardly would do so,
4 and I feel you may find yourself a devil's advocate on
5 this particular thing.

6 Incidentally, I made a calculation to see what per-
7 centage of our undergraduates programmed for accounting
8 majors were in accounting, and it was 16% not 10%.

9 Incidentally, I don't favor a professional school of
10 accountancy for reasons that were stated in Carey's book.
11 I don't think you can divorce accountancy from economics
12 or other business subjects very easily and still produce
13 a broad gaged CPA.

14 VOICE: I would say this on the matter of the pro-
15 fessional school of accountancy, you may be right, but
16 I think clearly evident is the realization on everybody's
17 part that we have to do better no matter how we do it,
18 we have to do better on our basic education, somehow.

19 VOICE: Well, the truth of the matter is in under-
20 graduate education it is pretty generally felt the pur-
21 pose of undergraduate education is not to turn out pro-
22 fessional people, this is not the place to do that job.
23 This is a rather widespread feeling by educators and it
24 certainly has been implemented at the University of

1 Pennsylvania in the undergraduate business school. I
2 don't know how Henry feels about it whether he feels quite
3 as strongly as I do, but I rather agree with this posi-
4 tion. One of the reasons I do, I suppose is because I
5 have a bias, I was an undergraduate English major, and I
6 feel that this has meant more to me in terms of my pro-
7 fession as a teacher of accounting than an undergraduate
8 business education with a lot of accounting would have
9 been. I surely know of many in the profession who are
10 aware of the fact that communication skills are said to
11 be one of the greatest lacks in young junior accountants
12 today and the inability to express one's self well has
13 been said to be the single greatest reason why young
14 people don't move up the ladder in a CPA firm.

15 I don't think that by having a lot of business and
16 accounting courses you will learn to accomplish the
17 objectives of making your prospects better and more
18 effective communicators.

19 Furthermore, I had an opportunity to teach taxes my-
20 self. I taught taxes for some ten years, and the one
21 thing that I am aware of is, it is the skill of obsolescence.
22 You become obsolete quite easily. You only have to be
23 out of the field for two or three years and you find that
24 a great many of the details change.

1 I can't quite see how, by giving our students a
2 training in depth in federal income taxes, let us say,
3 and by this I mean training in such depth that they can
4 immediately go out and become tax practitioners. But we
5 would be doing a great deal for them, more to the fact
6 that the skills that we taught them might be obsolete a
7 couple of years later.

8 VOICE: May I ask you where you learned your taxes?

9 VOICE: Let me just say this, before you can become
10 obsolete, you first have to know what you are doing.

11 VOICE: I agree.

12 VOICE: You can't become obsolete as a tax man unless
13 you first know what it is all about. You have to under-
14 stand the basics. I am sorry to get off on taxes, but I
15 think it is a clear illustration we have to train tax
16 people almost from scratch, so does everybody else. Un-
17 less you feel that you can obviate some of this basic
18 training by going to law school, and the sad part of it
19 is the undergraduate did go to law school he professes to
20 go there, he is interested in taxes, he wants to go into
21 public accounting. The chances are when he gets out of
22 law school he has lost interest in public accounting, he
23 doesn't want to be a public accountant, he doesn't want to
24 be a CPA.

1 I had a merger situation not so long ago. A CPA, a
2 tax man came down from the New York area representing the
3 other side, we got into the various tax aspects of his
4 side and my side and he found, he was going to quarrel
5 with an opinion given by counsel for our client.

6 I said, "Now, why do you do that, this is a reputable
7 law firm."

8 "Well, he said, "I am a lawyer too."

9 This hurts all of us, he is not a lawyer he is a CPA,
10 but he prefers to call himself a lawyer.

11 VOICE: I would like him to tell me what his tax
12 background is, did you ever have undergraduate tax courses?

13 VOICE: I was with the revenue service for quite
14 awhile.

15 VOICE: You were able to become a solid, professional
16 tax expert without undergraduate courses.

17 VOICE: It wasn't quite that simple, I got certain
18 breaks that nobody else could get today in learning,
19 education.

20 We have to be able to offer something. Look, 25%
21 of our fees come from tax services, 25% of our stay, yet
22 we are not training tax people.

23 VOICE: You have a situation, we will say that under-
24 graduates can still take at least one tax course. Even

1 ten years ago, it is my understanding that the majority
2 didn't take more than one either.

3 VOICE: How about at the graduate level?

4 VOICE: When I got my degree which was right at the
5 time of the Carnegie and Ford reports, there were two
6 tax courses at Wharton on the graduate level, and I be-
7 lieve there still are.

8 VOICE: No, only one.

9 VOICE: I don't think these students are going to get
10 that much more by going to law school.

11 VOICE: I am not trying to kill a disgustion about
12 taxes, but I do think we here in Philadelphia ought to
13 be really, extremely proud of the Wharton School for the
14 five year program it developed, and to their credit, hav-
15 ing had the pleasure to participate in some of the pre-
16 liminary discussions, certainly the practitioners in the
17 Philadelphia area had more than ample opportunity to
18 express their views to the five year committee that was
19 developed at the Wharton School.

20 I personally was really delighted that with the pro-
21 gram that evolved, not only very heavy in the early years
22 on liberal arts, but I think fortunately heavy in the
23 mathematics area which, I think, is perhaps one of the
24 best foundations that a student can have to function in

1 professional accounting in the future, particularly when
2 we get into the great computer programs and what-have-you.

3 Secondly, I think I would be delighted to see at some
4 future date a graduate school of public accounting, but
5 I think in all honesty I would have to admit that I don't
6 think it would ever become a reality until public account-
7 ing is more readily accepted as a profession on a par with
8 medicine and law by the public at large. And as much as
9 we might hate to admit that today, I don't think we have
10 the same professional status with laymen as attorneys and
11 dentists and doctors have.

12 The only graduate school of public accounting that I
13 know exists today and, this, perhaps, in name only is the
14 graduate school at Rutgers. There, as I understand it,
15 it is roughly a year and a half after a four year under-
16 graduate program, and that year-and-a-half includes at
17 least three months of internship with a public accounting
18 firm, so that the actual academic exposure is about fifteen
19 months. Perhaps someone is more familiar with it?

20 VOICE: No, I am not familiar with it, I have heard
21 it discussed but I don't know the details.

22 VOICE: My basic problem or question has been why the
23 undergraduate school for accounting is always considered
24 in a different perspective than the undergraduate school

1 for any of the other schools, your engineering, your
2 pre-med and what-have-you. Don't misunderstand me, I
3 thoroughly understand and realize the value of the academic
4 subjects. When we come down to the discussion of under-
5 graduate schools for accounting than we do for the other
6 fields.

7 For instance, in engineering and so on more specific-
8 ally, the comment with respect to taxes, how do we in-
9 terest these young fellows to study taxes in an under-
10 graduate school because of the nature of the subject,
11 that is subject to constant change, if they are out of
12 three years they will lose everything that they previously
13 acquired.

14 Isn't this also true in engineering, what field of
15 more than engineering do you have this constant change
16 ideas, are we putting the emphasis on the wrong thing?
17 Are we saying there is no reason for continuing education?
18 That is the reason for continuing education to keep
19 current on new ideas and new principles that develop even
20 after you have acquired this in your undergraduate school.

21 I don't see why in the field of accounting we can't
22 spin off some of these fellows into let's say, majors in
23 management service, majors in taxes, majors in auditing
24 and at the same time give them a sufficient academic

1 background. It is done in all the other fields. In
2 engineering they major in power, they major in this, they
3 major in that.

4 VOICE: In Pennsylvania at least we have had the same
5 kind of reform if you like in the engineering schools
6 that we have had in the business schools. We do have
7 this problem, you speak of the undergraduate school of
8 accounting, it is an undergraduate school of business.
9 The recommendation made, incidentally, by the AAA stan-
10 dards rating commission was 50% liberal arts, 50% business,
11 of which 25%, or half would be in accounting. I feel
12 that these ratios are now considered generally too high
13 by college professors, although this is not universal.

14 We do have a tax in courses for undergraduates, for
15 accounting majors which they can elect. If they elect it,
16 it is the only elective they are permitted to take in
17 accounting. But it is not the standard federal income
18 tax course. We do give a standard federal income tax
19 course to our master of science, the 50 year program.
20 In the undergraduate level we give them a course in tax
21 planning and administration. I think most CPA's tend to
22 forget one thing, even if we were specifically preparing
23 for accounting, for their job that the University of
24 Pennsylvania and no other business school can afford to

1 take the position that they are preparing people to be
2 CPA's. We have many markets, we have the market in in-
3 dustry, we have a market in government, as well as a mar-
4 ket in public accounting, so public accounting is only one
5 of the opportunities for jobs that undergraduates students
6 in business schools who are majoring in accounting might
7 seek.

8 VOICE: If they had an opportunity to go in one
9 direction or another, to major in tax accounting, major
10 in management services, would this not, perhaps, keep
11 more of the fellows in the fold, than to just have an
12 elective subject available where they can't in their four
13 years they are taking out of their life and getting an
14 education. They can't move in that direction they really
15 want to go?

16 VOICE: We couldn't possibly do this at the under-
17 graduate level and still fulfill our major educational
18 policy of giving them a general undergraduate education.
19 This is defined as a general preparation for life, not
20 preparation for a job. The fact that business schools
21 exist at all is a kind of a miracle in modern educational
22 environment. It is not strange that the deans and the
23 college presidents take a different point of view than
24 the college professors. They have no vested interest,

1 they want to look good and what looks good is the idea
2 of a broad education that will prepare a man for life.

3 There is a certain amount of merit to that position.

4 VOICE: At the risk of quoting something here that
5 many of you may have read, I think it would summarize
6 what a lot of us feel is a paragraph from Bob Trueblood's
7 installation speech as President of the American Institute:
8 All of us want careers characterized by continuous growth.
9 The more alert undergraduate will be attracted by a pro-
10 fession which offers continual growth. The good student
11 will seek a curriculum which challenges his development
12 as a whole person, not one which promises to produce an
13 instant technician.

14 Then later in the article he mentions that while we
15 should work closely with educators in trying to coordinate
16 the curriculum without needs, that the basic responsibil-
17 ity for technical training rests with the profession.

18 VOICE: I might add that there is a chizophrenia in
19 the CPA profession itself, it depends on who you are
20 talking to as to how much technical training they think
21 a man on his first job should have.

22 If you are talking to the senior partner of a law
23 firm, I think that he would agree with my position whole-
24 heartedly; that he would say that a good broad education,

1 liberal arts and so forth, but if you are talking to the
2 personnel representative who is out there trying to grab
3 a body who is to go to work for the firm, he has quite a
4 different point of view. This is true also in industry.
5 Of course, I am sure if the president of Atlantic Refining
6 came out to recruit, he would sing one song, and if the
7 personnel man from Atlantic Refining would come out to
8 recruit, he would sing another. There must be something
9 in getting to the executive level that convinces a man
10 that the broader education is more valuable.

11 VOICE: In the light of that, it might be interesting
12 to know, that in the last three years, I have picked five
13 people for our corporate accounting, internal auditing
14 group. We interviewed and followed rather expensive pro-
15 cedures, and sometimes these men were picked after inter-
16 viewing as many as 112 people. We picked an accountant,
17 the only one of five who was an accountant and we got
18 him from the Texaco Company. He is a real solid account-
19 ant, with no public accounting experience. He is a real
20 solid fine accountant. He is the head of our technical
21 accounting section, we called it consolidated accounting
22 then and it is now called the financial reporting group
23 and it is responsible for accounting policies, controls
24 and consolidation, internal and external and report on

1 publications. He left in the decentralization to become
2 divisional controller. I replaced him just recently
3 with another chap.

4 We got the head of what we call our current business
5 analysis division. All these jobs, for example, just
6 to give you the range are \$15,000 to \$22,000 jobs. The
7 head of our current business analysis division is in
8 charge of our budget, profit planning, development of the
9 profit planning cycle, including the performance measure-
10 ment, the analysis, the capital authorization, the postal
11 audit, and he is able to do it. We got an electrical
12 engineer with administrative experience from within the
13 company, and we had compared him with all the accounting
14 talent we could get with experience in this field both
15 inside and out.

16 The head of our internal auditing function, after
17 doing the best we could which was a rather close choice,
18 is a chemical engineer with a background in business and
19 accounting and doing an excellent job too.

20 The replacement I just got -- again off another oil
21 company, an oil company out in Ohio, the Marathon Oil
22 Company -- after interviewing some 60- people and adver-
23 tising in papers throughout the country, and had inter-
24 views in six cities, it narrowed down to five candidates,

1 we hired this guy -- he is a lawyer by training -- with
2 oil experience, tax experience and foreign accounting
3 and producing accounting; he is a lawyer.

4 We also just hired after a very extensive research,
5 a man for a new job, having decentralized we are now
6 concerned with a need to formalize accounting policy at
7 a level which we find hasn't been done in many businesses
8 a very demanding level, and we have three or four CPA's
9 come in who are candidates for this job, we had half a
10 dozen from outside who were candidates and we finally
11 accepted a man who is an engineer by undergraduate train-
12 ing, a Harvard MBA by master's training, and is now out
13 in the Wharton School for his PhD for economics.

14 This reflects not any bias, because I am sorely
15 troubled by the fact that we are not getting professional
16 accounting skills. We are getting thinking ability and
17 this is more valuable than technical background accumu-
18 lated experience. I think we will be ahead when we get
19 balance.

20 VOICE: I would like to make a comment on this point,
21 because it follows what has been said and it goes back
22 to what some others want to do. Our problem I don't
23 think is whether we have a graduate school or not, nor
24 is it curriculum or how much taxes or how much other

1 problems, our problem is to get sufficient numbers of
2 people with the mental ability and personality that is
3 suited to our profession. I think that is our central
4 problem.

5 If we had graduate schools, would we get enough people
6 into them. I would like to hear it discussed. This
7 is no immediate problem, this seminar is on the future,
8 this is a long range thing; can we develop any ideas
9 here which will aid in attracting people to consider our
10 profession whether they are the right people, whether
11 they have very little technical training or a great deal,
12 I think that is the central point.

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1 VOICE: Just a quick comment on
2 this, if you will excuse the expression, but in the latest
3 Harvard Business Review, the lead article by Peter Drucker,
4 I just saw it last night, makes the statement that the
5 business in general -- this includes the accountants
6 and everyone else -- is not attracting the young man.
7 I have heard this confirmed by other sources, the business
8 schools are not getting the percentages of the under-
9 graduates that they have in the past.

10 Numbers are going up somewhat,
11 the total numbers are going up, but percentagewise, we
12 are not getting the man in the business schools.

13 Now, Drucker attributes it some-
14 what to the fact that we now have a young generation in
15 management in business, as opposed to just after the
16 War, where the managers were getting along in years,
17 so that young fellows will say, "What is my future,
18 because here is so-and-so who is 35, he is going to be
19 around for another 30 years," But also he said there
20 is some feeling -- I will get back to ethics again --
21 from the moral and ethical standpoint, that business is
22 not really as attractive as it might be.

23 Also, from the standpoint of
24 rapid advancement and glamour, but apparently this is

1 one of our big problems, is just to attract the number
2 of high school students to go into the business area
3 first, and then I guess we can try to get them into
4 public accounting.

5 VOICE: If I can just make an
6 observation. A couple of months ago Peter Drucker was
7 discussion leader at a seminar at Columbia University,
8 and we gave him a reprint of the Philadelphia Inquirer
9 article about the growth of CPAs, he had made some
10 remarks in his prepared talks about CPAs, and it indi-
11 cated that in ten years, I think the profession doubled
12 in size, and his comment was, "God help the world."

13 VOICE: I think that the comment
14 as to whether the profession can attract people is a
15 pretty important one. I don't think the problem is
16 really a problem of technical education. I don't feel
17 that accounting is not challenging on a technical basis,
18 it is, a lot of students loved it and ate it up.
19 And as you observed yourself, they went on to law school --
20 incidentally, I hope our Master of Science program will
21 in part allocate our scarce resources in a more equitable
22 direction, and I think perhaps it will -- the Beta Alpha
23 Xi boys are pretty well represented in our Master of
24 Science program this year - - but the point seems to be

1 from an educational point of view, that the professional
2 training, if there is going to be professional training,
3 it is going to be at the Graduate level. Carey alludes
4 to this, of course. There aren't a large number of
5 five-year plans, or four-plus-one plans; or Master of
6 Science plans specifically designed for public account-
7 ing as ours is, but I feel that it will it is one way
8 of attracting people to the profession, because graduate
9 schools are glamorous to them.

10 VOICE: We have been pretty
11 successful ourselves in recruiting high-caliber people,
12 particularly like somebody said, I think some of the
13 men and a few girls on the lower level are better than
14 the more education we are having on the top level.

15 One of the problems is, we really
16 need two kinds of people, everybody can't be boss, every-
17 body can't be these top-level people, we need technicians
18 too. This is one of the things I think we have to face.

19 I remember years ago saying,
20 "Don't hire anybody unless he is a potential partner."
21 I know everybody can't be a partner. So, we have to
22 face, I think, in this field of accounting, that there
23 is a terrific, amazing challenge for the genius, for
24 the high mathematician for the high level computer work

1 and so on, but if we get that kind of a fellow and put
2 him down at the lower level, we are going to lose him.

3 We had a Junior come with us,
4 a real bright boy without much background, and against
5 my better judgement I put him on in January, and he
6 failed miserably, because he was too bright to start
7 off at that time of the year without the gradual break
8 in and without the knowledge he had as a technician,
9 he didn't have the challenge and so forth.

10 So I think there is something
11 here where I know that in the older days you could
12 get a fellow, a college graduate, he didn't even know
13 how to make out a tax return, he don't know the payroll
14 return, he doesn't know anything. But I recognize the
15 great importance of liberal arts -- one of the best
16 boys we have graduated from Dartmouth, came with us with
17 a little bit of summer training in accounting, and he
18 passed the CPA exam in the first shot, and wound up
19 with 99 per cent on , so there are these kind of
20 people, and there is room for him and the need for him.

21 If we had all of them like that,
22 we wouldn't be able to hold them. They are going to
23 just move on, and it is just like the fellows we hire,
24 I wonder how many different places they worked, that

1 people brought them along and lost them. This is one
2 of our problems, too, holding the man.

3 VOICE: Someone else might want
4 to speak on the point I have heard mentioned. Three
5 different committees, now, Committees on Relations with
6 Schools and Colleges of the Philadelphia Chapter, of the
7 Pennsylvania Institute, and eventually the American
8 Institute, and that is, is this problem different for
9 the small company than what it is for the large company.

10 Does the small company need a
11 man who is ready to go out on the first job, whereas
12 the large company doesn't.

13 VOICE: Well, we have recognized
14 what we call backroom men for a good many years. We
15 hire guys and hold on to guys that we know are never going
16 to be partner material, because we need backroom tech-
17 nicians, and we still like to hire college graduates,
18 but we hire business school graduates with that under-
19 standing. They say, they get to a certain level and
20 that is it, and we were able to keep them happy by pay-
21 ing them, because we can make up for it. But now, we
22 need a certain amount of people to come in to become
23 partners, and as we expand, to get more top grade
24 people, too. But I don't think our problem is any

1 different than the big firms. It is different in this,
2 we can't afford to have these six-months training
3 schools like Lybrand's and the rest of them have and
4 make technicians, and as has been pointed out here,
5 six months might do it. We look for those kind of
6 people, we look to the business schools perhaps, in the
7 future, not so much in the past, but I can see it coming
8 in the future, but we also have to take our gambles on
9 hiring a guy who doesn't have any technical background
10 and make something of him if he has got the brain
11 power.

12 We had that with one of our
13 partners, he went to Duke I believe, and had very little
14 accounting training. Another partner, who happened to
15 be the boss' son, I think he has some engineering back-
16 ground, never did finish college, and had some V-12
17 training, and what have you, very little accounting
18 and they have learned with us, there is no problem, they
19 passed the CPA exam without any particular problem,
20 but they have no real technical training on the schooling
21 level.

22 The people we are looking for are
23 the people who are interested. When we hire a guy, we
24 hire a guy who wants to be a CPA first. If he doesn't

1 have an interest to become a CPA, I am not even interest-
2 ed in talking to him, regardless of what his background
3 is. The next thing is to try to find out whether he has
4 any brainpower or not, regardless of what level we are
5 hiring him on. We can bridge the gap, even in our
6 small firm. It is more difficult, but we never tried
7 this program that the AAIA has set up, where you send
8 these fellows off to college around the country for the
9 two weeks' course. We have been thinking of using that,
10 we haven't, but that is available for us at the lower
11 level.

12 In Reading, we are getting more
13 and more business courses available on the local level,
14 even though Wharton pulled out, Albright and Penn State
15 are picking up the gap, or we even have our fellows
16 going down to Wharton Night School in Philadelphia. One
17 fellow took off nine weeks, I guess, to finish up the
18 Wharton Night School training.

19 We have the same problems, except
20 we have to face them a little different.

21 VOICE: I want to say, the problem
22 we have is not so much now in taking care of the clients
23 that we have today, but certainly in -- as Drucker has
24 pointed out and others have pointed out -- we are just

1 getting less and less people interested in coming into
2 business, and I think that some of us are guilty in
3 not having developed the proper sales program to sell
4 the students in the schools.

5 I know that two years ago we
6 spent a fair amount of time to write up a brochure, and
7 we think we did a pretty good job. After we did it
8 ourselves, we brought in a PR man who wrote it very nice-
9 ly, and said the same thing that we were saying, but in
10 lot nicer words, and when this went out into the schools,
11 it made a tremendous difference with a number of people
12 who would be interested in talking to us.

13 It is vital that the recruiting
14 function be done by the most attractive men in the firm.
15 We have to know what we are going to do, I mean, we have
16 to know what we are selling. We have to know -- we have
17 been talking today -- we don't know what the profession
18 is, and if we don't know ourselves, what our profession
19 is, we have a pretty darn tough time, going and trying
20 to sell the graduate from Pennsylvania as to whether
21 they should come into public accounting, because we
22 can't tell them enough of what they are going to be
23 doing in the future.

24 We have got to know ~~that~~, we have

1 got to put our best people in the firm out, going all
2 the way back in trying to sell this. We have got to
3 have our profession defined in such a way that the student
4 today, who is being trained as a whole man and is being
5 trained as a thinker, we have got to convince him that
6 the place for him to be able to come and express himself,
7 to create and contribute and accomplish, is in this
8 profession as against engineering or teaching, or some-
9 thing other than we have. So, we have got a tremendous
10 selling job to do, and we are doing anything more than
11 holding our own.

12 VOICE: I would like to expand
13 a little bit on the comment about recruiting.

14 I don't think our problem in
15 recruiting is so much attracting the fellow we see who
16 is on our recruiting schedule, our real problem is try-
17 ing to get the good men on the schedule. It is more,
18 I think, than just trying to promote our recruiting
19 activities on a particular campus, it probably goes
20 farther than that, even perhaps down to the high school
21 level before they get on the college campus; I don't know
22 what the answer to this is.

23 I would like to ask this ques-
24 tion, there have been some statistics cited on people
going to law school, I suppose it have been for a couple

1 of years. Is there anything to show the ratio is going
2 up or going down?

3 VOICE: The ratio is still
4 high. I estimate that out of classes prior to last
5 year's, about 50 per cent went to graduate schools of
6 some kind or other, that probably no more than ten to
7 15 per cent went into public accounting, out of our
8 accounting majors. We average about 100 undergraduate
9 accounting majors a year.

10 VOICE: In your opinion, what
11 should we be doing to stem that tide; the law school
12 particularly.

13 VOICE: Well, the Philadelphia
14 Chapter has gotten wise to at least one small problem
15 they have always faced, they now have an annual dinner
16 for high school vocational guidance counselors, to
17 point out to them the people who are wanted in public
18 accounting, are people with a high degree of intelligence,
19 are interested in a challenging job.

20 The high school vocation guidance
21 counselors, I think, are pretty much of the thought the
22 ideal people for you to come to talk to were their com-
23 mercial classes, and these are not the people I think
24 you have been recruiting, or have been wanting to recruit.

1 So there have been some small steps taken by the Phila-
2 delphia Chapter in this direction. I expect this may
3 be state-wide by this time.

4 VOICE: This is state wide.

5 VOICE: That I know is one of the
6 most effective moves taken recently from the recruiting
7 point of view.

8 But as far as the image of the
9 profession is concerned, this is something I can do
10 very little about and, in fact, I am not supposed to
11 have a public attitude that public accounting is
12 superior to, let's say, industrial accounting, and I
13 certainly wouldn't say so.

14 VOICE: What is the image of the
15 profession as you see it from the level of the Wharton
16 School student, the undergraduate student.

17 VOICE: Well, of course, our
18 undergraduate students may be atypical, I don't know.
19 Maybe there are more reliable indicators. But I think
20 there is very little question the law school thing has
21 been a big, big issue with our undergraduate accounting
22 majors for quite a few years, at least for 15 years.
23 They are convinced, not because of anything we tell them;
24 we have two lawyers on the Accounting Department staff,

1 both of whom advise them not to go to law school if they
2 want to become accountants, but because of family situa-
3 tions, advice from friends, relatives, business acquaint-
4 ances that law school and the CPA profession, somehow
5 go hand in hand. If you have the law shingle and the
6 CPA certificate, you are in dandy shape; that impression
7 still persists, no matter what we do.

8 VOICE: I have a theory on this
9 law school bit. The theory is these students want to
10 go to graduate school, period. It is the thing to do
11 and having gone to an undergraduate school in business,
12 they are severely limited as to graduate areas, they
13 obviously exclude medicine and engineering, let's say.
14 You likewise can exclude Masters and PhD programs.

15 A graduate MBA degree on top of
16 an undergraduate degree in business is, to a great
17 extent, repetitive. The only area that I see that is
18 open, and will be challenging and somewhat along their
19 lines and interests, is law school.

20 VOICE: I think I do agree. I
21 think the Master of Science program has pointed this up
22 quite clearly. Here is one graduate school where they
23 can enter and where they will be welcome eventhough
24 they were undergradates with no majors.

1 VOICE: Does it follow from what
2 you say, that the greater number of your undergraduate
3 students literally set out to be admitted to the Bar,
4 and also to sit for the CPA examination? In other words,
5 they contemplate practice in both professions, so to
6 speak.

7 VOICE: Well, that is what many
8 of them contemplate. I don't think they wind up this
9 way, they wind up as lawyers if they go to law school,
10 and they might as well recognize this fact in advance.

11 The statistics at Penn are about
12 as follows, 50 per cent of Wharton School graduates
13 go to graduate schools of one kind or another, and 80
14 per cent of the Liberal Arts School go to graduate
15 school of one kind or another. This is not atypical
16 in Eastern universities, I don't know about the Midwest
17 or the Far West, but I suspect the pressures to go to
18 Graduate school today is very great on young people, if
19 they can get in.

20 VOICE: It is a status symbol.

21 VOICE: It is a status symbol,
22 the Master's Degree has come to mean what the Bachelor's
23 Degree did in older times.

24 VOICE: It means dollars, too.

1 VOICE: Yes, it does, and you
2 fellows are probably responsible for that, because you
3 pay more for the MBA than you do for the BA.

4 VOICE: I think it means dollars
5 initially, but perhaps not necessarily in the long run

6 VOICE: That is pretty hard to
7 tell to these guys.

8 One thing, we talk about the
9 commercial student in high school, and they are the
10 less desirable student normally, because they are not
11 going to go to college, they are trying to get tech-
12 nical training. It is my impression, I only get this
13 from Penn State, knowing people from Penn State and
14 interviewing a number of accounting graduates from Penn
15 State that hardly know where to put their name on the
16 paper, let alone know what a trial balance is after
17 having had a year or so of accounting.

18 Now, a lot of you fellows recruit
19 at Penn State, and I am sure you don't take those guys
20 either, neither do I. But it seems as though up in
21 Penn State, the attitude is that the accounting guy is
22 an engineering drop out.

23 Now, it seems as though from where
24 I sit, and the information I get flowing back from

1 certain places, that the accounting in college is some-
2 what similar to the commercial course in high school,
3 where the poor students gravitate, if they can't make
4 it out one way, they can make it out in accounting
5 school. From what I seen, there might be some truth
6 in that, because these guys that get through the account-
7 ing course, I don't want them.

8 Does anyone else have experience
9 along that line?

10 VOICE: Yes. Sometime ago, one
11 of my friends, having a son in Engineering School at
12 Drexel, from what he told me, all the dropouts seem to
13 wind up in the Business School.

14 VOICE: That does not have to
15 be the case, it depends upon the admission standards
16 of the business school itself.

17 VOICE: In listening to this,
18 there are a couple of things I thought might be of some
19 interest. The American Institute's program of recruit-
20 ing, particularly as it relates to high schools, has
21 somewhat shifted, and I think intelligently, based on
22 some pretty good surveys; that is that they -- and the
23 new film, incidentally, will be directed this way -- it
24 will attempt to offset what John Carey referred to in

1 his editorial of a couple of months ago, "The Dirty
2 Business Attitude," and it will be directed to high
3 school students, trying to acquaint them with business
4 as a career, and not only the advantages of it and the
5 social implications, where it fits into our system and
6 so forth; trying to encourage some of the brighter young
7 persons to enter business as a field, and their litera-
8 ture and their film will work the CPA into it in rela-
9 tion to how he performs for business as an independent
10 profession, but the emphasis will be on business itself.

11 Another thing that I have heard
12 mentioned a number of times, and I am sure some schools
13 are doing it, and I would opinions on this, whether
14 there could be accounting courses available as electives
15 to Liberal Arts students, which would not be the typical
16 first year accounting course, starting out -- I know
17 you don't provide work from practice sets now, but at
18 least you start with very elementary things, and if you
19 started with the top, the interesting part of accounting,
20 management control accounting, and interest the man
21 as to where he might be going, and then if he becomes
22 interested , let him come back and learn how to do it.

23 VOICE: The first thing is, this
24 year we are using a practice sets.

1 We used to have a special course
2 for students in the College of Liberal Arts at Penn-
3 sylvania, and it attracted about 18 students a year.
4 Today, we do not have a special course, but we do have
5 about 80 students from the College of Liberal Arts taking
6 the basic accounting course in the Wharton School.

7 So I am not sure that Carey is
8 necessarily right in that there should be a tailored
9 special course. It would be pretty hard to see what
10 that course should be like. Presumably it would be one
11 that dealt with the uses of accounting, instead of with
12 the techniques that are necessary.

13 VOICE: The idea sounds interest-
14 ing in terms of trying to interest the student. We have
15 the big problem of trying to explain to a student why
16 accounting is challenging and where it fits into the
17 whole system and, unfortunately, most students, partic-
18 ularly high school students and young college students,
19 think of it as a very detailed, uninteresting kind of
20 work.

21 VOICE: Actually, our students
22 like technical accounting, what we have of it. But we
23 recognize the fact that you can't have all technical
24 accounting, even though students may like it. You have

1 got to somehow get around to the final idea, accounting
2 is a useful tool of management, and put this across, and
3 They will say, "Okay, why? What does it do for them?"

4 If you don't get to that point,
5 then you don't really have accounting courses.

6 If you are going to do all this
7 in an accounting course, let's say a one-term accounting
8 course, it can be kind of superficial.

9 VOICE: I can see the course
10 itself might not be of much value, other than to stimu-
11 late some interest.

12 VOICE: The college students
13 have told us on their admission they want to take
14 accounting, a large number of students want to take
15 accounting. We have a large number of them in our
16 basic accounting course.

17 VOICE: There is one other point,
18 and I am only basing this on some observation, but there
19 does seem to be an increasing number of engineering under-
20 graduates going into graduate schools of business admin-
21 istration, and this seems to me to make an excellent
22 background, particularly in the management services
23 field. I know of several quite brilliant students
24 from various colleges who presently are in graduate

1 schools of business administration. There are civil
2 engineers, there are electrical engineers, and they
3 want to broaden their general base, they want to be
4 executives in business, and not \$12,000 a year engineers,
5 so this is an interesting thing.

6 VOICE: I think it is possible
7 to stimulate interest in accounting by changing the
8 nature of the basic course. We are faced with the
9 peculiar problems, in the sense F&M is a liberal arts
10 college, everybody gets an AB whether they are account-
11 ing majors or whether they are not. We feel we have
12 got to tailor at least one semester of accounting
13 for non-accountants to some extent, and yet what we offer
14 the others need not be any different from the basic
15 course of accountants.

16 We haven't gone so far as Ohio
17 State, where in the text book, the whole book of elementary
18 accounting they don't mention the words debit or credit.
19 We do start off and take them right up through closing
20 entries. They will see the whole accounting cycle, and
21 then we will skip a great deal of the other procedural
22 matters, work sheet and special journals, and go on to
23 the uses of accounting.

24 Then the second course, in which

1 we assume by that time we lost the law people and the
2 history major who will be going on to the Graduate
3 School of History; then we will go back and fill in any
4 of the gaps we left, and we will go right along then.

5 We have found, incidentally,
6 since I have been out at F & M, there has been a drop
7 in the number of business majors. I think this is a
8 national experience, not just ours. But on the other
9 hand, we found that the number of people taking account-
10 ing courses, all told, has almost doubled. We started
11 off in 1960 with three sections of basic accounting, and
12 one section -- two of the next semester. We now have
13 five and three. We are finding a lot more English
14 majors and pre-Law students are taking at least two
15 courses in public accounting, and maybe we will pick
16 them up at the Graduate School.

17 VOICE: How can we in this pro-
18 fession get those fellows to talk to us? How can we
19 approach, say at F&M or the 80 in the Liberal Arts at
20 Penn who take it, or at some other place.

21 VOICE: You are to some extent,
22 the extent that you encourage them, you offer them
23 summer jobs, even if they are going on the graduate
24 schools. I know that there are very sticky problems

1 here, but this is really part of getting them to go
2 into business in the first place.

3 VOICE: Will a college or univers-
4 ity, not necessarily your own, but others, have a day or
5 two set aside for outside speakers on different voca-
6 tions where the appropriate CPA can explain his pro-
7 fession?

8 VOICE: We have shied away from
9 it.

10 VOICE: I don't think we do at
11 Penn, either.

12 VOICE: I think rightly so,
13 because I don't think that the pitch of this kind is
14 going to erase attitudes that are longstanding or exist-
15 ing. Basically I think, as it has been pointed out by
16 Drucker, this is a prejudice against business.

17 VOICE: What are the boys doing?

18 VOICE: I think they are going
19 into older established professions, a great many more
20 are going into public service, and a lot more are going
21 into graduate schools, going in for their PhDs.

22 VOICE: I think we have an
23 extremely difficult problem here, and I am not speaking
24 pessimistically, but I think there is one of three things

1 that has to happen. The first one is a world accounting
2 Sputnik crisis, which really generated the interest for
3 engineering; I don't think we are going to have that.

4 The next point which doesn't
5 solve our problem, I am afraid, is the amount of supply
6 and demand alone. It is conceivable that we may have
7 to bid so high, ultimately, to get personnel for staff
8 that the incomes of partners and managers and other
9 executives in accounting firms will get to the point
10 where this will become extremely attractive, more
11 attractive than the practice of law or medicine. If
12 this ever happens, this is going to be quite sometime
13 from now. Longer perhaps than our long range planning,
14 and this, of course, might stimulate people to come into
15 the accounting profession.

16 But more significant, I think, the
17 thing that we have to work on -- and I don't know really
18 whether this is the answer or not -- is the entire image
19 of the profession. We don't have a glamorous image,
20 let's face it. We don't have the glamour of medicine,
21 helping people; we don't have the glamour of law -- now,
22 let's stop for a minute and see what that glamour of law
23 is. There are many people in the legislatures who are
24 lawyers; there are many people in Government who are

1 lawyers. They may go to law school and branch out into
2 all different fields, they don't necessarily stay in the
3 legal profession per se, but they have created that
4 image of public service, in addition to the image of a
5 fairly substantial income potential and, therefore, I
6 think this is why the legal profession is.

7 I think the engineering profes-
8 sion may merely be a product of the times, the crisis
9 we now have with Cold War and the tremendous explosion
10 that is taking place in the engineering type of tech-
11 niques.

12 To me, we need more than just a
13 television show, I think that we have to break out of
14 our shell, this is a matter of public relations. We
15 need accountants, CPAs who are member of Congress, mem-
16 bers of the Legislature, and who are more active in the
17 civic affairs of the community, so that when the high
18 school student sees a film which may be geared toward
19 business or the accounting profession, at least he will
20 be able to say, "Gee, I know of a dozen people in my
21 community who are CPAs" and they are commenting about
22 efficiency in Government. They are the leaders of the
23 profession in every respect, they are not the conserva-
24 tive guys who doesn't speak up as much as he should. I

1 don't necessarily say we have to go as far as many in
2 the legal profession have gone, and involve ourselves in
3 controversy all over the place, but nevertheless, I think
4 this is the sort of public images we must create. Then
5 we will have at least the acceptance of having them come
6 to speak to us when we go to the schools for recruiting,
7 because we will then be considered a more mature pro-
8 fession.

9
10 This, I think, is perhaps at
11 the very heart of the problem we have.

12 VOICE: This is consistent with
13 the Fortune article which many of you, I am sure, all
14 have read, in which it was stated, "Anonymity is in
15 keeping with the tradition of the profession, which
16 have always called for a rather aloof of a posture."

17 VOICE: This is what people don't
18 know.

19 VOICE: I just wanted to say a
20 quick Amen to the comments, and say that we are also on
21 the horns of a dilemma, that if, God willing, we are
22 able to develop this public image very quickly, the type
23 of person we want will have to be of the very high
24 grade, in order to meet the demands of automation and
so on and, therefore, he is going to be extremely

1 attractive to others, to business, and we are going to
2 find our turnover and our loss is going to be maybe as
3 rapid as we fill the pipeline at the other end. It is
4 going to be tough.

5 VOICE: Who pays for it? The
6 client.

7 VOICE: The client. I lost two
8 within the last two months. I lost two fairly new
9 seniors, not heavy seniors who have gone out at top
10 manager post partners, just because they impress the
11 clients. I can pay them for a year, and if they are
12 what I think they are, wonderful. If they are not,
13 out they go.

14 VOICE: You probably have got to
15 stop calling them Juniors, too.

16 VOICE: Many firms do call them
17 something else.

18 VOICE: Just one other quick
19 comment, about calling ourselves Certified Public
20 Servants.

21 VOICE: Carey in his book touched
22 on one thing. If our laws across the country would
23 enable the CPA firms, the Big Ten and the rest of them,
24 to trade as CPAS, I think it would be a big help to

1 get our image across. The only time you talk about CPAs
2 is when it is the small firms trading as CPAs or indi-
3 viduals trading as CPAs, but when you see all the pub-
4 lished reports that get into the hands of the public,
5 you don't see anything in there about a CPA, it is
6 always accountants and auditors, because the big firms
7 are restricted in using the term. Some day, perhaps,
8 that will come, maybe the big firm has some other reason
9 for not trading as CPAs, other than the legal restric-
10 tions. I know they can't possibly do it under the present
11 setup, but who is a CPA? We still haven't got the
12 message across. It is better than it was ten years
13 ago, and five years. Every year we are making progress,
14 but if that could be accomplished and if it were in the
15 realm of the big firms operating to have on that report,
16 "Certified Public Accountants," rather than, "Accountants
17 and Auditors," as at present, that would get the message
18 across much sooner, I think.

19 VOICE: A number of us are dropping
20 any reference to CPAs or Accountants on our letters.

21 VOICE: Why is that?

22 VOICE: One thing, it is unneces-
23 sary.

24 VOICE: You are promoting your

1 own firm name, rather than the profession, so I think
2 that is a step in the wrong direction.

3 On the other hand, I know that
4 by law you cannot operate as CPAs in your big firms.

5 VOICE: There are relatively few
6 states that require that the partners of all states be
7 CPAs. In Pennsylvania it wouldn't apply.

8 VOICE: For instance, if a big
9 firm, Price Waterhouse, Lybrands, whoever, and Sperry
10 Rand -- I don't even know where they are located, where
11 the home office is -- if they can trade as CPAs in
12 that particular state, could they?

13 VOICE: I think so.

14 VOICE: But the big firms haven't
15 seen their way clear to do that.

16 VOICE: Lybrands trades as
17 CPAs.

18 VOICE: On your annual reports?

19 VOICE: There are no partners
20 that are not CPAs, and we are certified public account-
21 ants.

22 VOICE: Do you trade as CPAs?

23 VOICE: Yes.

24 VOICE: This is something to me, I

1 haven't looked at these very closely..

2 VOICE: There is no standard,
3 except as has been mentioned, in certain states where
4 they are prohibited from calling themselves as CPAs.

5 VOICE: Alabama, all partners
6 have to be Alabama CPAs, so we are accountants and
7 auditors.

8 VOICE: John Carey points it out in
9 his book, and as I read that, I didn't take exception to
10 it, because I know Hewitt, when he used to come up to
11 Reading and talk to the big wheel in NACA and a CPA.
12 I told him, at the one meeting, "Aren't you a CPA?
13 Why don't you say CPA instead of Public Accountant?"

14 Maybe this thing has gotten away
15 for us and we don't realize it, that we have come close
16 to this thing. My impression is that we are not trading
17 as CPAs as we should.

18 VOICE: This is the excuse or
19 the reason that is usually given for dropping CPA off
20 the larger firm letterhead, but it is relatively few
21 states where we can't carry it.

22 VOICE: How many of the big firms
23 trade as CPAs, let's put it that way, now? In the Big
24 Ten for instance.

1 VOICE: About half and half.

2 VOICE: I can tell you the reason
3 why we don't. I think our feeling at this point in
4 time in our profession, is that there are CPAs and there
5 are CPAs, and the term itself doesn't mean anything.

6 VOICE: You are promoting your
7 own firm name, rather than a profession.

8 VOICE: Not necessarily promoting
9 it, but we are thinking of it from the standpoint that
10 this is what has meaning, rather than the designation
11 CPA.

12 VOICE: But there are doctors
13 and there are doctors.

14 VOICE: And lawyers and lawyers.

15 VOICE: I think the meaning there
16 is the doctor that you have.

17 VOICE: That's true, but they
18 still all argue they are doctors.

19 VOICE: We are trying to get
20 people to look at the CPA profession, trying to recruit
21 people, and we should show something, that this is some-
22 thing big they can get into, and they can be a part of
23 it, we are missing the boat, and I think that John Carey
24 touched on the thing is important.

1 In fact, I am a graduate of
2 Susquehanna some years ago, and the old President they
3 had there before President Weber got it, he didn't even
4 know who a CPA was about eight years ago. I had went
5 back there and he said, "What are you doing?"

6 I said, "I am a CPA."

7 He said, "What is that?"

8 Now, that only goes back about
9 eight years ago, and he was training CPAs, or people who
10 would graduate from his college would become CPAs,
11 quite a number of them.

12 VOICE: President Weber does know
13 what a CPA is.

14 VOICE: Oh, yes, President Weber
15 does, but that is a different story.

16 I think we have to trade as CPAs,
17 and I always felt I am a CPA, I am not a public account-
18 ant, and I am not an auditor and I am not any of these
19 other balonys, I am a CPA, and that is what our profes-
20 sion is. It is nothing else, and if we don't promote
21 it, I think we are missing the boat.

22 Now, I am surprised that half of
23 the Big Ten are promoting it, I have got to take a look
24 at these reports a little closer.

1 VOICE: It is the Big Eight.

2 VOICE: I thought it might be
3 interesting, we painted such a black picture of our
4 prospects of recruiting persons into the profession,
5 I thought you might be interested in the Canadian Situ-
6 ation.

7 They, of course, are still
8 operating under the Article Student System; they do
9 still not require a university degree, but they hope
10 to go into this in about two years, and they are faced
11 with the problem that at the present time, only about
12 50 per cent of the persons they are employing as
13 junior staff people are college graduates. So the
14 impact for them to fill the gap, and they are not very
15 realistic, from all I can gather, they are still groping
16 with the problem, but they at the present are only re-
17 cruiting about half of their junior people from college.
18 They expect to go into their university requirement in
19 two years, so our situation is better than that.

20 VOICE: There is a personal story
21 which I think would be of interest to you, if you will
22 pardon a personal story. It deals with my son's decision
23 to go into public accounting. He went to Liberal Arts
24 College and Harvard Business School, and he was home

1 for overnight for some interviews in this area, and he
2 is now in public accounting with a firm, and he said
3 at home that night in the living room, he said, "I under-
4 stand what CPAs do in tax services, I think, and I think
5 I understand in management services, but since so much
6 of your work is is audit, could you tell me what do when
7 you conduct an audit?"

8 So I started in and he didn't
9 interrupt me, and I think I talked for 20 to 30 minutes
10 without interruption. I didn't know what kind of an
11 impression I was making. I wanted him to go into public
12 accounting if he was going to like it.

13 He didn't interrupt me, and I
14 just got through, and he said, "Well, that sounds
15 interesting and challenging." He said, "Dad, why don't
16 people come around to the colleges and universities
17 or the professors sometimes tell us what you do, because
18 I have never gotten the message."

19 I bring this up as an interesting
20 story as to how we might get to these 80 students at
21 Penn, who take an accounting course in liberal arts,
22 and elsewhere. I think we have got to get out and talk
23 to students other than the accounting majors whenever
24 the opportunity presents itself.

1 VOICE: I don't think it would be
2 very hard to provide the opportunity.

3 VOICE: Lawyers have the advantage
4 there. They can go out and talk on current legisla-
5 tion, current legislative practices; their talks can be
6 indirect, indirect talks.

7 VOICE: May I suggest one thing
8 since a very high percentage of our services are audit-
9 ing, perhaps we should when we have these opportunities,
10 not feature the glamour side of our business, management
11 services and taxes, which they understand, but try to
12 make the drab side as interesting as it really is.
13 Maybe we make a mistake by soft pedaling the auditing.

14 VOICE: It occurs to me, do any
15 of you fellows participate in Junior Achievement?
16 We don't here in our firm, but I know this has had quite
17 an impact throughout the West, CPAs helping in Junior
18 Achievement as far as buseinss, and actually a number of
19 the Junior Achievement projects have been small auditing
20 firms, you know, audit other Junior Achievement projects.

21 VOICE: Our Pittsburgh Chapter is
22 quite active in Junior Achievement.

23 VOICE: Do they feel they get
24 recruits?

1 VOICE: Well, we do in Boston.

2 VOICE: I know we do in other
3 cities and it worked out, it was very successful.

4 VOICE: My personal feeling is
5 if we went back to the old approach of the accounting
6 major or the undergraduate of, say, 40 to 50 per cent of
7 the courses, say, more than double what it is now at
8 Wharton, that the profession would be in worse shape,
9 it would not get as many people as it does now, not as
10 many people would go to take this program.

11 VOICE: I have an impression
12 that a fair number of promising juniors don't feel they
13 get the most challenging kind of staff development from
14 their firms. This isn't maybe a recent change, but say
15 up to a couple of years ago, there was a tendency for
16 them to do drudge work, heavy travel demands, that the
17 only thing that seemed to give them release from this
18 was heavy enough turnover, then they got looked at a
19 little sympathetically. If you haven't talked to them
20 as yet -- I have no direct interest -- but it seems to
21 me if you are going to cover the subject of training,
22 it might be appropriate to get out on the table what
23 do the firms do in their own staff, having gotten a
24 man of quality, to induce this feeling of growth. I am

1 satisfied in any industry, this is absolutely critical.
2 We have a strong input and we can see a definite payoff.

3 VOICE: I think this is turning
4 around, and probably turning around a little quicker
5 than some of us thought it might. We are getting around
6 to the problem now where you can't find a fellow quickly
7 enough, maybe this is a couple of years, who can handle
8 the level of work that he should be handling in a
9 couple of years. Like the computer problem we dis-
10 cussed this morning. We can't get these people up
11 quickly enough to do more review work, which has become
12 a larger part of the production time. I think this is
13 a problem, from the point which you stated it, moving
14 in the other direction, and it is a question of how
15 soon can we get them away from the basic training and
16 get them into some of these areas where we badly need
17 them, the service areas.

18 VOICE: I think that is where
19 you get into the backroom guy I talked about. We need
20 guys to reconcile cash, and cut off the receivables and
21 sales and payables and all that balony, and this high
22 type you are talking about, he gets his belly full of
23 that pretty dawggone quick, and we find when we get a
24 a fellow, a college graduate with anything on the ball

1 at all, we got to throw him in over his head and put
2 him into all kinds of stuff, and try to give him some
3 stuff that really pushes him.

4 We got to show him that he
5 doesn't have all the answers, there are a couple of
6 things he can learn. We got to get him off this inven-
7 tory business and some of these other routine jobs
8 pretty quick. I think we are coming to the realization
9 that those jobs can be handled by a guy who doesn't have
10 too much background, he can be trained to do certain of
11 these things, and it takes a guy who is going to be
12 happy doing these repetitive jobs, and fortunately there
13 are people who like to do that. Maybe women, I don't
14 know. We had a woman one time who we thought this would
15 work out, but she was the wrong one. Maybe we are going
16 to hire women for that type job, where they will like
17 that sort of thing. Let our young fellows do things
18 that are going to challenge them, because, boy, I know
19 when I got into public accounting, I wasn't about to get
20 into one of these big firms like Lybrand and the rest of
21 them where you get stuck on ~~the~~ accounts receivable and
22 what have you, I thought I would get around a little bit.

23 I think that is some of our
24 problem. Of course in industry you have the same thing.

1 I know we hired a guy out of Metropolitan Edison, in
2 Reading, some years ago. He only had a smattering of
3 accounting education, and he could see quick -- this
4 was a smart guy, he is no longer with us -- he could
5 see that there were too many guys ahead of him to die
6 off before he could get a challenging job. Now, he was
7 smart. What he did, he quit our firm and went down to
8 Temple or the University of Pennsylvania, and took a --
9 he had no college education, his wife had a good job
10 he quit and went down and got his undergraduate degree,
11 came back and he is now with some big company doing
12 very well, a very aggressive kid. But he found out
13 quick where he was going, and we couldn't hold him,
14 because I couldn't pay for his education, and he hasn't
15 come back. But those are some of the problems that we
16 all have.

17 VOICE: I would like to comment
18 very briefly on the past remarks before I get into this
19 area, because I couldn't disagree more. We have kept
20 in our firm, statistics over the last 25 or 30 years,
21 and I recognize that sometimes you can't get the truth,
22 but in our exit interviews, we have tried our darndest
23 to determine just why these fellows have left and what
24 the reasons are, and the lack of challenge has been so

1 minor, that it doesn't even get on the graph as a
2 percentage or a statistic, so I imagine the other
3 firms find the same things. More money, personal reasons,
4 inconvenience, a good many because they have been chal-
5 lenged too much and haven't been able to make the grade,
6 and so on. But the reason of not being challenged, just
7 does not appear. We tried our darndest to develop that.

8 I think I have talked about ethics
9 all day, so I don't have too much left to say, but I
10 would like to just give a little background before we
11 start talking about where do we go in the future.

12 THE MODERATOR: Excuse me. I
13 didn't mean to start in on Ethics. I think we should have
14 our five o'clock adjournment, and have ethics as our
15 first topic in the morning.

16 (Whereupon the meeting was
17 adjourned at 5:00 o'clock p.m., to reconvene on
18 Saturday, November 13, 1965, at 9:00 a.m.)

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