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Seminar on Long-Range Planning, November 11-12, 1965, Hyatt House, Burlingame, California

American Institute of Certified Public Accountants. Long Range Objectives Committee

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S E M I N A R
ON LONG-RANGE PLANNING
OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

NOVEMBER 11-12, 1965
HYATT HOUSE
BURLINGAME, CALIFORNIA

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BIOGRAPHIES OF PARTICIPANTS - continued

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GEORGE W. URI

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SEMINAR ON LONG RANGE PLANNING OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Held at Hyatt House,
Burlingame, California

November 11-12, 1965

Mr. James W. Porter, of L. H. Penney & Co., San Francisco, presided. The Seminar commenced at 10 a.m. on November 11, 1965.

Mr. Porter, after greeting the group, announced that this is the third in a series of conferences to be held in a number of different centers in the United States for the purpose of discussing planning for the future of the Accounting Profession and particularly for Certified Public Accountants.

The theme of these conferences is: Where are we going, and where do we want to go - and where should we go? -- in the light of the currently changing times, with their fast-developing demands for new aspects of accounting in relation to the needs of the present day in business, these needs being ever-expanding.

The first such Seminar was held at Rye, New York, at the Westchester Country Club, on May 21-22, 1965. The second was held at the Drake Oakbrook Hotel, just outside Chicago, on October 22-23, 1965. This is the third, and it is intended that others will be held in other parts of the country.

Jack Carey started these seminars, and they have reference to his book entitled, "The CPA Plans for the Future", which you have all read. The purpose of the seminars is to discuss the future prospects for the profession as a whole; to make contributions that members may feel to be important; and to toss up any suggestions that may come to mine as a result of one's experience in the various fields of accounting - for consideration by the other members of the group. We want to get some information that can be used by the Planning Committee to fulfil the job it was charged with by the Council of the American Institute of Certified Public Accountants.

The Committee consists of seven people:

Gordon Ford, of Kentucky, is chairman; Glen Savoie, of Price Waterhouse; Justin Davidson, of Touche, Ross; Don Summa, of Arthur Young; Kenneth Stringer, of Haskins & Sells; and Paul Lambert, a sole practitioner; and I am the seventh.

This committee is to do research for about two years, and then is to make recommendations to the Council during the third year as to courses of action which the American Institute of Certified Public Accountants should take to prepare accountants for the future. We plan to talk to businessmen, academicians, and practicing accountants; and we hope to come up with some useful recommendations for the betterment of our profession.

Those of you who are present today have been selected, in some instances, by the managing partners of your firms - by Arthur Sargent and others - on the basis of intelligence, wide experience, or specialized experience; and, most important of all, for your interest in the profession as a whole.

We have around our conference table a group of very carefully selected people, each of whom has been chosen as having certain particular qualifications, and each is regarded as being very successful in his field. The people here may be said to represent a sampling of all the different aspects of our profession.

Some are from very large firms, which are generally known as "The Big Eight". Others represent smaller firms of varied sizes.

Some of our group today are active in specialized fields, such as Management Services. Some are teaching part-time, while one is on the staff of an important college full-time. So we have the viewpoint of educators and of people who are engaged in training young accountants for future practice in our profession. We also have one who is with the Franchise Tax Board.

Most of this group are either partners in large firms, or they are partners in medium-size firms, or in small firms - or, if not partners, they have been selected by the partners of the firms they are with, because they are regarded as having special qualifications for taking part in this conference.

All, except the one who is a college instructor, are actively engaged in the day-to-day practice of accountancy. Most of them are active in the affairs of their State Society of CPAs. We even have a representative here from the State of Oregon, who is president of the Oregon State Society.

This gives us a very wide range of background knowledge to draw upon in the course of our discussions. This should be helpful in making some pertinent recommendations for the guidance of the Council in setting forth its program and recommendations for the profession as a whole.

Today we are interested, not in who says things, but in what they say. We do not propose to indicate the names of the participants in the account which will be made of the proceedings here. We do not want to have your firm's policy expressed and identified with your firm. We are not interested in the particular viewpoint of individual firms, at this point; but we do want your views on the broader aspects of the profession, especially in regard to the present development and the current expansion of our professional activities, in the light of the rapidly changing needs of business today and for the immediate and long-range future.

We are also most interested in obtaining your thoughts as to the effects these changes should have on the preparation of young accountants to carry out their duties in these expanded fields of our profession, as it is likely to be over the next ten years -- insofar as we can try to look into the future and foresee what the needs will be for the next decade.

We would like to have your views on the educational requirements for success in our profession as it stands today, and as it will be in the future; because one of the great problems of our profession is that of obtaining young men of promise, who are well prepared to take their place in the practice of accounting, and to grow in that practice, so that they will become outstanding practitioners. This is of vital concern to all of us.

Mrs. Stuart will endeavor to take down what you have to say, and a transcript will be prepared and sent back to the Institute, to be catalogued as subject matter to be considered and acted upon by the Planning Committee. I do not want you to be inhibited in what you say, just because this is being taken down. We want you to speak out and say frankly whatever you think. Don't be afraid to suggest new ideas; that is what we are here for!

I will also ask for any ideas you may have that could be used for further Seminars. Other Seminars will be held, in different centers around the country, depending upon the Institute's budget. Their subject matter will be largely governed according to what you want it to be. Future seminars will be planned to cover in more detail any material that you feel should be given a greater amount of consideration than will be possible in this two-day conference.

Many of you have suggested various subjects that you would like to have discussed today, and the Planning Committee has suggested certain other subjects. Most of these will be covered in the talks and discussions today and tomorrow. However, if any subjects in which you are especially interested are not covered, I would like you to bring the matter up.

Does anyone have any questions at this point?

Q. You might give us an idea of the timetable for this meeting.

CHAIRMAN: Well, I figured about three hours this morning. Then we shall break for luncheon, for about an hour and a half. Then we will return for another session, until about 5 p.m., or a little later, when we shall adjourn until dinner. The Hyatt House can arrange for a private room for dinner, if you would prefer it; otherwise, we can arrange for a table in the general dining-room, if you would like to have dinner as a group. Or, if you would like to make your own individual arrangements, you are welcome to do so. I would ask that you each let me know what you wish, as to this, and I can then make arrangements accordingly.

We shall reconvene at 9 a.m. tomorrow morning, and I propose to continue until about 12.30 p.m. We shall then go for luncheon, and will return in the afternoon on Friday for another couple of hours, until about 4 p.m. Everybody should be able to be on his way by that time, as the roads will be pretty crowded after that; and, for those who come from a distance, it is very difficult to get on a plane after that time on a Friday. I know that several of you have the opportunity of getting on a plane which leaves soon after 4 p.m. With the airport right beside us, you should have no problem about catching your plane.

Also, if we conclude a little early, it will perhaps give you time to make notes on what has transpired at the conference, before returning to your offices to dictate them. I hope this program will be satisfactory to everybody.

Now, as to the subjects which we shall be discussing:

There are nine topics listed for this Seminar. The Planning Committee considered a variety of subjects, but perhaps the most important of all is No. 1 on your Agenda - What is the Professional Practice of Accounting, and what is the Scope of the Profession? Also, how can our Profession be described in terms to attract public respect? And how shall CPAs. be guided to the most constructive efforts? This was pretty high on all the lists submitted. It covers a lot of ground, all of which is very important to us.

We will have roughly about an hour for each topic, or category. Each address will be followed by a time for discussion. I know that some of the talks we shall have today will generate a number of ideas for discussion, and if, toward the end of the Seminar, you feel that you would like to have a further discussion on any of the subjects we are going to cover, we will be pleased to return to whatever topics are desired - because we do want to get all your very best thoughts and suggestions on these matters.

I will now ask George Oh to give us his thoughts on the first topic:

WHAT IS THE PROFESSIONAL PRACTICE OF ACCOUNTING?
HOW CAN IT BE DESCRIBED IN TERMS WHICH WILL ATTRACT
PUBLIC RESPECT, AND GUIDE C.P.A.'s TO THE MOST
CONSTRUCTIVE EFFORTS?

GEORGE OH:

I have been assigned the rather difficult task of providing an acceptable definition of the profession and practice of accounting, as it is today. This is a problem which has proved difficult for better minds than mine!

I am also asked to suggest how our profession may be described in terms that will serve to increase public respect, and at the same time will guide CPA's to their most constructive efforts. This is certainly a challenge to the most inventive mind. All I can hope is that my remarks may serve to throw a little light on these problems and, perhaps, may be of some service in the long run to those who will be charged with the task of arriving at decisions. I also hope that some of my remarks will evoke discussion by the members of this conference, from which further ideas may be derived.

To begin with, let me say that I may be taking some very extreme positions here - and some of these may be quite controversial; but I hope they may be at least provocative of ideas and perhaps some suggestions that may prove useful.

First of all - and this may make me very unpopular! -- I don't believe that at the present time ours is a true profession, in the real sense of the word. I will try to set forth my reasons for saying this. I will

try to state what I feel a true profession must have, and list the requirements. They may serve as a guide for us. We are, I believe, approaching these goals - but we have not reached them.

I have set down a series of headings which I consider significant in this regard, and have grouped them under the general heading, Qualifications of a True Profession. We can then examine our profession in the light of these qualifications, and see how close we come to fulfilling them.

They are:

1. Leadership, not followship, in the particular field of endeavor.
2. A concept of social significance which forms the basis for that endeavor.
3. Principles, rules, uniformity and comparability governing its practice.
4. Service to Society, as a primary objective.
5. Professional discipline, maintained within a code of ethics.

Taking first the subject of Leadership:

A true profession, I believe, must provide society with some kind of social leadership, as well as technical leadership within its particular field of skill. In our case, our profession should provide economic leadership, as well as technical skills. I feel that there is a great deal of room for development in the field of economic leadership, which has been very little explored up to the present time.

As to the second heading, Social Significance:

A true profession must be dedicated to concepts of social significance - not only to matters of technical significance. The foundation of a true profession must be a concept of broad moral and social significance. The measurement and communication of economic and financial data is a technical

or applied art. But it can be used and applied in such a way that it can be said to have a very considerable social significance, and this aspect should be emphasized and developed.

To take examples from other professions: Justice, human rights and the rule of law can be considered as the basic social and moral concepts upon which the legal profession is based. Health and healing, of course, are the concepts on which the medical profession; and the advancement of knowledge, that upon which the scientific and teaching professions are based. Nobody would dispute the essential social significance of these professions.

The social concept which provides our profession with true significance is the attest or credibility function. This, interpreted and implemented on a broad social and economic basis, can become the chief foundation upon which the CPA profession can establish itself as a true profession, since the attest or credibility function - in our complex society - has significant moral and social values as well as technical or applied values.

Thirdly, a true profession must have principles, rules, uniformity and comparability. Society grows and develops in an environment of law and order, not anarchy. The same is true for a profession.

A true profession must provide a common body of knowledge, based upon concepts, principles and rules which will bring order from confusion and provide standards and criteria by which social organizations can be guided. These principles and rules must be structured so that they will meet the needs of change and innovation within our society, without losing stability. At the same time, They should provide sufficient uniformity within the profession so that the public has something tangible on which it and they can rely.

Fourthly, a true profession must render a service to society as a whole. The basic values of a true profession must be directed toward service to society, as its primary objective, rather than to profit.

Finally, there must be professional discipline within a profession. The profession as a whole must be governed by certain standards, not only of technical performance, though this is very important - but also of ethics and morals, because of its position of responsibility to the public. A profession must maintain self-discipline through a code of self-imposed ethics; and if any individual fails to observe the standards of ethics of the profession, then there must be a means of disciplining that person, even to the point of excluding him from professional practice, because it is of the utmost importance to the profession as a whole that its proper standards shall be upheld by all of its members.

I would like to expand a little - particularly on the first three items.

In the matter of Leadership: The first thing we have to do, in analyzing any problem of this nature, is to examine the market place and then relate ourselves to the type of significant impact that, as I have indicated, our profession should have as to society as a whole.

Referring to John Carey's book: There has been an excellent development of the profession of accountancy as the accepted standard of measurement in the communication of financial information. But I feel that this is only a limited definition of the full scope which our profession should have. I think there is a tremendous amount of room for expansion in the activities of our profession.

If we go back a little in history and examine our true functions as

CPA's, I think we shall see that ours has traditionally been principally an auditing and attesting function. In the past, auditing has meant, primarily, the preparation of and attesting to financial statements and reports. This function should be considered a high moral responsibility, rather than merely a technical responsibility. I think the need in this area is very great. We have a complex economy that is expanding very rapidly, and such an accelerated expansion could easily lead to chaos. There is a significant need in our society for an attest function that will be provided on a moral level - rather than simply on a technical level.

The functions of public accounting have sometimes been referred to as "the Three A's" -- attest, accounting, and advisory. The functions and responsibilities of public accounting may be further described as follows:

1. Professional leadership, based on an awareness of society's needs and of the relationship of our services to those needs.
2. Fulfilment of the attest or credibility function - which is the basic social obligation of the public accounting profession.
3. The execution of the audit and attest functions develops certain skills, certain knowledge, understanding and experience, which relate to broad areas of business, organization, management, performance, and controls. This understanding and experience, and these highly developed skills, should be more widely recognized and applied.
4. A professional and moral responsibility exists to use these derived skills to assist business and society in improving their performance and environment.
5. Especially, a professional responsibility exists to broaden and improve our competence in these services through
 - a. Broader perspective as to the type and scope of the services which our profession may provide;
 - b. Developing adequate research and educational back-up to meet the broader needs of the profession for the future;

- c. Providing adequate standards of competence and performance that may be relied upon by the general public, so that when the attest function is exercised, it really means something.

This means, of course, that we must seek to educate our younger members and those who seek to become members, so that they may encompass these broader concepts of the role our profession should play in society. This upgrading of the educational concepts should ensure the development of people who will be qualified to advance our profession to the point where it will truly fulfill the role of a profession with a social significance which is both recognized and valued.

Now, to proceed to the second half of the topic: How to describe our profession in terms which will at once attract public respect and serve to guide CPA's to their most constructive efforts?

I feel that possibly the term Certified Public Accountant could be restated as Certified Public Auditors -- or, perhaps, CERTIFIED PUBLIC ATTESTORS.

Accounting - the technical concept, the technical approach - is just one of the tools that we use in the performance of our services to business and industry. In itself, that is fine; but many people depend upon our certification and attestation for assurance of the true condition of a company and its finances. In this area, there is a great moral responsibility. Financial statements can be misleading in many ways, and the public needs to be protected. That is the responsibility of the C.P.A. Personally, I feel that this is his most important responsibility. And this is the aspect of his work which carries the highest social significance.

Therefore, its importance should be emphasized, and the public should be educated to understand the implications of an unqualified - and of a qualified - certification or attestation. Because, until the public has understanding of the true meaning of these things, they do not really have very much value - they do not have the value that they deserve.

The public is very much confused as to what is meant by a qualified statement as to the financial reports, as against an unqualified attestation. Very few members of the public understand what is meant by these terms. In our view, an unqualified attestation is the greatest thing there is -- but, only too often, it means nothing to the reader who is a member of the investing public and who should be very pleased to see such an unqualified opinion. This would indicate that some education of the public as to the significance of the formal opinion of a CPA is in order, if we wish to increase the degree of respect accorded us by the general public.

When a CPA attests to his examination of the accounts of a company or corporation, he is exercising a high moral responsibility - a responsibility not only to management, but to the financing institutions, to the credit grantors, and to the investing public. People have to be able to depend on his word, and on the worth of his statement as to the accuracy of the accounting, the methods and procedures used. An attestation has to mean something -- something that can be relied upon.

There are qualitative values, as well as quantitative and financial values, which can be very important in this regard.

We have had many examples of the lack of qualitative value in accounting and attestation in very recent years - cases such as that of

Billy Sol Estes, and the Yale Lock situation, and a number of others.

I think that these all indicate that our profession is not really meeting the challenge of supplying for our economy this very desirable assurance of dependability in financial statements and opinions.

I believe that if this moral responsibility, and the importance of proper qualitative values in exercising the attest function, were more emphasized and more uniformly observed, this would immensely increase the degree of respect which the public accords to our profession. The public needs to be educated as to the full meaning of an attestation by a qualified CPA -- and the members of our profession must be educated to observe a due regard for the high importance of that attestation, and as to its moral and social significance. This calls for a dual kind of education.

This brings us again to my original third heading:

We must have a firm body of basic principles, developed from the broad concept of our responsibility to society as a whole. We must have order in our profession, and we must have law, and we must have a rule of order and law, to maintain the respect of the public and of business management - the people who rely upon us. We must also develop the competence that is required for the proper exercise of our assignments so that people can justly rely upon us. And there should be uniformity in the standards of competence, and in the principles that guide our whole profession, so that there need be no confusion in the public mind about our profession. No profession can exist in a state of anarchy.

At the present time, the rules of our profession are by no means uniform throughout the country. We are trying to reach this goal, but we

still have very far to go if we are to achieve, let us say, that degree of uniformity that exists, for example, in the medical profession. The very fact that there is such a wide divergence in the expression of opinions is an indication of what I am electing to call the "anarchy" in our profession, and also the many variations in accounting procedures and principles.

The legal profession has a body of knowledge, based upon rules of law and order and upon rules established by decisions in cases which have been thoroughly argued in the courts and judicial decisions have been handed down. But in our profession, we do not have such a firmly established order and set of rules for its conduct and for the conduct of its members in accordance with professional standards. You might say that our profession stands today in a position somewhat similar to the position of the legal profession some fifty years ago, before many of the decisions had been made which are now important in the governing of the legal profession.

The Anglo-Saxon culture is the greatest of all cultures, I believe, because its laws are based on the concepts of human dignity and human rights. The Anglo-Saxon culture is governed by law and order - but by a law and order which allows for the basic ideals of individual freedom under the law. We should keep these concepts before us, also, in our profession. We should not be so regulated as to be constricted. We need to have freedom to grow and develop according to the needs of the time and the needs of our clients.

Of course, when you have rules and order, there is also a tendency to create an environment in which change, innovation and growth may become difficult. We would not want to restrict our profession to that condition

obtains, because growth and change are essential in order to meet the changes of our times, when our industrial and financial complex is becoming suddenly so greatly expanded; and so many new ventures, never before even imagined, are appearing. So marked are these changes, who can say today what may be the needs of tomorrow? We cannot predict with any exactitude - but, whatever tomorrow's needs may be, we want to be able to meet them.

Recent history has shown that we can have rule of law and order, and still preserve opportunity for change. The Magna Carta was the beginning of this rule of law and order -- and it showed that we can have rule and order in a democracy, when the principles established in Magna Carta were adopted as the basis for the Constitution of the United States and for the laws of this country. These principles of law are constantly evolving and developing - yet they remain firmly based on the original foundations. This is the great triumph: that flexibility has been preserved.

I think we can create an environment in our profession in which we can have innovation and change, and still have order. I believe that professional leadership must be provided by a profession, and the only way this can be developed is by understanding the social needs which the profession is to serve. These needs should be discerned and defined.

Going to the market place, there is, I think, an increasing need for moral values in our society. The concern of society about moral values has arisen because of the stresses which are being created in our culture by the population explosion and the very widespread changes and new developments that are being introduced into our economy - something new every day. There are also new values developing, as a part of this.

There is a growing tendency to consider the needs of society as a whole, rather than just a part of society: to think in terms of the advantage of the greater number, rather than the benefit of the few, or the individual. This is the larger concept; but, ideally, it should still leave the possibility of choice for the individual.

We have to be prepared to keep pace with these expanding concepts. Sometimes this is difficult to do. Sometimes it is difficult to recognize the need for adaptation to the changing needs of society. As an example, I think the American Medical Association made a very bad mistake just lately in opposing the program of medical care for the aged, by attempting to preserve a specific area of interest, rather than considering social interest as a whole.

Returning to our own field of endeavor: There is also a changing environment in management concepts for the world of today - and the business world as it will be in the next ten or fifteen years. I think our profession must recognize that a new breed of management is developing which is educated into much broader concepts in terms of relationship to its responsibilities, and to the public, than has been the case in the past. Unless we can also develop along with this new thinking in management, we shall merely be regarded as hacks, rather than as members of a respected profession.

In terms of our relationship to the market place: If we develop and explore the attesting functions, I feel that this attest function gives us certain knowledge, certain skills and experience, as a corollary. I feel it is our responsibility to use these skills and experience, and our special knowledge, and most particularly the attest function, to assist management in improving its performance.

In addition, we must provide the services which may be required as a result of the changing business methods in our expanding economy. We are all greatly concerned just now about the effect of computers and automation as they have a bearing on our profession, and as to the adjustments we must make. We say, we must learn and understand about computers. We say, we should learn how to program for computers and data processing and we should provide these services for our clients.

I don't believe that we should try to compete with data processing services. Data processing services should be tools which can be used to obtain results more speedily; we should be able to use them for this end - but we do not have to try and compete with them.

I don't believe that competing with data processing services is a professional approach. Rather, we should analyze the effects that computers have on management and on the operation of various businesses, so that we can advise and assist management in the proper and most efficient use of computers.

There is also a concern among many of our members with regard to a so-called competing with bookkeepers. Our concern should be the guidance and improving of bookkeeping services - rather than to compete with bookkeepers. Our function is different, and it is beyond that of bookkeepers.

In the field of auditing itself, we should not be mere preparers of stereotyped (and often sterile) financial statements. We should provide meaningful statements, in accordance with approved accounting principles, for the guidance of management and investors and creditors. We should consider ourselves as leaders in ethical and moral responsibility in these areas. The more we regard ourselves as leaders in these matters, the more we shall be respected by management and by the public.

In terms of the background that will be needed for all this:

If we are to be leaders, we must concern ourselves with the academic background of the members of our profession, and with the educational build-up necessary to provide the new ideas that will be essential to maintain leadership.

Ours is the only profession which does not have graduate schools for further studies after attaining a certificate in public accounting. I think consideration should be given to providing post-graduate courses in colleges and universities, which would lead to a broader perspective and to a higher degree of professional excellence. Particularly this might apply to the more specialized fields of our profession. This could also lead to a broadening of the attest function.

If we take true leadership in this broad attest function, I think the schools and society as a whole will back us up; and this field will become greater and even more significant in the future.

The most important thing is leadership in the broad prospect; and for this we must have the attest function used in its broadest aspects. We must, from our experience, assist management in improving its performance; and in terms of auditing we should have a concept of management service and management counsel as it may benefit the business organization as a whole - not just in columns of figures, though these are important too. We should develop this broader view in all the services we render to our clients and to society.

I hope these thoughts and suggestions are not too revolutionary; but, unless we think broadly and think "big", I feel we shall have a long way to go before becoming a true profession.

DISCUSSION AND QUESTIONS

Note: In the discussion period which follows, the letter "P" (for Participant) will be used to indicate when another person commences to speak. Names of participants will not be given. In the Discussion section, no differentiation will be made for the original speaker.

P. I suppose this suggestion could go in a couple of different directions. We could go in the direction of making it into a sort of code of things to know, things to observe and things to do - rather than something that is actually enforced.

I have been reading what John Gardner, Secretary of Health, Education and Welfare, has been writing. He says that, as an organization gets started, it is vital and enthusiastic and experimental, and it eagerly adopts new thinking and new ideas. All of this is accomplished with a spirit of youthful exuberance. Then, as maturity sets in, it is discovered that there ought to be some guidelines and some further regulations; and as time goes on these regulations become more and more developed, often to the point where the rules themselves impose stagnation. As the organization reaches its old age, and stagnation has set in, the last activity of the dying organization is the complete revision of the Rule Book. I think this is an indication of the dangers that may be inherent in a too-restrictive set of rules and regulations.

Therefore, I think that we should reach for rules that will not be so tightly drawn as to be constricting, but will act as guidelines to be used and yet will still leave room for the nonconformist, the iconoclast, to make innovations and come up with new ideas and new ways of doing things - and new solutions for new problems.

P. John Gardner felt that the Constitution of the United States is one outstanding example of a flexible conceptual order, under which any desirable adaptation can be introduced to fit changing circumstances. The U.S. Constitution is so broad in its concepts that it is possible to move ahead within it, in tune with the changing times and the developments of our vast industrial civilization - the existence of which could never have been foreseen at the time when the Constitution was drawn up.

This is not the case with some of the State constitutions, many of which are comparatively inflexible; and this makes any change very difficult indeed in the states which are governed by such closely defined rules. Some of the State constitutions are so closely defined that they become quite stultifying. It is true that this is something we should certainly try to avoid.

P. While we are all actually engaged in accounting and in the attest function, we are also engaged in many other things. We have certain portions of our background in common; yet we all differ in experience, and in the particular kinds of problems we must meet in connection with our different fields of practice. There needs to be considerable room for flexibility, in any set of rules and regulations for our profession.

I believe the attest function is of great social importance - but it does not encompass all of our activities, either social or technical. We probably feel that all of our activities are somehow related to this central concept of interpreting or understanding financial and economic matters. However, we are not economists, and that is a distinct field.

P. I think that the profession has social significance if you accept the proposition that economic activity of any kind - and particularly capitalistic

economic activity - is a proper social objective. Then, in a very real sense, the accountant becomes of social importance.

Certainly, in our civilization, economic activity is very essential to our society. It is of major importance in our society; therefore, accountants do have social significance.

However, this is not the same kind of social significance that a doctor represents. A doctor is oriented toward the fundamentals of life and death. These things are immediate. But there are other activities equally as significant socially, though perhaps not of such immediacy.

You could make the point that our day to day debits and credits are false and artificial structures, as compared with the techniques of medicine. We are, of course, not concerned with the essentials of life and death - yet the economic health and activity of the community depend to a great extent upon the integrity of the accountant, upon the standards which he observes in carrying out his work. And the economic activity and economic health of a nation relates, in a very vital way, to food and housing for the individual within that nation, and the welfare of its society as a whole.

P. I would not care to see the social significance of our profession stressed to the point where we might lay down rules for things which do not belong in the accounting field. I think we should be careful on this score.

As far as graduate schools for accountants are concerned, there is at least one professional school of accounting (at Rutgers), directed toward the production of graduate students capable of entering the field of public accounting. There may also be others. Perhaps these are not yet very widely known. As time goes on, and their value is demonstrated, there will probably be some more .

P. The definition of public accounting is a very hot topic just now. The American Institute of Certified Public Accountants has appropriated some funds in an attempt to define it, and the California Society of CPA's is also attempting to define it, and there is a bill before the Legislature which would license public bookkeepers and preparers of tax returns. This would produce thousands of licensed accountants and bookkeepers. This bill has been put aside for the time being, however. There would be a class of certified tax preparers, and a class of certified advisers to management, and so on. All of these involve definition. All of these are fields in which the CPA is active, also.

One of the chapters in a book recently written by an accountant deals with the expanding functions within the profession. He suggests that in technical areas we might need to call upon a police department, or an FBI specialist, to train us in respect of fingerprints, etc.

I personally would not want to see our profession get into the position where we felt we were prosecuting attorneys, or some sort of FBI detectives and so on.

P. I would say that the roots of our profession, if we want it to be a true profession, must be based on its social significance. True professions are those of religion, law, medicine, teaching, etc. Each of these operates in an area of great social significance, as well as technical significance and competence.

We are chiefly in the area of technical significance. We could compare ourselves with engineers, for example. Theirs is a profession of great technical achievement, but those technical achievements also have much

social significance, as a by-product, because without the immense advances in engineering techniques, our present society could not possibly operate. We depend to a very crucial extent on the abilities of the Engineering profession - for the transportation facilities that enable us to move around rapidly and provide us with the flexibility that is required for our present mode of life, for the bridges and highways that enable us to travel quickly from one center to another, or from home to office - and for the very machines of Industry itself, on which our whole industrial complex is founded. So, although one may say that the Engineering profession is a strictly technical profession, and one calling for a very high degree of purely technical outlook, nevertheless, in the broad sense, it is also one which has a very great social significance. I believe the same may be said for our profession.

The social significance of some of the other professions is more immediate and consequently more obvious. The teaching profession is of social significance in the advancement of knowledge, and so is the scientific profession in its many branches. The legal profession is of social significance in regard to rule by law and order. Medicine is of social significance by reason of the need for healing and good health in our society.

I feel that the attest function gives our profession the opportunity to relate to a very broad area of social significance, in its importance to the entire credit structure of our economy, and to investors, and, you might say, in the financial structure of the nation. Our services devoted to assisting management to improve its performance also are important for the benefit of society as a whole. Young people coming into our profession need to be given this wider vision of the functions which our profession performs in our society. This will serve to inspire them and attract them to become CPA's.

P. But can we do all that you suggest, and still maintain the CPA examination as it presently exists?

P. No. It would need to be changed somewhat. When the proper time and the proper circumstances come about, it may be well to license public bookkeepers and even private bookkeepers, just as nurses are registered and licensed. This would differentiate them clearly from the CPA. There is no reason why we could not work along with them in harmony, and to a useful end, just as doctors depend on nurses to do so much of the routine parts of their work. A doctor can do everything that a nurse can do -- but he will not ordinarily do those things, because his greater knowledge can be put to better use elsewhere. However, he will instruct the nurse in just what should be done; and, when he sees that she understands his instructions properly, he let her go ahead and carry them out, while he turns his attention to other problems. The CPA of the future may find himself doing very much the same sort of thing, in relation to licensed bookkeepers.

P. What we do seems to lack social significance to some extent, in that it is less immediately vital to the individual than teaching, or medicine. Yet proper and dependable accounting is extremely vital to our society, the more especially since it is a capitalist society. Even under Communist rule, there would still be a need for accountants.

P. Yes, we are obviously serving an important social need. We are doing many things that have certain social significance; but we do not often take any leadership in our society. We do not have that leadership yet, although we are moving toward it; and this is largely why I do not think we are yet a true profession.

P. You are probably right, but this is a question of balance. We are to some extent technically deficient, too. We need to improve and broaden our technical proficiency. This should include an understanding of the computer sciences, because these aspects are going to become more and more important in our work, as business extends its use of computers.

I do not agree when you write off the computer sciences as being only technically oriented. I think the computer sciences can be used as the human brain directs. I think the computers can be very useful to us, in our examination work. We should go back to the examination approach, to find what the thrust of the profession is, and how the computer sciences can be related to it. As time goes on, we would develop within our profession computer specialists who would advise management in the use of computers for the best advantage of their business, and could also program the use of computers for audit purposes.

The medical profession has recognized a number of specialty skills, in their surgery bodies, and so on. Our profession could do the same.

Some of the specially skilled areas in our profession are so complicated that it seems to me the public is entitled to some indication of the particular skill of a CPA in these special areas. There should be some criterion, some sort of standard which the public can recognize, to indicate a person with one or another of these specially developed skills.

One CPA, no matter how brilliant, cannot be expected to know everything to the ultimate degree of perfection, in all the varied aspects of our profession today. This is where a large firm has an advantage; it can have on its staff specialists in many different fields of accounting. Business today is becoming so complex that it takes a large firm, with all of these specialized skills at its command, to deal with the many different accounting problems.

P. It isn't sufficient, any more, just to get your certificate and hang out your shingle. That, for the advanced accountant of today, is only the beginning. The accountant has to develop a strong sense of professional responsibility. If one accountant does not properly regard the standards, it is bad for all. What we are concerned with, in cases where the highest standards are not properly observed, is really a lack of professionalism. We have not faced up to this adequately.

I think the licensing of bookkeepers and of preparers of tax returns is going to be with us from now on. The question is being brought up in many places. We should prepare ourselves for this.

P. What is the role of the academic world in business and industry, and in government? Business management today is far better educated than formerly. Young men now go to universities to study business administration, and often obtain the degree of M.B.A., before they venture out into the business world. Education in our profession must keep pace with this upgrading of education in business management and methods.

We have amongst us, in the group sitting around this conference table, several M.B.A.s. I think that in the future we shall see this more and more frequently amongst CPA's. In fact, as time goes on, it may become almost a requisite for our profession, if its services in the capacity of advisers to management become greatly extended.

P. We say that we need a broader definition of the attest function. ^{S. 1171} Would this cover all the services we render in our profession, or should there be a broader definition to cover everything that we do or ought to do?

P. Perhaps I did not develop my thought quite clearly enough. I think the attest function has, in its broadest perspective, a very wide application in terms of the public accounting profession. I think its use could be made considerably greater than it is at present. However, I am not trying to cover the CPA's who are not in public practice.

P. You are excluding them?

P. In my proposed definition, this is what I am doing. But I personally believe that the public profession of accountancy is one thing, and the practice of other kinds of accountancy is another thing.

I think the English have done an excellent job, in developing the difference between a cost accountant, or a working accountant in a corporation, and the chartered accountant who comes in to examine and report upon the financial condition of the corporation for the purpose of reports to the stockholders, etc. I believe our responsibilities, as independent practitioners, are quite different from those of a corporation accountant, and we should not try to tie the two aspects of accounting together under one heading, or one definition.

When we speak of management information to be provided by the accountant, I am speaking of the practicing CPA. The attest function has the same social and economic connotations that teaching and research have, though in a different field of activity. It is for the guidance of the public and of management. You might almost compare it to spiritual guidance in religious terms.

This becomes an economically and socially significant concept, upon which we can base our profession. From this, we can derive other things that properly belong with it.

Just because an attorney's main function is to deal with laws, this does not mean that he cannot advise businessmen how to run their businesses better. Many an attorney does just that, and they are generally known as corporation attorneys, or attorneys practicing in the field of corporation law. They advise their clients how to operate their businesses in such a way as not to run counter to any of the laws which may affect them in their particular business, and how to comply fully with the law in all their dealings; this is a protective service, and its value is fully recognized by businessmen, many of whom will never take a step without consulting their lawyer. But the attorney does not have the attest function.

From our attest function, we can derive the same kind of public recognition, and the same kind of professional standing. Also, through that function we derive a great deal of very special knowledge and background experience. These should be of much value to a businessman who needs professional advice based upon varied experience.

We should, at the same time, expand our competence by better education and a broadening education. This will enable us to provide these special services to management that management needs for its success.

I think we should get into other areas which are not just quantitative. I am sure each one of us here is evaluating the activities of the bookkeeper and the controller in a business, and deciding whether or not they are doing a competent job. We also have the responsibility to provide this service to management.

P. Your definition is not merely a restrictive one, then?

P. No - its purpose is principally to represent a goal. I think we should

emphasize a qualitative approach in our work, instead of merely a quantitative approach. I think there is a fairly general lack of qualitative approach at the present time. It is true that the quantitative approach has an aura of actuality, and would appear to have more validity; but on its own it may not be entirely valid. In fact, it may even be misleading - because of the effect of such things as personnel problems and other factors in human relations, which often greatly influence business success. I think there should be a way for us to take these things into account.

P. Perhaps what I would most object to is what George has called the extension of the attest function. I think that perhaps public accounting should be broadened; but I question the extension of the attest function into areas where we could not rely on quantitative values.

It is one thing to advise management on matters, and to have management either accept or reject your recommendations; but it is another thing to state that, in your opinion, certain results would follow from this or that, if the recommendations are not followed.

I would certainly agree, however, that as a profession we still do not measure up to other professions such as medicine and law; but this is largely due to the fact that the public mostly sees us as being the senior bookkeeper and the preparer of tax returns. We are both of these - but we are so much more than these. So we need to make sure that in the eyes of the public our standards of performance are distinctly higher than these branches such as bookkeeping and tax-preparing.

Licensed bookkeepers and tax-preparers might be a good thing; but we should recognize the fact that at present our profession is seen by the public as one of licensed bookkeepers and tax preparers.

P. You might say that the concept of the accounting profession is to measure, use, interpret and evaluate financial and other economic data, as required by business, government, financiers, credit grantors and other organizations, for management and control, and for reports to stockholders, government bodies, and others concerned.

We need to get people thinking in terms like these, so that we could paint a bigger picture which would have more social implication; then maybe we could overcome some of the stigmas that are held against us. That is why I think a proper definition of our aims, and the services we perform, is so very important.

We cannot get anybody to agree precisely on a definition as to what we do; but we do need to develop something that is clear and definite, so that one can say, "This is what an accountant is" -- or, more precisely, "This is what a Certified Public Accountant is". At the same time, of course, this definition should not be too closely confining; it should leave room for the necessary flexibility to meet changing circumstances.

P. We have compared ourselves to other professions. We should also consider whether the other professions have one central Board that programs exactly what all members of that profession shall do. Speaking of our own profession, this is not the case.

In the matter of long-range planning, I believe some thought should be given to having our profession governed by one Board, or by one Society or the other - perhaps, by both -- so that one group does not speak for only seventy-five per cent of us, but for the profession as a whole.

Today, the public is confused as to where they should turn if an

accountant does not measure up to certain standards. Suppose he is not fully competent in the execution of his duties, what measures can they take - other than to change their accountant for the next time. But then, how do they know what accountant to choose?

And, if they have reason to be particularly displeased with the performance of an individual accountant, how do they make an approach to the State Board? How do they get to do anything about it? What disciplinary action can be taken?

There should be one group that can speak for all of us, and not just for a part of our profession.

One can talk with a fellow practitioner, and find that he has no interest in joining an organization that is not for the benefit of all of us. He is quite content just to concentrate on his own practice, and is not interested in what a central organization might be able to do for him and for the profession as a whole.

One may say that each has a right to his own preferences and to his own attitudes; and some people are naturally "loners", and perhaps they get along very well and they see no reason to expand their field of interest.

Certainly, our profession has room for the individual who is carrying on his work well and honorably, even though he may be of a nonconforming disposition; we would not want to force him into an ironclad discipline that might be unsuited to his temperament. But I think it may be said, in a general way, that public respect for our profession will come about if we all stick together in organizing and maintaining the highest standards of the profession - and if we uphold the A.I.C.P.A. and the State CPA Societies, and maintain the standards set for our profession by these bodies.

P. Is it possible that we may be thinking of one definition for what we, as accountants, do in the course of carrying out our purpose of serving our various clients to the best effect possible; and, secondly, of some definition that you could put into State law, which would enable a State Board of Accountancy to govern the profession as a whole?

The movement (for a State Board?) has come more from the Public Accountants than from the Certified Public Accountants in our state - that is, in Oregon.

I think that in State law, we might have a different definition of accounting than what we have been talking about here.

A year ago, the Legislature took another look at the law that had been passed ten years before, and found that it was quite out of date in many respects, in regard to the activities of accountants today. So, if we seek to pass a law which defines the activities of our profession very closely and very specifically, we might be limiting ourselves far too much. This might even prevent a desirable growth in our profession which may be necessitated by the swift changes and tremendous expansion that are taking place in the business world these days.

P. I think that ideally we ought to be self-governing, rather than being governed by an agency of the State.

It is true that accountants do have a responsibility to the public as a whole, as well as to their particular clients; and certain given standards of competence and integrity should be expected of them.

For example, many people who hold themselves out as bookkeepers are incompetent; certainly, we should take all possible steps to ensure

that this cannot be said of anyone who is a Certified Public Accountant.

But, if you are going to put it into the form of an actual law, the processes of administering the law are going to be very difficult, because everything must be subject to precise definition.

I would certainly hate to see the practice of public accounting and the ethical values of the profession reduced to the level of law by tight definitions.

The rules of the State Board of Accountancy in California provide that members of the accounting profession must not advertise by any advertisement that is misleading; but, by this rule, an accountant can advertise, as long as the advertisement is not misleading. However, the State Society prohibits advertising of any kind. So you have differences right there.

I think that self-discipline is better and more practical, in the long run, than an actual state law would be.

P. The State Bar is a quasi-official organization of the State, in California, with regard to attorneys - and all practicing attorneys must be members of the State Bar. Do we want to have something of the same kind for the practice of accountancy, of which everyone must be a qualified member, or he cannot practice?

One of the interesting things in California is that you can be kicked out of both of our organizations, and yet you can keep right on practicing -- you can keep right on going, as long as you don't sign an Opinion.

P. Getting back to the future of our profession, and the expanding scope of our profession, and the question of how we are going to define exactly what we do: It is estimated that kids going through the sixth grade in

school today will have a choice of occupations when they graduate, one-half of which we have never even heard of. This is a very striking estimate of the speed with which new kinds of business, and new facets of the existing businesses, are coming into being. New developments in business are continually calling for new skills and for specialized talents which have to be developed to meet the need. This applies just as much to the practice of our profession, as it does to business which we serve.

Therefore, if we were to have a law passed, limiting the practice of accountancy to precisely what it encompasses today - even in its very widest perspective - we would almost certainly find such a law far too constricting in just a few years from now. That is because we do not have any way of knowing exactly what the next few years may bring, in the development of new kinds of business which will bring the need for new approaches for the new problems that will have to be solved.

P. A speaker from the Travelers Insurance Company, at a meeting just the other day, remarked that in educating people today, we do not know precisely what we are educating them for. We cannot fully foresee what are going to be the needs of business, ten years hence.

Business is changing and expanding so rapidly, and each year it is calling for new aptitudes and new skills, many of which were never heard of five or ten years ago. So it is very true that, in looking toward the future - specifically for Certified Public Accountants and for our profession as a whole - we are trying to project ourselves into the Unknown.

But one of our chief purposes today is that we are trying to come up with some recommendations to the Council of the Institute, as to what the

the American Institute of CPA's and the State Societies should be doing to prepare accountants for these future needs. So the essential questions we need to ask, in order to arrive at these recommendations, are:

Where are we going? and What should we be doing to prepare our members so that we can reach those goals?

P. I should not like to see the Attest Function extended beyond objectivity and measurable evidence. If our profession has anything to contribute in this great expansion that is currently taking place in business and industry, it is along the lines of objective measurement. If we go into subjective fields, I think we shall destroy ourselves.

P. In making a definition of accounting and of our functions as accountants - aside from the problems of professionalism, it is a matter of determining what we are to do. If our practice is too narrow at the present time, we need to broaden out - but not to make it too broad, so that we go beyond ourselves and beyond the scope of our profession. That is another reason why some definition of the scope of our profession is desirable.

P. There is a question, too, of what can we do to improve the stature of accounting in the eyes of the public, so that we may achieve the same sort of respect as the professions of medicine and law?

One of the main reasons why the public does not regard us, or our profession, so highly as they do the medical and legal professions is that the members of the general public do not have a clear understanding of what we do. Also, they do not understand how the services we perform affect them or their interests. We need to make these things known and understood.

Sign

Firstly, we need to come up with a better concept of what public accounting is. Some of us seem to connote a narrowness of definition that others of us do not want to live with. This variation makes it rather difficult for the general public to understand exactly what a CPA does, or is supposed to do. Of course, it is true that a small CPA firm, working with a lot of small business clients, does work within a much narrower concept than is the case with some of the larger firms which offer a wide variety of specialized services to their clients, whose needs are very wide-ranging.

Management of big businesses today find the need of advice in a great many aspects that never enter into the picture at all in the world of a small manufacturing or retail business, for example. Yet certified public accountants may serve small businesses in one way, and may serve Big Business in many other ways - yet still within the profession of accountancy.

Secondly, we should ask, Do we have to expand the concept of accounting from what it has been in the past, in order to encompass what it may become in the future?

Perhaps we should extend the attest function into other fields.

At this point, the meeting adjourned for fifteen minutes coffee break.

* * * * *

Williamson

Upon returning to the conference table, the Chairman asked Dick Williamson to address the group on Topic No. 2.

CHAIRMAN: As one of our profession who is now engaged in education, being Associate Dean of the Graduate School of Business Administration at the University of Southern California, Dick Williamson is well qualified to enlighten us as to the question of "human input" needed for the future.

DICK WILLIAMSON:

IN THE LIGHT OF THE PROFESSION'S GOALS, AND ITS
OWN CONCEPTION OF THE NATURE AND SCOPE OF ITS
PRACTICE, WHAT TYPE OF HUMAN INPUT WILL BE
NEEDED TO MAKE ACHIEVEMENT OF THOSE GOALS
POSSIBLE ?

First of all, I think that perhaps in this area we need to commence with some limitations. Then you may wish to expand from those.

We are not here talking about specific education. Standards of competence will be covered in the next topic. But standards of competence and standards of performance may have a relation to education, because it is largely through education that we may improve the standards of performance.

For the moment, I would like to pass by the common body of knowledge that is to be expected of any accountant. This is basic, and is covered in the standard accounting studies and in the knowledge that is gained during his working experience while preparing for the CPA examination. So obviously we are not talking about the common body of knowledge under this heading.

We are not talking about quantity, either; but rather about the type of people, or the quality of the people, who will be needed in order to achieve the goals which we foresee for our profession in the years to come.

The words "Human Input" are used in the topic heading assigned to me. The first thing we need to ask is, What do we mean by Human Input? Exactly what are we talking about?

One could argue that the human input of the future, in terms of people, will be pretty much like the human input of the past. Have people

really changed much over the centuries? Or are they still much the same?

People still have similar strengths and weaknesses. Human nature hasn't really changed very much. Some are intelligent, some not; some are perceptive, some not; some are honorable, some not so honorable.

Has there really been much of a percentage change in these different types of people? Will there be much change, percentagewise, in the next ten or twenty years - or fifty years? We will have a much larger population to draw upon - but will the percentage of the population be much different as to these different kinds of people, from what it is today?

In other words, will we really be any further ahead in regard to the resources for "human input" which we shall need to draw upon for our profession and its expanding goals? From this point of view, one may say that our problem is: How to get a larger share of people with suitable known qualifications, and attract them into our profession?

You can say that it takes certain qualifications to become an accountant, and still further qualifications to become a certified public accountant. Not all good accountants are CPA's -- nor would they perhaps want to be. But our purpose is to endeavor to define what type of person it takes to make a good CPA, in the light of what we perceive to be the goals of our profession today, and as it develops over the next decade or so; and then to decide how to attract a larger share of these people toward the prospect of becoming a CPA; and how to develop them to fulfil that purpose effectively, so that they can grow with the profession into the new spheres that will open up with the expansion of business and industry that is taking place at the present time.

While it would seem that people are pretty much the same, from

one century to the next, nevertheless many changes do take place. Human institutions have changed. Standards of conduct change, and so do standards of morals. Some changes take place, even in standards of ethics. To what extent is this evolutionary? And to what extent is it influenced by institutions, such as church, state, etc., or by education? Or by professional organizations, such as ours?

Should we postulate that it is anything more than a blind determinism?

Standards of education, particularly, have changed notably during this century. Our century has brought education for the masses which, in many respects, far exceeds even the education that was available for the favored few in earlier centuries. It has also brought educational opportunities for people who qualify, which go far beyond the limits of any education available even to the most brilliant students of former days.

So far as standards of honor, integrity, discipline, intellect, and independence are concerned, could not we, as a profession, set rather high examples so that some who might otherwise be inclined to follow other patterns may be influenced to follow the patterns that we suggest? -- and especially if we draw up certain standards which can be generally recognized? I believe that if we set up standards in these areas, many who might follow lesser standards would be attracted and would rise to the standards we believe in.

One of the things that troubles many people at the present time is that there appears to be a very widespread disrespect for law and order. This is a matter for deep concern in many circles, because it seems to be a growing tendency. It also seems to apply in all levels of society; it is

not confined to the deprived and the underprivileged, as was mostly the case in former times. It seems to be a symptom of our times, and some of our historians, such as Spengler, are prophets of doom; they are already very pessimistic about our civilization approaching its destruction.

Toynbee, on the other hand, suggests that we can do something to improve conditions in the future. He suggests that by inspiration and high example people may be inspired to a greater respect for law and order.

Can we, as members of a profession which holds forth high standards of conduct for its members, do our part to stem the tide that is apparently tending to increase the general disregard for law and order, morals and ethics - and which now threatens to engulf our civilization, if we are to accept the views of many authorities?

It is estimated that the lawless, or non-law-abiding, section of the population (those most inclined to disregard laws and standards of ethics) represents probably 30% of the total population. Some rate it even higher.

This would imply that we have approximately 60% to 70% of the total population to draw upon, in our search for your people to enter our profession.

Out of those, we have the problem of attracting the young people who, by nature and certain inborn talents, happen to be suited to enter the accounting profession. Then we have the responsibility of educating them to take their place effectively in this profession, of developing their abilities and their vision, so that they may carry the profession forward to meet the challenges of tomorrow.

How do we go about selecting these young people? How do we recognize them? What should be their qualities?

Then, having described them so that we can recognize them when we see them, how do we attract them to enter our profession?

Well, let us take a look at some of the factors which people bring to a profession, and try starting from there. Knowledge, aptitudes and skills, for instance. What are some of the knowledge requirements of the people that we seek? What should be their particular skills and capabilities? What aptitudes should they show? Do these need to be much changed in future?

It is, of course, pretty well basic that a young man entering the field of accounting must have a liking for mathematics, and somewhat more than the ordinary ability in that field. He should have a certain degree of skill with figures, and an instinctive grasp of their implications.

While it is true that accounting today is becoming less specifically accounting than it was ten or twenty years ago, and the activities of an accountant are beginning to spread into many other areas, such as management services and EDP, in the larger aspects of accounting practice -- still, in the first place we are dealing with figures, and the application of those figures for the guidance of management, credit grantors, stockholders, and so on. So the aspirant in accounting must have, first of all, a real interest in working with figures and the ability to do well in mathematics.

At the same time, we prefer that an accountant should not be a person of narrow views, incapable of scanning a broad horizon. Today many other factors are entering into the practice of accountancy. Often these are very closely interrelated - such as the interrelation of economics and accounting. So we have to try to attract people who are not solely confined to an interest in figures and the mathematical sciences, but are at the

time capable of seeing beyond these into these larger horizons that are now opening up, in connection with the tremendous expansion of business.

Many new demands are being made upon accountants for interpretation of figures, and the man who sees a column of figures only as figures may not be well equipped to enter the higher levels of accounting practice as it is today, and as it will become in the next ten years.

I think, in order to develop this breadth of view and a wider perception, it is necessary for our young accounting students to include in their studies a number of subjects other than accounting and mathematics. These things are, of course, basic; but a number of other subjects are becoming also very important and, in course of time, may assume a growing importance in the background knowledge of a CPA. An accountant who is asked to advise a client on certain management problems, for instance, may be very much handicapped if he does not have a considerable understanding of people, and their prejudices, and their motivations. This may indicate that somewhere along the line, he should include in his program of education some studies in the behavioral sciences. He should know something about the principles of psychology, and "what makes people tick".

It has also been found that young accountants who have gained a degree in the liberal arts, before turning to accounting, have acquired certain mental disciplines and depth of understanding from their other studies. This appears to make it easier for them to pick up an idea quickly, and they can go through their accounting studies much more easily and quickly than another young man of similar type who has not had such a background of general studies. The more education one has had in other fields, within reason, the easier it seems to be to acquire the knowledge required in accounting.

I say, "within reason" -- because it naturally follows that, in most cases, where a young man has taken his education very far in another field, he is not very likely to turn to accounting; he will be much more likely to continue in the direction he is going already. However, there are some exceptions even to that generality; and we do find that some people who have done considerable studies in economics, for example, later decide to become accountants. On the other hand, we also find that some accountants later decide to go into economics, or to become statisticians. All of these fields, of course, are somewhat related, and one can easily see how one may lead into another - according to the circumstances and according to a person's particular interests.

However, I believe very strongly that the more generalized the background of knowledge the accountant has acquired, the more successful he is likely to be as an accountant -- and I believe that this will apply all the more, in the next ten years and twenty years, because the fields of interest for our profession are expanding so rapidly at the present time. I think all young accountants should be encouraged to go out and get as much education of a general nature as they possibly can; it will all be useful to them.

I recently had a student from Asia in my classes. When I tried to interest him in corollary studies, such as economics and business management, as well as other things like behavioral science, he said that he wanted Accounting, and Accounting only. This is what he had come from Asia to learn, and he counted all time wasted that would be spent on anything else. Well, that is one view; but today Accounting is becoming extended to the

point where it is beginning to include a number of other disciplines, and to disregard them is to limit oneself too much in view of the demands being made upon our profession today, and this will be even more the case in future.

For some kind of definition of what we are looking for in prospective accountants, we might mention: Good judgment, common sense, a sense of balance, creativity, maturity, rationality; ability to think logically; and ability to find ways to achieve the ends desired, etc. Many people have special gifts in these respects - but they can also be largely achieved through studies and education.

By way of developing these other desirable qualities (given the basic ability in the field of figures and mathematics), which is better: Liberal arts, or Business studies?

Educators now think that even quite unrelated subjects may have a notable influence on one's ability to develop new ideas in one's chosen field of endeavor. The study of a play by Shakespeare may increase a person's sense of balance and proportion, and this will improve his performance in his profession. It will certainly contribute much to his wisdom. To memorize passages from Shakespeare, also, is an excellent form of mental discipline; it is an exercise for the brain which will help to increase its powers in other fields. Besides, you can bring out a quotation from Shakespeare that suits a particular occasion, and this may make a very considerable impression on your clients! In fact, this is one of the best ways to create a good impression of educational background, provided it is not overdone, and it may even have its uses in the practice of accounting.

I think we would all agree that, in the old traditional sense of the

Accounting is moving away from its original concepts. In order to keep up with this trend, the study of other subjects than accounting becomes really essential for the accountant of tomorrow. Some education in the liberal arts - the kind of thing which liberates the mind, instead of forcing it into narrow channels - can be very valuable to young people entering the profession of accountancy.

I know of a man who took only sixty units in accounting, out of a hundred units in his studies. That is, forty units of subjects other than accounting, when he was intending to become an accountant.

We may ask, are other subjects becoming a part of the study of accounting - or are they merely a sort of background information?

Take the area of economics, for example: The academic study of economics is fairly old, going back to Adam Smith in 1776. The modern accountant has developed the "economic study of the firm". People have argued that this is just pure theory and that it doesn't work; but we are now talking about incremental revenue and differential costs.

If we are going to become economists, we would have to change our terms. The economist is talking about different goals. Depreciation, for an economist, is not cost. If your depreciation is a function of time, that is a past cost. Depreciation, on the other hand, might be defined as an opportunity cost. What do you give up in order to follow a course of action? Some kinds of statement may require a redefinition of cost.

It seems to me that in meeting the needs of management for information, maybe the economist has got something. If we understand more about economics, we may be able to do something here and make a useful contribution. An understanding of economics will have quite a bearing

national income accounting, as well as in many aspects of big business; and the use of economics in relation to accounting will probably increase in the next few years. So I feel that the accountant of the future should have some studies in economics in his background - at least, sufficient for him to understand how his work in accounting relates to the science of economics, and vice versa; because I think he will find that some of his work will involve a certain amount of knowledge of economics.

What do we want, and what are we likely to get, in the way of new recruits to our profession as they come from the nation's schools? What is happening with our students today? In high schools, as well as in the colleges?

I find that in many respects, the education youngsters get in the ordinary schools today is quite astonishing. When my kids come home from school, I find that they are learning mathematics that I didn't even get in college. They are getting an introduction to calculus, matrix algebra, set theory, linear programming, and the probability theorem. This represents pretty advanced mathematics.

Another thing that is characteristic of today's young people is that they want to challenge everything, and will question anything. They want to challenge the established order in everything, and see if there is not some way that it can be done better and more efficiently. They are impatient, if you want to put it that way; they will not be content to go slowly but must devise quicker ways to reach their goals. Perhaps this is because the breadth of all the fields of knowledge is increasing so greatly, they feel that there simply is not time to take the slower way about anything.

I used to say that you don't have to know a great deal about mathematics to be an accountant, and you could get by if you knew just plain arithmetic. That may have been true twenty years ago; but it is not so any longer. You will find students coming to you in the future well grounded in calculus, matrix algebra, etc., and they are going to be able to solve some significant problems with this material. They will also learn how to use computers for rapid solutions to a lot of problems. And if they have had any engineering studies, you may also find them using the slide rule.

These things are now being taught in the schools, and the kids will want to find a field in which they can use the knowledge they have gained in school. They will ask, "Where can we apply this in inventories? How can we shorten the process of auditing? How can we accomplish it with less work and less time than it has involved in the past?"

You will also find that the modern businessman will have a tendency to use these more advanced mathematical techniques, because they, also, will have learned something about them while they were at college, or even in high schools. I was talking recently to a cross-section of business executives in the Los Angeles area, and we were discussing cost-profit-volume relationships. I went through the accounting model, the conventional approach. One man said, "Wouldn't it be simpler to do this by linear programming?"

I had to admit that it might have been simpler; but I explained that I was trying to show them how it had been done in the past. Perhaps tomorrow it will be done by linear programming, or by other mathematical approaches which will involve a considerable saving of time. This is just

by way of showing you that the kids now coming along in today's schools are not going to be satisfied with the old ways of doing things. They will want to use the new methods they have been learning; and this, in itself, will bring about considerable changes in accounting practice.

As a result of these changes, and by means of these new methods that tomorrow's accountants will use, they will be able to handle a larger volume of work commensurate with the expansion of business and industry, more efficiently than in the past.

Now, let us consider Accounting and the Behavioral Sciences:

I was very much interested in what Jack Carey had to say about this in his book, "The CPA Plans for the Future". And, in educating the young accountant for the future, in addition to economics, which is clearly related to accounting, some people will feel there should be some instruction in the Social Sciences, Psychology, etc.

Do these contribute to Accounting? I would be inclined to say that an accountant who has some understanding of these subjects will be much better able to understand people, what they are doing and what they are aiming at. This will be of great value to him in his profession as an accountant. It will not only help him in his relations with his fellow-accountants, and with the people on his own staff; it will also be helpful in dealings with his clients - and it will enable him to advise his clients more effectively in the field of business management, personnel, etc.

Some of the criticism leveled at accountants is based on the feeling that they are too remote - this is apparently a fairly general opinion as the general public sees us. Studies in the social sciences and behavioral

science should contribute to making accountants seem more "human" and better able to work with people. This, in the long run, should be very advantageous and it would help to improve the "image" of the profession as seen by the public.

Again, if accounting is expanding in its scope so that we shall be asked to serve as consultants in government, as well as in business spheres, we may to have on our staffs people who are political scientists and experts in government administration. For this, some studies in political science would certainly be needed.

Also, if our profession is going to expand very much in the field of management services, the question of dealing with employees in the offices of clients will become important. We shall be asked to assist in problems of personnel. It is conceivable that in some large accounting firms it may even become advisable to have a psychologist on their staff, or they may need to draw on the services of a psychologist as a consultant from time to time. Some of these managerial services will involve opinion polls, and these would ordinarily be drawn up by a psychologist.

Then, in the matter of production control systems and in the field of industrial management, it is very possible that we shall need industrial engineers on the staff of accounting firms. We shall also need people who are specialists in systems work, and experts in the use of data processing and computers, and experts in communications theory. The total information system of a large company will call for all of these skills.

To what extent should the young accountant seek to prepare himself for all of these possibilities - for all the different phases that are developing

in the regular practice of accountancy? And what does all this mean to us, as partners in firms looking for young men to take into our organizations and build up for the needs of the future?

We have, of course, a tremendous need for people with a high standard of honor and integrity, with a broad education which will be applicable to problems of a general nature, and with education in depth in certain areas.

Should it be the function of the universities and the colleges and schools, to provide the breadth of education needed, together with education in depth in certain required subjects? Or should they only be expected to give the broader type of education, while special courses would cover the subjects where education in depth is needed? And how much of this education of the young accountant should be the function of accounting firms?

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P. I noticed your observation about behavioral sciences. If our function in the future is to assist management in its performance, accountants even now are actually participating with them in their conversion programs - particularly in data processing. In this sort of thing, the knowledge of human motivation and behavioral patterns and things of this nature can quite often make the difference between success and failure of the methods one is recommending. It is that critical.

P. One of the major problems of management in these times is: How to handle changes in an organization? The behavioral sciences can

be very important in this respect. You could very well be right, that we may have to work along with management on that.

P. I have found that, when you make recommendations to management, the client often says: "Let's put your recommendations into effect!" And I have found that that means YOU - as well as himself. Hence, the success of any recommendation you may have made is very likely to depend on how well you, yourself, can handle the people who will be involved in that change, and how effectively you can persuade them to cooperate in what you are trying to accomplish. Often you come up against the pretty general human instinct to keep on doing things in the same way they have always done them in the past. This can be very difficult to overcome

The longer a person has been doing things in a certain way, the more difficult it is going to be to persuade him to take a different approach. Unless you have a considerable understanding of his attitudes, and you also have the ability to speak persuasively and convincingly, so as to overcome his natural prejudices against any change, you are never going to be able to succeed in showing him that the new way is superior.

When you have to deal with a situation where the installation of a change in method is going to involve a considerable number of people, all with their individual prejudices to be overcome, this can pose a really big problem in the field of human relations.

So much change is taking place in business methods nowadays, we are likely to be faced more and more with this kind of problem, and we should try to prepare our people so that they can handle these situations effectively. This may make some studies in motivation and psychology

very desirable for an accountant as we enter the next decade.

P. You would be, in effect, making a person to some extent a practical psychologist - and yet that person is primarily an accountant.

P. Yes, that is true; but, in regard to business today, with its fast growth and consequent need for major changes in procedures and techniques, the abilities and understanding of a practical psychologist are often very desirable. In fact, if one is to carry out the purposes of an accountant really effectively, it may often be very necessary.

If you do not have this ability, how are you going to persuade your client, in the first place, to change his methods when you can see that a change is necessary for the progress of his business?

Then, once you have the client convinced, there are the further difficulties of persuading his employees to accept the proposed change - and it is very likely that this job will fall to you.

It is often not sufficient just to make an announcement that a given method is going to be changed. One has to get the willing cooperation of the personnel who will be handling the procedures involved - or it will only lead to general confusion. It is necessary to be able to explain very clearly to them just what will need to be done, and how they should set about it in the new system, so that they will understand their instructions and will be able to carry it through properly. Sometimes it may be a matter of semantics. If some people fail to understand your explanation, it can lead to sheer chaos.

P. In looking for promising young men for the accounting profession, I think we need to think not only in terms of what is required to make an accountant, but of what is required to make a man.

As an illustration, we have maintained some statistics, over the years, as to the people who leave our firm - and particularly the ones who leave because we ask them to leave. According to our records, somewhere in the area of 80 to 90 percent of the young men who leave us at our request do so because of personality problems, because of inability to make adjustments to the profession, or because of inability to get along with the people they come into contact with, whether in our own staff or in the offices of clients -- rather than any inability to make proper debits and credits. Their difficulty is that they cannot get along well with people.

At first glance, this would not appear to be a prime requisite for the practice of accountancy as a profession. It is certainly not the first thing that comes to mind. when one is contemplating adding a new man to the staff. One naturally thinks more of ability with figures and mathematics.

Yet I would agree that the ability to get along with others, and to work alongside them in harmony, is an absolute requirement for success in any activity or profession; and I think it is particularly necessary in our profession, where we actually have to go and work in other organizations, and work alongside the client's personnel and on the client's premises.

At the same time, I do not know exactly how we are going to try to educate a person for this purpose. A lot may depend on his family, on his early upbringing. If he has been raised to have good manners in his home, he will presumably observe good manners in carrying out his work,

and this will go far in enabling him to work harmoniously with others. Some people have an inborn tactfulness, which enables them to deal effectively with all kinds of situations that may arise in working with others.

Perhaps some study of the behavioral sciences would be helpful - although, for the most part, it would appear that some people just naturally have this ability to get along with people, and certain other people do not have it. But perhaps there may be ways by which it can be developed, even in people who do not have it to begin with. This may be worth some study.

P. In education, you are trying to prepare a man for life. Unless a man knows how to get along with people, he will be something of a misfit all his life. Therefore, a broad education for any profession should preferably include some guidance in the art of getting along with people, and this might include some study of psychology and motivation and the behavioral sciences.

You are also trying to give a young student a better opportunity to develop himself in a business or profession. In our profession, we want the better men, and it does seem that a good understanding of other people, their motivation and their ways of thinking, will help to make a better man of an accountant, who has to work with a great many people in the course of his various assignments.

So the question comes about: Is this a part of Accounting, as accounting - or is it a part of being a better man?

P. It is, of course, a part of a man being a better man. But it is also a part of accounting, because we want the better kind of men in our

profession. The higher the percentage of men of the superior kind we can attract into the profession, the better and more effective we shall be as a group. In the long run, this will have a very considerable effect in improving the image of the profession in the mind of the public, which is one of the important items on the Agenda of this meeting.

P. When we find it advisable to recommend certain changes in a client's organization, or in his procedures, we often have to be able to convince not just one man (as in a small business), but a whole group of people. And unless one can convince the whole group about the advisability of making a change, the recommendations will not be accepted; so one has to be able to gain the approval of the group. What does this require?

First, it requires an ability to speak convincingly to a group - to lead a conference, to express oneself clearly, and to make an effective appearance at a meeting. You might say, it requires some training in the art of public speaking. It calls for an ability to be persuasive and convincing when speaking on one's feet. This is one field in which lawyers have traditionally been much more highly developed than most CPA's. Somewhere along the line in their preparatory training, lawyers seem to develop the art of public speaking, and speaking effectively to convince their hearers. I think this is a definite lack in the training given to accountants, that they do not seem to be given any opportunity to develop that ability.

All lawyers seem to have it. I think all accountants should try to acquire the ability to speak convincingly, and to address a group and hold their interest. One may, from time to time, be faced with the need to gain the approval of a whole group, or else a recommendation will not be well received.

P. For the purposes of working effectively with other people, and especially with people in the clients' offices, perhaps the social sciences may be of assistance. However, it is scarcely conceivable that someone who has devoted a great deal of time to becoming a CPA will also have acquired a doctorate in the social sciences. There just isn't sufficient time in a person's life to do this. But some amount of study of the social sciences may be desirable in the general education of a CPA, in order to give him some insight into the attitudes of other people whom he may have to deal with in the course of carrying out his work in his profession.

At what point, in the development of a firm, should we bring in someone who does have a doctorate in the behavioral sciences? I am inclined to think that such a person would only be required in a very large firm, and possibly his services could be borrowed by lesser firms, if the occasion should arise where they might find themselves in need of such a person.

Certainly there are times when we find ourselves concerned in a number of activities which are outside the range of what we are generally trying to do. In some of the larger firms today, they do have people who have training in fields not ordinarily included in accounting - because the larger firms often do find themselves being called upon to assist in problems which were never envisioned in the basic training of an accountant; so they are beginning to find that they have to have some men with very highly developed special abilities, to deal with the complex problems that come up in connection with the very large organizations which are their clients. On the staffs of some of the larger accounting firms, one may find men who

have started out as engineers, or industrial engineers. You will find, perhaps, some statisticians and some economists. You will find some people who have made a special study of business management, some MBA's. In the tax department, you are quite likely to find some lawyers, who have a special interest in tax law. You may also find some people who have made a special study of computer sciences. You may even find people who have specialized in the problems of human relations and personnel. This is an indication of the wide scope of knowledge that may be called for in the modern practice of accountancy.

CHAIRMAN: Has anyone any further points to bring up, in regard to the talk given by Dean Williamson on this topic?

P. I was a little disappointed that you did not give any importance, in your talk, to the need for an ability to communicate.

It seems to me that the legal profession is much more adept in this area - whether it be the ability to write a letter, or to conduct a meeting, to speak convincingly, to communicate ideas, etc.

S. I would agree with you that the ability to communicate is almost paramount as an ingredient amongst the qualities that are required for success in our profession.

I have sometimes told the kids in my classes: You are brilliant; you have brilliant ideas - but you don't know how to communicate them to others. Until you do learn how to communicate your ideas to other people, either by speaking or in writing, or both, you might just as well be stupid. Because these ideas are no use to anyone until you can get them out of your

head, and so expressed that others may grasp them and understand them and act upon them.

In the schools, in examinations of the objective type, the only thing a candidate has to do is read the text-books, memorize much of their contents or do a thorough job of studying them. Then he gets a paper full of questions which require only a True or False answer. From that point on, all he has to do is to make a series of check marks and put them in the right places.

He does not have to express himself at all. He does not have to put any actual ideas down on paper, nor does he have to make any logical development of thought.

He can answer the T-F questions quite mechanically; and as long as he gets a good percentage of the check-marks in the right places, he passes the examination automatically.

This is all very nice and easy for the people conducting the examination and correcting the papers and assigning the grades. By this method they can go through a lot of candidates' papers, in a very short space of time. In this respect, it has certain obvious advantages. Examination results can be much more quickly and easily compiled, than if the examiners had to work their way through a lot of essay-type answers to the questions.

However, it is unfortunately true that this type of examination does not give us any means of discovering how effectively a man can set down his knowledge or his ideas on paper. We actually do not know, from the results of this examination, whether the student is capable of writing a letter which is logically constructed and expresses convincingly the ideas he may wish to convey. Nor do we know whether he has any ability to address a group effectively.

I think our schools and universities should try to develop an ability in their students to set forth their ideas effectively, both orally and in writing. Many of the students in accounting courses do not know how to arrange their ideas in a logical sequence, or how to arrange their thoughts in such a way as to gain acceptance. This is a serious deficiency in their training and one that can have a major influence on their future success.

In legal schools they do a far better job of developing the power to express one's thoughts in a logical sequence. They are also interested in discovering whether a student is doing some legal research and legal writing.

In fact, the schools of law are now insisting that each student must have produced a paper for publication in a law journal.

I think this sort of thing is very important and should be introduced into the training of students in accounting. They should be encouraged to research subjects connected with accounting, and write a paper which might be suitable for publication in its Journal of Accountancy. If the article should actually be published, so much the better. Students of law gain a lot of credit by having articles published in Law Journals, and I think this sort of thing should be very much encouraged amongst students of accountancy. I think it could be one way of discovering which students are really outstanding and show particular promise for the future. It might be much more effective for this purpose, than a result based on a list of True-False answers to questions, which do not really demonstrate a student's ability to think a problem through, or to communicate any ideas whatsoever.

P. I rather think that the people I am associating with are looking ahead to a profession containing people capable of problem-solving in

business situations and management situations. Such people should be able to relate their thoughts and suggestions to the point of view of the people they are dealing with.

P. With a student, you are working with them, and there is a great deal of ground to cover, and you have to consider the periods of the life of an individual. There are certain years in a man's life for military service, and for studies, and for relating the knowledge gained in those studies to practical conditions - first, in a practical way, and then later in a supervisory way.

We are looking forward to acquiring the type of person who has had all of these experiences, and can relate the knowledge he has gained to the problem at hand.

P. There is obviously a complicated problem when it comes to finding someone who has acquired the broad basis which we are now considering in his background - and then providing a man who can go out and do a job for a client. I don't think we should overemphasize any one of the points we have touched upon. Rather, we should aim at a good balance between them - between them all.

P. Particularly in the future, we should make it clear to the educators and the students that there are more things needed for success in accounting than just a knowledge of accounting theory. They should get an idea of what is likely to be needed in the wider fields of knowledge and understanding, for the better practice of accountancy.

As time goes on, it becomes increasingly clear that the accountant

of the future will need to be a man of many parts -- or, at least, the firm will need to consist of a group of men of many parts, in order to offer a full range of services to the clients.

When I say "the future," I mean the immediate future -- not something far away in the distant prospect. Right now, our profession has room for people with many varied abilities and specialties.

Nevertheless, there has to be first of all the knowledge of accounting theory and practice, without which one cannot claim to be an accountant. I think the other specialties have to be in addition to that -- because, in our profession, they all have to be related to accountancy in the first place.

P. I have discussed this with many deans of colleges, and they all seem to have an idea that accounting is quite limited. It is hard to convince them of the need for any studies in other fields, for later application in the profession of accounting.

I think quite a bit of education of the educators is going to be required, in order to get a program of accounting studies that will give a broader base and will include all the other phases of knowledge that will be needed for the effective practice of accounting in the next decade.

P. Looking at all the different fields of business as it is at present, and taking into consideration the fact that these fields are all constantly widening in their scope, they present such a varied challenge that I think we cannot really hope to prepare people so well in the colleges that they can go straight into their first job and do it to perfection. It is going to take quite a bit of adjustment, even with a broader college education behind them; although I do think that a broader curriculum enables people to go

ahead faster in the profession. But I feel sure that, even with an expanded course of preparatory education, they will still need considerable on-the-job training which will have to be given by the CPA firm. They will still need to learn the practical application of their studies.

P. In educating the young accountant, we can only give them the tools to do the job - and especially those that will enable them to grow and learn and develop. The young accountant will pick up the specifics of what he needs, as he goes along, if he has the broader education to begin with.

I do believe that the broader kind of education enables a man to go ahead much faster, and more easily, when he gets into his training on the job.

P. Do you feel that this education could be improved by the Profession sponsoring a type of program and examination, where members of the accounting profession will work with people in the field of education and with the actual educators, to appeal to the young student and show him that the accounting profession is interested in developing him from the start - rather than just coming in at the tail end of his education?

P. Well, then we need to consider how you would get this idea across. Do you hold the student's hand and lead him along? Or do you show him a picture of the end, and then lead him toward that end by providing a recommended curriculum that is geared to the needs of the profession as we visualize it for the future?

I myself prefer the latter. I don't like the idea of teaching theory without any relation to practicality. I think you have to show the student

how it is going to apply later on. I think he needs some practical experience also, in the field.

I think you need to give the student some kind of exposure to real life, as he goes along. But, on the other hand, if you put a really bright student into a situation where he only has to write up purchase orders all day long, then I don't think he has learned a great deal.

P. No. On the contrary, a brilliant student who is capable of achieving a great deal in the way of advanced studies would be the most likely to become thoroughly bored and discouraged, by such an exposure to the more dreary procedures of business.

P. In one course, where we had the plan of having our students go into a business situation and work in that business during some of their college hours, we had businessmen say that unless the student could earn his pay (pay his way as he goes) by what he produced in the hours spent on their premises, then the businessmen were not interested in just having the student around.

In other words, businessmen were not interested in the project of educating the students in business methods, and especially not at the expense of getting their own work accomplished. They did not care whether the student gained in education, or not. All they wanted was to get more work done. If the student could go in and do a job, and do it well, that would be all right; but they did not want to take any time to explain things to a student.

P. You can read Schneider's book, and you would think this was the greatest thing that ever happened; but, in talking to the Dean of Cincinnati,

I did not gain the impression that this system had worked out so well there.

P. At Antioch they have been doing this for quite some time.

P. Yes, I know. But I don't think anything very great has been achieved by it.

P. I think this would be a useful angle: Have there ever been any studies among people who have been outstandingly successful, as to why they chose a particular field? Why they selected accounting, or a particular field of accounting - rather than law, for example? Or Accounting, rather than Engineering?

P. Strong, at Stanford, came to the conclusion that a number of factors govern success. After considerable research and inquiry, he found that there is a particular pattern of interest that runs through people who are successful in different fields and professions. You have to be very much interested in what you are doing, and deeply interested in the prospect of reaching your goals - whatever those goals may be - in order to maintain the impetus of work and study required to reach the top in any profession. Strong decided that this was the greatest single factor in leading toward success. Brilliance alone is not enough; there has to be the sustained interest over the long haul.

P. How are going to gauge the extent of a young man's interest in becoming an accountant, when he comes in and applies for a job as a junior and trainee? I have seen cases where young fellows who had this kind of sustained interest and were very ambitious to succeed in the profession

have done far better than certain others, who may have been much more brilliant and may have seemed much more promising in the beginning. I am inclined to think that this often applies; and I think it is extremely difficult to tell, at the outset, how a young man is likely to develop in the course of his work. Sometimes the brilliant student falls by the wayside when it comes to working on the job -- and the less outstanding prospect may go ahead and become very successful, simply because he has that drive for success which will serve to sustain his interest in his training, and then in his work after he gets out on his own.

P. Will the incentives and objectives that exist today attract desirable people into the profession?

And, if they are attracted, how will they best get the education they need?

P. There is the Joint Council for Accounting Education -- the various groups that have joined together to try to interest some of the students in high schools in accounting as a future occupation. I don't know what sort of success they have had. I am inclined to think that most of the youngsters in high schools today have never even thought of accountancy as a profession.

They do consider law and medicine, and engineering, and religion, and teaching; but I think very, very few of them ever give any thought to becoming an accountant. This is perhaps because nothing has occurred to stimulate their interest in accounting as a future goal.

P. About three years ago, we had a meeting in Oregon with the various deans and members of the accounting profession, to discuss what we should

like to have in the way of educating students to become CPA's. One of the deans said that CPA's had no right to tell them what should be taught to students intending to become accountants, or to try and attract them toward the profession.

But I agree with you about the need for education that will prepare students for the profession.

P. Some of the greatest problems we are now seeing spring from the two areas of the behavioral sciences and the art of communication. Without an understanding of these, a young man is severely handicapped in his desire to succeed in our profession. I don't mean that he should necessarily have a degree in either of these subjects - but how do you measure his abilities in these directions?

It is comparatively easy to measure a person's ability to enter debits and credits properly; but I don't feel that young men are getting enough education in the science of communications and the art of getting along with people.

P. Are there certain areas in education where we, as a profession, should be more aggressive in working with the Deans of education in an effort to shape the various courses that students should take, so as to produce accountants of well-rounded background, for the future? Should we perhaps lobby for this?

P. I think, if it could be determined just what especial characteristics are needed, then possibly there could be devised some way of measuring the natural characteristics of a young accountant. Then you might be able

to tell with reasonable accuracy, whether he would be likely to be a good accountant. But it would entail some research to discover just what characteristics are necessary. We all know people who apparently have quite different characteristics, yet they have become successful. The question would be, to find what characteristics are the common factor and so, which characteristics are essential.

P. You would also need to hold out an attractive picture for the young man, so that he would have some interesting goal to work toward.

P. I think, if we explained the problems better to some of the Deans, we could gain more cooperation from them in educating the young accountant for the profession. Very possibly the Deans do not understand the problems we have.

P. Obviously, attracting capable young people to our profession is extremely important. A recent study made by a Foundation showed that the lowest level of students, actually, entered the Schools of Business Administration, as compared with those who entered other kinds of schools - such as Schools of Education, Engineering, Medicine, or Law. These professions have established themselves as interesting occupations, serving society in an important way - and they appear stimulating and challenging to the mind of a young man.

Accountancy, by comparison, sounds rather dull. In the other professions, they can see the new horizons that offer so much challenge to the inquiring mind of a really bright young man; but nobody has ever opened their eyes to Accountancy as a profession with wide horizons. They look

upon it as something where you only deal with columns of figures of past transactions to achieve a balance sheet - and they do not see anything in that to appeal to their imagination.

In fact, many people tend to think of us merely as bookkeepers. Bookkeepers who give themselves airs! And charge more! They have no idea of the real services that accountants perform in relation to the good of society.

But when you talk to people in terms of Management, and Management Services, and Management Relations in Industry -- then their eyes brighten!

P. Then there is the value of the Attest function to society and to the business world. And the question of whether there should be an Attest function in regard to tax returns. There is also the question of objectivity.

All of these areas are of great value to society. We should make some attempt to interest young people in these important functions of the Certified Public Accountant. If they do not know about them, how can they be interested in them?

To gain the interest of young minds, we have to think in bold, broad terms - not just in terms of technical aspects or technical performance.

They students of today will not accept statements just because you, or I, have made the statements. They are very curious; they are iconoclastic. They want to know why.

All the very best and brightest students have very inquiring minds. If you tell them that a thing is done in this or that way - if you tell them that this is the way to do it, because it has always been done in this way - they will immediately ask why it is done in that way, and wouldn't it be better and quicker if it were done in some other way?

As likely as not, they will proceed to show you some new way of achieving the same result - and perhaps a good deal more quickly than by the established method. This is typical of today's students, in every field of endeavor. They do not want to accept the established way of doing anything.

However, accounting is handled according to a number of well established rules of procedure; and often, if they want to question the established method, they find themselves impeded by the comment that this is the way it has to be done. Then sometimes it follows that, if they find they are prevented from using their lively imagination, they become discouraged with the idea of entering this profession.

It is true that a good deal of change is taking place in accounting today, but this is not visible to the young student. It is rather difficult to explain to them how our profession is changing and expanding in response to the new needs of business today; but, if they could see these things more clearly, I believe they would be much more attracted to the profession.

We need to be able somehow to explain to them that ours is not just a stilted, dead-end sort of occupation, but a true profession with broad horizons, which is useful to society in a great many ways of essential value.

To attract students of the calibre that we want, we have to be able to show them that ours is a profession that can take stands in terms of broad issues.

P. Accountancy is largely a means of measuring. We measure the success of a business enterprise in terms of the results obtained from the procedures that we follow in examining the records of its past year's transactions.

And in the Attest function, we testify to the fact that the records have been properly examined according to generally accepted accounting principles -- in other words, that the business has been properly measured, and these are the results.

But the public does not always find this an easy statement to follow. When we speak of a measure for a piece of real estate, and set it down at \$25,000 -- and then, the owners receive an offer for it the next day of half a million dollars, for that same piece of property -- they are, rather naturally, inclined to question the value of our way of measuring!

P. We are inclined to say that we cannot evaluate management because of the qualitative factors involved. But how qualitative is your judgment about depreciation? Or as to the reserve that should be made for bad debts?

P. If we say we cannot handle something because it is not quantitative, then you are going to lose the very people whom you were hoping to attract by stressing the broader horizons of the profession. Those are the people who do not want to be held strictly to the quantitative factors. They want to be able to use their vision, and their powers of judgment.

P. You speak in terms of what our profession does for society, and what it should do for society. I think one of the major things we can do for society is to give credibility to a financial statement. This we do, at present. I also think one of the most important things for us to do is to give credibility to our profession. That is, we should try to increase the trust that the public has in the word of a member of our profession.

When people elect a CPA to a Board of Directors, they almost

always make him Treasurer. Why is that? It is because they trust a CPA. The CPA is a trusted member of society.

I think we should seek to expand this trust - expand it into the use of the Attest function on tax returns, for example.

If we could attest that the tax return had been properly prepared in terms of the laws involved, people would get a different view of the CPA profession, because we would have given credibility to the tax statement. The public will recognize that this is an important function that the CPA is providing.

I believe that in a complex culture such as ours, there is a very great need for a profession to give this kind of credibility -- and I think we as a profession are evolving into this. This seems to me to be the direction we are moving in.

If the young students can feel this social significance in our profession, I am sure that they will change their views about it. And those who then choose to enter it will change our profession to broaden its base, so that the profession will become more widely expanded into this field of lending credibility.

P. I think it is rather significant that two of our most brilliant young accounting trainees were not Accounting graduates. One was an Economics graduate. The other was a graduate in liberal arts. Both of them went through their accounting training with spectacular ease and are outstanding young accountants.

P. And I have an electrical engineer on my staff right now. He also has an M.B.A. (Master of Business Administration). A very interesting

point is that he passed his Accounting Theory in no time at all. He has had none of the difficulties that many young people have, who have been trained only in Accounting.

In the Debit-Credit areas, it is extremely easy for these brilliant students to pass examinations. The only difficulty for them is that they so often tend to become bored with routine operations, and a lot of them fall by the wayside simply because of this boredom. They want something more exciting, more challenging. But if they can see their way to broader fields ahead, this may serve to maintain their interest while they are going through the more routine phases of training.

P. I think we will never be able to attract very many of the young people of the calibre we want, unless we can give our profession the "meat" that other professions manage to achieve - the high purpose, the usefulness to society, the value to business and industry and to the man in the street. And these should be portrayed in such a way that the general public can also recognize these values - but particularly that part of the general public which is represented by the students in our high schools, colleges and universities.

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At this point, the meeting adjourned for Luncheon.

Following luncheon, the members of the Seminar reconvened at 2 p.m.

CHAIRMAN: Well, from the conversation around the table at lunch, I rather think some of you have some more you would like to say on the topic we were considering when we adjourned for luncheon. Would you like to continue discussing it for a while?

P. Yes. I wanted to mention that I read an article recently which had reference to the question of "When are we going to sell these boys (in high school and college) on this profession, as a way of life?"

It was pointed out that more than fifty per cent of all boys and girls who enter college or university change their major after their first year. This would indicate that when they first commence their university studies they do not have any very clear idea of what they really want to do in life.

I think that, in very many cases, young people are not quite ready at that age to decide exactly what they want to do. Some of them do know, some of them are quite certain of their goals already; but many of them are in a state of uncertainty and are just trying to feel their way. This being the case, I wonder when it would best and most fruitful to try and attract them into our profession?

P. Personally, I believe the sooner you start, the better it is. Down at the high school level would probably be the most effective. This would get some of them interested in our profession at an early stage, and they may start directing their thoughts and studies toward it. Some of them, of course, will change, and their interests will turn away from accounting; but some

will stay with it. And perhaps the fact that they have started to work toward it from an earlier stage will even be to their advantage, in the long run.

Strong (of Stanford) surveyed all of the fields that he thought worth considering, and the people who were especially successful in those fields. He distilled the basic interest patterns which he thought appeared to be predictive of a development of interests leading to success in these different occupations, in the hope that he would be able to tell a given student what his prospects for success would seem to be, in any one of a variety of fields.

This type of approach might be very helpful in trying to decide if a particular young person might be likely to succeed in the field of accounting.

P. Yes, perhaps it would. I think some studies and research along these lines would be an excellent idea.

However, there is apparently quite a divergence in interests, as between company accountants and CPA's in public practice. There would also be quite a diversity of interests between, say, tax specialists and management specialists - even within the public practice of the profession.

P. I think internal accountants tend to have a much narrower field of interest than CPA's in public practice - generally speaking - although of course there may be exceptions to both sides of that rule.

I do believe that the best CPA's are not men of narrow views or narrow interests. I think that the more a CPA knows about a great many things, the more intelligent he will be in his work, and the more easily he can approach new types of problems.

Our work today is very varied and is constantly taking on new aspects. I think there is room for many different interests in our profession.

It is not a profession of limited possibilities. There is room for a great many different kinds of people, with many different interests, in our profession - and I think this should be made clear to students, so that, even if they have certain particular interests, they should consider whether our profession may offer a promising field for the exercise of their especial bent.

If they are interested in Management, or if they are interested in Economics, or Business Administration, or Statistics - they may still find their place in our profession, and it may even be the best way to develop the particular interest they started out with. At its higher levels our profession can use all of these skills, and they can even plan to become specialists in their special fields of interest.

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CHAIRMAN: Well, the trend in the discussion seems to be leading toward our Third Topic. During the session this morning, we heard from George Oh and Dick Williamson -- first, to define the professional practice of accounting, and to decide how it may be described so that it will attract young people toward our profession as a rewarding career; and then we considered what type of young person may be most likely to become a successful member of the profession, and what kind of education should be preferred in a young person who seeks to become an accountant. The talks on these subjects were followed by a considerable amount of very lively discussion. We have sought to define the goals of our profession a little more clearly, and we have tried to put a finger on some of the characteristics which we should try to look for in young people to enter the profession, and

we have discussed what kind of background may be desirable for a young accountant to rise to success in our profession. I think we have gained some useful contributions on all of these points.

Now, in our third topic, we shall consider what should be the proper standards of competence for qualification as professional accountants - having assumed clear goals and an accepted concept of professional accounting practice, and satisfactory young trainees.

Will the standards that have obtained in the past be adequate for the next decade? Or are the standards changing with the new demands that are being made on our profession?

We shall now ask George Uri to let us have his thoughts on the standards of competence that will be required for the future.

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GEORGE URI:

WHAT SHOULD BE THE STANDARDS OF COMPETENCE FOR
QUALIFICATION AS A PROFESSIONAL ACCOUNTANT?

Sturdivant

The question of how desirable standards of competence might be imposed is the first problem we might consider in this connection. Then, of course, we need to decide what those certain standards should be.

First, I would like to raise the question of whether we should think in terms of legal requirements. Legal requirements can set minimum standards of some sort; but, in actuality, they would be a good deal behind what is actually needed in the practice of our profession.

It is very hard to define, in strict legal language, exactly what are the many and varied services performed by a CPA, in all the different phases of his practice. But there is, in most states today, a desire to raise the standards of preparation required to become a CPA.

In California, there is now the requirement of a Bachelor's degree as a part of the qualifications for a CPA. This has only fairly recently been introduced. The Bachelor's degree does not have to be in Accounting, nor even in a closely related subject. However, it is only a part of all the many qualifications necessary before you can acquire your CPA certification.

In addition, one must have a specified amount of studies in Accounting together with two, three, or four years of active experience in accounting - the length of time being governed according to the type of office where you gain your experience. Two years, if in a CPA office; three years, if in a public accountant's office, or in a business firm's accounting department; and four years, if in a government department such as Internal Revenue, or

the State Tax Board. The experience requirement is mandatory, and the ability to pass the examination for the CPA certificate will not qualify you if you have not had the day-to-day experience of working as an accountant.

However, in many states it is possible for people to become CPA's by roads that depart from the standard path, and to a certain extent this is also possible here.

It is a possibility that the best CPA may be one who has attended a university for four years, and has taken a number of subjects allied to accounting, not just accounting alone. I think our experience with young accountants in our offices tends to bear that out. The ones who have a broad background of knowledge have the ability to handle a wider variety of problems, more easily and more successfully than those who have confined themselves to the study of accounting alone.

There is a tendency to look at Law as a profession that has somehow mastered many of the problems that no confront us. It is still possible for a person to become a lawyer and licensed to practice, without having been to a law school; but he has to pass the Bar Examination. The profession existed before there were any law schools. First there was the profession, and later the schools came into being, which offered to teach the profession, or, at least, to teach what would be needed in order to practice the profession of law. Before that, you learned the profession of law by working for a number of years as a junior clerk and office boy, in the offices of an established lawyer - meanwhile reading all the case-histories and law books that one could lay one's hands on. Each person became a lawyer in a somewhat different way, by that system; there was no established course of required studies. Some of them became very good lawyers; others, not so good.

However, as time went on, the established lawyers held meetings in the course of which they discussed what the minimum requirements for a lawyer should be - so as to protect the public from being imposed upon by lawyers who were not adequately trained for the profession. Gradually, certain definite standards began to be defined and recognized, and the profession of Law thereby gained in stature and in the public esteem.

Today, there are certain basic studies required for a law degree, and there is a certain standard of knowledge in those fields required for passing of the Bar examination, and all who wish to enter the profession of Law must reach those standards and pass that examination before they can practice as lawyers. They have all done more or less the same studies, and have achieved a common body of knowledge; but you will still find that many lawyers tend to specialize pretty much in certain areas of the law, and this is a growing tendency at the present time.

So it is in our profession. Our profession, though not so ancient as the profession of Law, had its beginnings in very much the same way; and originally a young man who wished to become an accountant learned the practice simply from being in the office of one who was already practicing as an accountant, whereas now certain educational standards are set and he must pass an examination which imposes certain standards of knowledge of the principles of accounting. Gradually, as the paths of professional practice became more defined, schools were set up to teach the basic principles and the common body of knowledge which is necessary to the practice of accountancy. At the same time, it was recognized that work experience is also very important to an accountant, before he can properly carry out his duties in the course of serving the public, and certain work experience was made mandatory.

There will, of course, always be the common path of knowledge that all CPA's must have; but we cover a number of different fields within the profession of accountancy, and we need not insist upon a certain professional path.

There are the requirements of work experience, which are very necessary for the effective practice of our profession; and I believe the forces of the market will create schools of accountancy, or colleges with accounting majors, and even university courses, to meet most of our requirements in the educational field.

However, we are talking about minimum requirements, at this time. The approach the Institute should take is to create not merely an absolute minimum level, but a desirable level. This desirable level is likely to be constantly rising - and with it, the minimum level will be gradually rising, also - in view of the expanding demands that are being made upon our profession in line with the rapid developments in business and industry.

I don't think that we want to define here certain subjects and certain standards which should be the pursuit of a curriculum, while other certain subjects are ruled out or set aside. The plain fact, in regard to CPA practice, is that all sorts of other knowledge can be extremely useful - because our practice touches upon so many different types of business. Also, there are certain related fields of study which also train a man's mind in ways that can be very advantageous to an accountant. We know of some greatly respected members of our profession who have been notably successful - yet they started out in engineering and only later became accountants. We know of many others who started out as Masters of Business Administration;

Then afterwards their interests turned toward the accounting profession, and they became very successful Certified Public Accountants. Often we find that these people with an M.B.A. tend to specialize in the area of management services and, of course, they are particularly well qualified to act as advisors to management.

I think one of the great attractions of our profession is that it is a profession in which a diversity of talents and capabilities, and a diversity of subjects in education, and a diversity of background experience, can all be used to advantage. At the same time, it is of course desirable that these diverse talents, abilities and experience be combined with and supported by a hard core of accounting knowledge. This, naturally, must be gained by a study of the principles of accounting, and by a certain amount of practice in its disciplines.

I think the public is entitled to have some assurance of at least a minimum standard of competence on the part of a member of the accounting profession. The public needs to be protected from a person holding himself out to be an accountant when, in fact, his knowledge of accounting is insufficient. To provide this adequate minimum standard, he must have had a certain amount of study of the principles of accounting, together with a reasonable amount of actual experience in the work as it is performed on the job; and it is preferable that he should, in addition, have had several years of college background to give him added breadth of understanding. In fact, I think the latter is now becoming more and more necessary, because of the increasing complexity of business.

The reason for State regulation of the accounting profession is to protect the public in the matter of, at least, minimum adequacy; so that, when

they seek a CPA, they can feel reasonably sure that the person called in has achieved a certain standard of competence which may be relied upon for all ordinary purposes of accounting.

Specialization

In accordance with some of the views expressed this morning, I am inclined to think that the Institute needs to move toward asserting some levels of proficiency, which the public and the profession may recognize, in a number of different phases of our profession. This is a part of the modern trend toward specialization, which, again, is a direct outcome of the rapid growth of our economy. We are entering an age which calls for specialists; the field is becoming too big for one man to cover all its aspects.

Medical Specialization

The medical profession has found the need to raise the standard of the general practitioners by creating an Academy of General Practice, in addition to the Colleges for various specialties within the profession, such as the College of Surgeons. There are also the psychiatrists, and the neuro-surgeons and skin specialists, and so on -- yet these are all members of the medical profession, and they all started out with a common body of knowledge before they commenced to specialize. I think that perhaps in our profession we may need to do something of this kind, in order to meet the needs of the future for people with very special knowledge.

We, in accounting, also need to improve the standards of our general practitioner. We also need to establish some sort of recognition for people who have reached the level of the specialties within the profession.

There should be some way of distinguishing the specialist from the general practitioner in accounting, just as there is in medicine. There should be some distinction that the public can recognize, just as the public can recognize the difference between a doctor in general practice and, for

instance, a psychiatrist, or a surgeon. The public knows that these people, though they are all doctors of medicine, perform quite different functions. The public does not go to a psychiatrist to cure a broken leg; but if the doctor originally consulted by a patient finds that his patient is in need of treatment for emotional disturbance or nervous troubles, he will refer the patient to a psychiatrist.

I think that perhaps the need for something of this sort is developing within our profession. Perhaps we do not need to have the divisions so clearly drawn; but it would certainly be a good thing for us to have some way which would enable the specialist to be distinguished from the general practitioner of accounting.

I think it should be approached by us as a matter of the public interest. We are engaged in many different branches of the profession, all valid, which stem from the basic accounting precepts and become more complex as needs arise.

Within our own profession, we know and understand the different special fields, and we know who amongst us is particularly highly qualified in a given specialty. But how does the public know these things?

Since we exist to serve the public, does not the public have a right to be able to recognize a CPA whose practice is in a special field, from one whose practice is of a general type? I think some possibly legal step is desirable to formalize the process, and to encourage the profession to conform to the needs of society for increasing knowledge in many different fields in applied accounting. Also, to define the standards which today's students (who will be the practicing accountants of the future), will have to meet in the varied branches of the accounting profession - in its specialties.

P. You speak of standards of competence. This means, basically, standards of education - courses of studies undertaken, and examinations passed - together with certain standards of actual experience. Is this what you mean?

P. Yes. We should be able to say that a C.P.A. is a person who has had an education involving certain things, and reaching certain standards in those things - to begin with. Then, in the interest of protecting the public from incompetent performance, a C.P.A. should also have had a certain amount of active and varied experience - in addition to his basic accounting education.

At the same time, I would not want to see a law eliminate people who have great aptitude, just because they have not had, say, 30 units of accounting; because we have all seen people of this type become very successful in accounting, when they have taken up accounting studies considerably later. So much depends on the individual drive - the intensity of a person's interest in his work, and his inner drive to be successful as an accountant. There is a great deal of variation in this strength of the inner drive; and it is quite possible to find one man whose education would seem to indicate that he should be very successful as an accountant - and yet somehow he does not work out. On the other hand, if the inner drive is there, and is very strong, the young man will become successful in the long run, even if he starts out with an educational background that does not appear so impressive.

I wish we had some way of measuring this "inner drive for success" in accounting, because I really think it is the most important factor of all.

P. I think there is more hope of having the Institute identify people who have gone beyond certain minimum standards of accounting - in specialties, for example.

P. Would that include certain experience requirements in addition to the passing of an examination?

P. I think you would probably have courses available which have been created by the Institute, or by various graduate schools, which would deal in considerable depth with certain subject matter.

In medicine, for example, they have a plan beyond residency or internship, where a certain field of knowledge is developed more intensively.

Supposing our firm has to develop a system for a large and complex business organization, we will often bring in someone who has a very special knowledge of the particular field. Sometimes we may bring in an industrial engineer, or a specialist in economics or statistics. Or, in psychology, or human relations, if a big turnover in personnel is a problem.

P. Would Industrial Engineering be a suitable subject for specialization by a CPA?

P. For that, I would like to see, if possible, someone who has had enough accounting background to meet the requirements of a CPA certificate - and, at the same time, has had some industrial engineering background; he would do a good job. Or, in the field of business psychology, a CPA should first of all be an accountant - and then, study human relations and motivations and psychology as applied to business. I am a little wary of the situation where you might say to a client, "You need a psychologist - and here is a psychologist from our office!"

P. How many years of additional college education and special training would this require? We have only so many years to our professional life!

P. Probably something to be accomplished over a period of not less than five years - and not more than that. Something that would not be prohibitive.

P. Would this be based on examination, or on experience - this specialization?

P. If we preach the idea of industrial engineering accountants, for example, there might be some difficulties created for us by the industrial engineers, who consider that they have the profession pretty well organized. They have many educational programs, Master's and even Doctorates, in that subject.

P. I believe the English and the Scottish accountants have a program for Management Services, and for Data Processing Systems, Management, etc. There are educational requirements for these, and they have gone a step ahead of us. Whether the education requirements as a CPA should come first, I don't know.

P. Wouldn't we be doing the public a service if we went into a program of that sort? There are many laymen - businessmen, that is - who need help, and then they don't know just where to lay their hands on a suitable CPA for their particular problem. Wouldn't we be serving the public better if we did have these recognized specialities in accounting?

P. Would we have a specialist in Contracting, for example?

P. Well, where you have greater specialization, this implies a greater

degree of special knowledge in each area. There are then two problems:

the public has the problem of selection, of selecting the right man for the job, which should by this means be considerably simplified; and we have the problem of raising the level of talent available to the desired standard of specialization.

Over the next ten years, we would want to raise the level of performance in presently known areas, and also in areas not yet explored.

P. The standards of competence of a CPA are measured by three standards: Education, experience and examination. "The Three E's."

If we look ahead and face the changes that will develop as a result of the computer sciences, and the problems of management services, as well as other developments that may arise, these Three E's will still cover those subjects.

P. We will have questions relating to the use of a computer, or to the conduct of management - and many others. I would say that these Three E's will have to be expanded to cover these new challenges.

P. Once the education and experience are completed, we still have to face the fact that we have to be examined by the Board, and then by the public. We are examined by the public, when we enter into our own practice.

P. One must also consider the fact that there are only so many years available in a person's existence. If our profession is becoming so complex, the most we can hope for is to provide a standard for the minimum public accountant - someone who has had sufficient general training and education for that purpose, and has had an adequate amount of work experience, and

further, has met the requirements of an examination that measures this general level. That is essential for the protection of the public.

However, we also want to make some standards for raising the level of the profession in general, and particularly at the top levels, so as to meet the ultimate requirements of the practice as it will be in the next ten years - in order to keep pace with the expansion in the fields of business and government which is taking place at such an extraordinary pace today.

I think it is very important that we should try to establish some standards for our profession at the top levels, in addition to the minimum standards required for the protection of the public.

P. I believe that this would greatly assist in raising our profession in the public esteem. People would begin to realize how highly qualified many of our men are.

At the moment, they have no means of knowing this - beyond the fact that, of course, all CPA's have passed the CPA examination. In California now, and in some other states, the CPA also has to have a Bachelor's degree. Some individuals have other degrees, such as M.B.A., in addition. But not all states require a college degree, and here we have a considerable lack of uniformity in the required qualifications, aside from those qualifications which are additionally attained by some of our members.

Perhaps we should have different levels of CPA qualification designated, or distinguishing degrees - labels by which the public in general can at once recognize an individual's particular qualifications. Special letters after one's name, perhaps, as they have in Medicine.

P. There is some indication that perhaps there should be a raising of the requirements of the CPA examination itself. If we are going to raise the level of educational preparation for our profession, and if we have now and are going to have infinitely greater problems to solve in our work as practitioners, then probably we should raise the standards of the CPA examination.

One of our greatest problems, as a profession, is the lowest quality of work that is being done by some of the lesser members of the profession. Then we all get branded by the same brush, and people tend to lose respect for the whole profession. Could we perhaps tighten the examination?

P. Then you run into the problem of legislation. There is a continuing feeling on the part of the Legislature that all of the professions are, in a sense, in a state of mobility; and there is a natural resistance to tightening the standards, lest it have the effect of "keeping people out". Even as it is today, the CPA examination is not easy to pass and many have to take it more than once in order to succeed.

Senator Gibson has expressed particular concern about the comparatively few people can pass the CPA examination in California, out of the number who sit for it. Out of about 2,400 who take the examination, less than 20% will pass. Senator Gibson is very much concerned about this.

Even the maintenance of an experience requirement for a CPA is rather difficult, because of what one might call the Abe Lincoln complex. There is a feeling that a man of ability should be able just to sit by the fire and study, and so gain enough insight to be able to carry out a professional practice in any field, if he wants.

In the field of law, there is no actual experience requirement. An attorney goes to college, and law school, and passes his examinations

based on the courses he has studied and the books he has read, and, once he has passed the State Bar examination, he can hang out his shingle and practice as a lawyer; although, in actuality, most of them do try to gain some practical experiences in established law firms before they venture into practice for themselves.

But in accountancy, it is compulsory that a CPA shall have had several years of actual work experience, in the daily activities of the profession, before he can qualify as a CPA and hang out his shingle. I think this is really very necessary, in our profession. Because it is one thing to have acquired a lot of book knowledge; but sometimes the proper application of that book learning to the problems of practice is quite another thing, and only actual on-the-job experience can teach an accountant how to do this properly.

P. There is a body consisting of members of State Boards of Accountancy, and they have deeply considered and have published uniform rules and suggestions for a Uniform Accountancy Act.

It has been suggested that all of the States should abide by these proposals, so as to establish a generally recognized level of competency upon which the public could rely, from one side of the United States to the other.

P. Would it perhaps be best to have the "Academy" idea, where a fellow could get a Certificate saying that he is a member of the Academy? Then he would presumably have some unusually good qualifications, perhaps in a special field which could be designated. This would be somewhat along the lines already established in the medical profession, where a surgeon has first to become a doctor of medicine. He then goes on to further study in his chosen specialty, and when he has gained full proficiency in that, he

becomes a member of the College of Surgeons. Similarly for Orthopedists, and for Psychiatrists. This seems to work very well in the medical profession.

P. On the other hand, the legal profession does not seem to find this necessary. There are lawyers who tend to specialize in certain fields of law - such as corporation lawyers, some of whom even specialize in certain types of corporation law; and tax lawyers, and divorce lawyers, and personal injury lawyers, etc. Most of these start out practicing law in a general way, and then gradually evolve into a special field; they do not usually commence by confining themselves to just one field. When they become a specialist in one particular field of law, they do not have any different letters after their name, or anything to differentiate them from other lawyers at a glance; but they become known, over the years, as a specialist in that field. The only way they differentiate themselves from other lawyers is when they use the word "barrister", or trial lawyer, or counsellor. Yet, in this country, almost all attorneys consider themselves qualified to handle almost all problems of law, and there are only a comparative few who restrict themselves to practice in one special field of law.

In a big firm of corporation lawyers, you may find that one or two men in that firm will handle nothing but problems connected with oil leases; certain others will handle only SEC registration matters. Matters in litigation will be handled by a different department in the same firm. The purpose of this type of specialization within the firm is to provide the very best legal talent possible for clients with special problems. But all of these attorneys have, as a rule, just the same letters after their names, and they all have, basically, pretty much the same basic education; their specialties have been developed in the course of their practice.

P. Perhaps we should first ask the fundamental question: What is included in the functions of Accounting?

To quote from Carey's book, at page 122:

"Certified public accountants have . . . come to regard their practice as consisting of four distinct elements - accounting, auditing, taxes and management services - only loosely related to each other. The 'opinion audit' has been regarded as the highest type of professional service. . . But a client could buy any one of a variety of services, all by itself - a tax return, a cost system, or an audit.

"As a consequence, CPAs themselves have tended to divide into three classes: the accountant-auditors, the tax men, and the management services men. To a certain extent they have different attitudes, often different educational backgrounds, and different opinions about how the profession should develop."

A little before that, on pages 117 and 118, Carey says:

"The idea that the accounting function embraces the measurement and communication of all financial and economic data is a breakthrough in the thinking of certified public accountants about themselves. This idea was first expressed with the qualification, 'If economic seems too broad, financial seems too narrow'." . . .

"Admittedly, the concept of accounting as the measurement and communication of financial and economic data needs more study, elaboration and refinement. But it does provide a starting point for a rational theory of professional accounting practice, as it has actually been developing."

And, on page 119, he says:

"The third idea of fundamental importance is that the attest function, up to now most prominently identified with the CPA's opinion based on audit of conventional financial statements, can naturally and properly be extended to other areas."

If we are going to extend the Attest Function beyond what it is at present, to cover other areas, then all of our skills would have to be updated accordingly. We would have to appreciate the fact that would need to develop additional skills, beginning at the educational level, to perform the Attest Function in its expanded aspects.

We might leave the CPA examination as it is at present, and then

have an Academy, as previously suggested, by way of providing further qualifications for these expanded functions in attesting.

P. This Academy concept was considered a few years ago, but if it were based on education there would be a problem for some of the older members of the profession to qualify. This was one of the reasons why the plan was not enthusiastically supported.

However, I think that if you define specific objectives, there is then a tendency to increase one's abilities and develop and improve competency within those specific areas, and an Academy could serve this purpose. There would then be a greater impetus toward improving our skills in those areas of special objectives for practicing public accountants.

P. I remember Arthur Cannon's comments about Academies and accreditation for public accountants. He thought that CPA's in public practice should not be differentiated from those who are not in public practice. He said neither any state society nor the Institute had refused to accept his dues! He said, "Why should I be classified differently from those in public practice, if I happen to accept a position with a big corporation?"

P. One possible modification is that you could grant the certificate without the experience, but require the experience before you can hang out your shingle -- and, from there, you can go into the Academy route.

P. In non-public practice, you may be able to meet the standard through examination and study and application; but I don't think you should be entitled to practice in public accounting unless you have the experience qualification. I think that is absolutely essential - but then, I came up through the public

practice route, and I naturally am inclined to take that viewpoint.

P. There is certainly a distinction between accounting and public accounting. I think this should be recognizable in one way or another.

In Illinois, for example, the CPA degree is granted by the university. This makes you an accountant; but then you also have to have the prescribed experience qualification, before you can hang out your shingle and become a public accountant.

In that situation, you are a CPA -- but you cannot practice as such. So this brings up the question: Is a person a CPA only when he can practice -- or is he a CPA when he cannot practice? This leads to confusion.

Personally, I feel that public practice is the inherent thing about a CPA; and it seems to me that a person should have had experience in public practice before he can be regarded as a CPA -- even if, later, he elects to leave the public practice of accountancy and become, say, the controller in a corporation; that is a matter of his personal choice. The fact that he has been through all the training that is required for the CPA certificate and has had experience in auditing, etc., will qualify him all the better for an important post in industry.

I think that in a situation as in Illinois, where it is possible to have a CPA who is not entitled to practice as such, and at the same time you have CPA's who are in public practice (but there is nothing visibly different, since they both have the same letters after their names) -- I think this creates confusion in the eyes of the public because they do not understand what the designation "CPA" means -- apparently it means one thing when applied to some people, and another thing as applied to certain other people.

The public has enough difficulty already in understanding what are the actual functions of a CPA. How can you possibly expect the general public to be other than confused, if there are some CPA's who are able to practice, and other CPA's who are not entitled to practice - and yet both kinds of CPA legitimately have the same letters after their names? This has a tendency to make the term CPA nebulous and rather meaningless. The public has a right to be able to recognize exactly what such a designation implies. It should not be something that only leads to further confusion on the part of the public, who have considerable difficulty in understanding what constitutes a CPA, anyway!

For that matter, the public mostly does not understand in what way a CPA differs from an ordinary bookkeeper.

P. This is one of the difficulties with labels - they need to be quite clearly defined. This is one of the problems you get into, in regard to the proposed Academy plan.

P. If we are talking about public accounting, we define what it is, and grant a license to the man who has passed certain predetermined bench marks. The very first requisite is the definition of what we determine a CPA should be.

Then there has to be an examination, to determine if he has measured up to the definition. And along with the examination - which could be passed by any reasonably bright candidate, just by sitting down and reading a few books if he is a really good student - there has to be an experience qualification if he is to practice public accounting, in order to protect the public from any inability to perform properly what he has read in the books on theory. This I believe to be absolutely essential.

P. It seems to me that the range of required qualifications and different levels of expertise among CPA's today, in different states, is appalling. You have states where the required qualifications are very high - and states where the standards are very much less. Yet they all have the same designation: they are all CPA's. How is any member of the public to know the difference?

P. You cannot blame the public for being confused as to what a CPA is, and what he does, and what he stands for as a member of a profession, when there is so much variation of standards within the profession itself -- not only from state to state, but in some cases even within a state.

In California now, we have four years' educational requirement, plus the experience requirements, which differ in the required length of experience according to the way in which the experience is gained: Two years, if on a CPA office staff; with an accounting major. Three years, if in a CPA office and without the accounting major. Four years, if the experience is gained in government work or in a public accountant's office. These differences are quite reasonable, in our view; but naturally the public tends to be somewhat confused about them.

In many other states, however, the standards for becoming a CPA are very much less than ours. Yet, despite all these differences in the qualifications, and despite the fact that there is no one uniform standard, all are entitled to the same designation, CPA. Is it any wonder that the public is confused?

P. I think that there is a great need for the term CPA to mean something specific, and something that can be recognized all over the country for

exactly what it is. And it should include requirements both for a certain degree of education, and for a certain amount of specified experience on the job - or you will have people who can read a book and remember it well enough to pass an examination, but are not able to apply their book learning effectively when it comes to practice. This is the area where insufficient practical experience can be very harmful: the CPA whose preparation has been deficient may do an unsatisfactory job, and this brings reproach upon the whole profession.

P. I think anything that improves the professional image is not only beneficial to us, but it is in the public interest; and anything that is going to improve our professional level of competence will be in both of these areas. Anything in this direction is good.

However, the CPA certificate is actually only a starting-off point. What hangs on the wall is not going to be our goal. We are looking forward into the future for about ten years, to the point where we shall be an older profession and the general standards will have been raised up.

We are contemplating an Academy status. In the future, an Academy might take a completely different form from what we are thinking of at this point, because of the way the needs of business are changing at the present time - and there is no way of knowing just what those needs will be ten years from now. For this reason, I don't think we should try to be too specific or limiting. But, unquestionably, anything that will improve our competence will improve the profession as a whole. An increase in public esteem will automatically follow.

I think each one of us should constantly try to improve his own standards of competence.

P. Now, we have some students who are going on to get their Master's degrees, and this has raised the standards in the starting group of young accountants. Incidentally, it has also raised the salaries of starting accountants, by about \$75.00 per month.

P. This touches upon the economics of the profession. Raising the qualifications will presumably mean that those young people with the higher qualifications will demand higher salaries - and we will have to pay the higher rates, or lose these more highly qualified young men to some other field of endeavor. But presumably, by reason of their better education, they will also be able to justify their higher salary rate and will be able to attract more clients at higher fees; so this will perhaps be worthwhile in the long run.

P. Whether the proliferation of titles will accomplish the higher standards we are after, I don't know.

P. I don't think the titles are the important point. What I would suggest is that the profession as a whole should study the legal standards for a CPA in the various states, as being what it is particularly interested in. These standards comprise the minimum for the profession, and there should be a reasonable uniformity in the minimum standards, because when some are lower, this has a tendency to lower the reputation of CPA's even elsewhere. It is not good, for the profession as a whole, that low standards should exist in one state as compared with the neighboring state.

However, we also need to look to the raising of standards at the top. We need to establish new and challenging standards for the top levels of the profession - standards which can be readily recognized by the general public and by the businessmen who are our prospective clients.

P. It seems to me that we should raise the standards for the level of accomplishment required for minimum entry into the profession. It is at the lower levels that poor performance is more likely to occur, and so bring discredit upon the whole profession. This is even more likely to happen in states which do not have such high minimum requirements as we do here, in California.

P. In regard to the possible establishment of Academies to certify top levels of attainment, I think there is a certain psychological impact about titles. Not only as far as the public is concerned, but also for the individual.

I think people want to live up to their title, whatever it may be, when they have worked hard to achieve it. I think, generally speaking, a surgeon wants not only to live up to his certification as a surgeon; he wants to be a very good surgeon, even an outstanding surgeon. He is proud of being a surgeon. He does not take the view that it is enough just to hang the certificate on the wall, and then take it for granted, and slack down on the job. He finds his work both challenging and inspiring, and puts forth his greatest effort to become a leading exponent of his particular specialty.

I think this would apply equally to a specialist in any other profession - and to our profession. I think titles have a real value.

P. In the previous discussion, I moved private accounting off to one side - but there are many CPA's in private accounting. I do think that perhaps those in public accounting should be differentiated, by means of their titles or initials maybe, from those who are in private accounting. This might assist in clarifying the differences, in the mind of the public; and, if the thing is structured properly, I think it can be done.

I think the CPA should be a general practice term, and all CPA's would be a part of this total body of general practitioners. Then your Management Services Specialist could have a post-graduate type of qualification and certificate, and still stay within the scope of the American Institute of CPA's.

As far as the private accountants are concerned, there would be a division of the CPA's into general practitioners and private accountants; I think this would be of benefit to the whole profession.

P. Something along these lines might work out, with the thought that the private accountant could also aspire toward management services, etc., and could gain the extra letters after his name. It would be an additional honor, and would definitely provide a motivation or incentive to achieve greater competence in those areas.

P. In private accounting, we compete with the public practitioner for the basic material coming out of the schools. The CPA certificate is the only mark of distinction in this field.

P. Large corporations are frequently in a position where they can offer much greater financial rewards to a young starting accountant than the CPA firm can afford to offer. This is greatly reducing our recruitment possibilities. We are getting the dregs at the present time, as a result of this situation -- and we can't afford this if we are to look forward to the growth of our profession in the future.

If we offer the inducement of possible Academies, as a concomitant to working with a practicing firm of CPA's, possibly this might serve to attract

some of the brighter students and counteract the drain of promising material which is now tending to go into accounting in the offices of big corporations.

This would mean encouraging the young people to look toward specialization as they progress in their studies. I think this would provide a challenge for them which they would enjoy, and they would be inspired to follow the paths of their special interests.

It seems to me that if you don't make the house big enough for everybody, you are going to have it very small.

P. I was going to ask what is your requirement here in California?

This was debated in The Dalles a few weeks ago, and we fought it out in Oregon recently. Actually, I think we reached a rather good solution.

One of the two years of experience required for the Oregon Certificate can be with either the State or the Internal Revenue Division of Audits - and still there has to be a minimum of one year with a CPA firm. I believe this is a very good requirement for a CPA certificate. It seems to make room for everybody, and it enables people to get some pretty all-around experience. At the same time, it ensures that they have a good general understanding of the practice of the profession in its various aspects. Also, so much of the work of a CPA in public practice is concerned with financial data required by the government, as in tax returns, it is a good thing for a CPA to have had some government experience. At the same time, in order to enter public practice, he should also have had experience in staff work for a CPA firm.

The Internal Revenue Service and the State Tax people, who wanted to retain their young men after attaining their CPA, strongly urged a "leave" arrangement so that a young man could get his experience with a CPA firm

as needed to get his certificate - and he could then return to their organizations without having lost any of the benefits gained in his previous course of employment with those offices.

Obviously, it was to their advantage that their employees should become CPA's and improve their status thereby, and they were hopeful that their young people would return to the tax offices after they had attained the CPA, with their added experience and knowledge. They felt that experience with a CPA firm would be advantageous in performing the duties as tax examiners.

P. I would rather see the "Government CPA" barred from public practice until he has had experience with a public practitioner. He needs the experience of working with a CPA firm, if he is to go into public practice. I don't think you are properly qualified to go into public practice, unless you have had that experience with an established CPA firm.

The English have a classification for a "cost and works accountant", as well as the term "chartered accountant" - they are separate certificates. I think it is a good thing to differentiate them like that. Apparently the English recognized the need sooner.

We have the Management Services field, and the Tax field, which are specialties within our profession. We could well have separate distinctions here, and in certain other fields as well - although they could all have a common body of knowledge and the certificate of CPA, to begin with. Make the house big enough for everybody - and then give clear-cut definitions, so that it can be understood what these different things mean. Most importantly, so that the general public can understand what they mean.

P. Before a person can get to be a member of the Institute, he has to pass

certain requirements. If people could understand that when you are a member of the Institute this automatically means that you are a person of higher qualifications, this would convey something to the members of the general public. But the general public does not know or appreciate this.

P. If the states continue with all but six requiring some experience as a qualification for the CPA certificate, then this means too much difference in what constitutes a CPA, from one state to another. I think it is very important that better agreement be achieved, as between the levels of competence demanded for the CPA certificate in all of the states. Preferably, it should mean the same thing in all states. The requirements need to be uniform.

P. It is not enough just to have done some studies out of a book, or a series of books. In our profession, they have to be put into use - and the ability to put them to use is only acquired by work experience. This is generally recognized in the medical profession. A doctor has to serve an internship and a residency - after he has attained his M.D. degree - before he can hang out his shingle and set himself up in practice as a doctor to the general public.

This principle should be equally well established in the profession of accounting, because it is also very necessary in our profession - for the protection of the public interests.

I think that, in the long run, the interests of the profession as a whole lie in having everyone under the Institute, which then imposes certain standards. If only a few people are members of the Institute, they are not exercising much influence.

P. The key to the whole thing is in the word "Public". The CPA has a license to practice PUBLIC ACCOUNTANCY. This involves an economic relationship with a client where you have to be independent and, at the same time, be concerned with questions of fees and work planning and questions of judgment. I feel that this experience of being in a professional relationship with your client is not developed in the same degree in - let us say - the Franchise Tax Board. It is a little closer, perhaps, in the Auditor General's Office. But until you have an interplay of professional relationship between you and your client, you never really know what it is to be in public practice.

P. As to the experience needed, nobody really knows whether one year of experience is enough, or whether twenty years is enough. Some people have just one year of experience, twenty times over!

P. But the general concept is broadening in our profession. This is a reality. And we do need people with broader knowledge and wider experience to rise to the top. We need people with a broader spectrum of education to be coming into our profession as juniors. Or, if they don't have it when they come in, then we should encourage them to go after as much supplementary education as possible, after they enter an accounting office as a junior.

One way or another, they should seek to broaden their perspective as much as possible. Accounting, pure and simple, is not the only thing they will need; it is just not enough by itself, in these days. You have to have an understanding of many different facets of business relationships.

P. We have found two real problems with the people who have been getting certificates, who have had all of their work experience with the Internal Revenue

or with the State Franchise Tax Board - and then they obtained their certificates as CPA's. Their problem areas were in reporting. They were not used to the preparation of financial statements and reports. This just goes to prove what Webb said, about the system introduced in Oregon whereby a CPA candidate must have had at least one year of work experience with a CPA firm, in addition to his work in a Government office. This gives a desirable balance.

We also ran into ethics problems, because they had had no training in the code of ethics which is observed by CPA's in the practice of our profession. They later became better members of the profession, due to the fact that when they were getting out of bounds, ethics-wise, they were called before the Board. This is why I brought up the question of whether we should tighten the examination, and cover ETHICS.

B.. But if you raise the standards of the examination so high that you practically cannot get in, it discourages people from even attempting it. It is already pretty difficult to get through - at least, in California - and often it takes two attempts to pass it.

P. There is a story of a man who advertised for someone who had certain qualifications for a job, including a Ph.D., and so many years of experience in this, that and the other field. A man applied who was sixty-five years old, and he had only just succeeded in acquiring the qualifications specified.

The employer read through all his list of accomplishments - which were impressive, to say the least - and said, "But you don't have a degree in Engineering!"

"I just wanted to let you know", the applicant replied, "that you couldn't count on me!"

Whereupon, the conference adjourned for LUNCHEON.

The group assembled at 2 p.m., following lunch, and after a few minutes of general conversation, the meeting was called to order.

CHAIRMAN: Just before we adjourned for lunch, our discussion of the previous subject was trending toward certain problems that have been encountered among some of the young men coming into the profession whose experience and background training have not been as broad as may be desirable. This leads us directly into our next topic, and I will ask Harry Magill to lead off on it.

HARRY MAGILL:

WHAT SHOULD BE DONE, IF ANYTHING, TO IMPROVE
STANDARDS OF PERFORMANCE AND CONDUCT IN:

- (a) AUDITING AND ACCOUNTING PRINCIPLES
 - (b) TAX PRACTICE
 - (c) MANAGEMENT SERVICES
 - (d) ETHICS
-

The question, while it is divided into several different sections, is in reality: What should be done to improve our professional standards?

Our discussions today have already been so wide-ranging, I think we have covered to some degree most of the things that I was going to say!

We are, of course, all in favor of improving standards of conduct. We all want to see our profession highly regarded - and we want the members of our profession to perform their work and conduct themselves in such a way as to ensure this.

The problem is, to define what we are talking about when we speak of certain standards that should be regarded as proper and acceptable, or as desirable. So let us take these things one at a time.

1. Auditing and Accounting Principles.

It seems that we have one principal problem here. We are all on a daily basis of signing audit certificates that are relatively meaningless, in the final analysis, because they state that they are prepared on the basis of "generally accepted accounting principles". This is the standard phrase - yet it seems to me that it does not sufficiently state what those principles are. Sometimes the audit has been done according to one set of principles, or perhaps according to another. To my knowledge, the profession has not yet come to a generally accepted rule regarding accepted accounting principles.

There was a publication by Paul Grady, which presented a comprehensive inventory of well-recognized accounting principles. But I am sure those are not all of the accounting principles. So we are all signing statements concerning something that we are still arguing about!

By and large, this has been interpreted by the individual to mean that, as long as somebody else is doing it, it is all right! But I don't subscribe to that point of view. The Accounting Principles Board had, as one of its stated objectives, the narrowing of the principles of accounting practice, and it was supposed to define them more exactly. I don't feel that this has been fully accomplished as yet; but at least the areas of disagreement have narrowed to the question of: Is it proper to have alternative accounting procedures?

The division has become rather sharp on this question. Those who argue in favor of the difference in accounting procedures look with horror on any restrictions. They believe that accounting principles should be the subject of study and discussion, and that it may be proper to use one method in one situation, and a different procedure in another situation.

Others take the view that alternative procedures are all right, as long

as circumstances justify the difference. But there is no reason to have what I would call capricious alternatives - those which are not justified by differences in facts and circumstances.

If one tries to be objective, it is largely a matter of semantics. The advocates of diversity look with horror upon regimentation. Others look with horror upon the possibilities presented by reporting under alternative methods.

I think the Accounting Principles Board was the means by which it was hoped to point out to the general practitioner what might be used in the way of accepted accounting principles.

The SEC now has the legal power to prescribe accounting principles; and other governmental regulation may come about, so that, in a certain type of business, the accounting must be done by a given method. This would be one way of achieving a certain uniformity, at least for a particular kind of business, and it simplify the matter of comparison.

Where different sets of accounting principles can be used, in a number of different businesses of similar nature, it is confusing to others who must attempt to compare one with another, and it would be much simpler, in many ways, if there were uniformity of accounting principles at least in the same kinds of business. But at present this is largely a matter of personal choice.

Perhaps the way to settle this argument is to build up a body of case law, through some sort of court procedures. There is the possibility that accounting principles might be debated before a court of some kind, or that individual cases might be argued before a court. In this way, a certain amount of "case law" could be built up, as they have in the legal profession. That would give us something to go by, in reaching a decision on a lot of these

questions. When a whole series of decisions had been made, it would constitute a kind of case law.

At the present time, one is almost tempted to ask, Are there any principles? If there are, can they be defined in such a way that the statement which says "in accordance with generally accepted accounting principles" will have some definite meaning - as against an individual practitioner who says simply, "This is what I think"?

In Mexico, I understand that the tax authorities will accept a statement from the "contador publico", and they do not examine that return, because they accept his statement that it is true and correct. In effect, it shows that the tax return was prepared in accordance with the law.

It has been suggested by some that this might be adopted in the United States, and that a statement by a CPA might be accepted, stating that the returns had been prepared in accordance with the tax laws.

I would not like to see this done, though, because there are many areas in the determination of taxable income which are not subject to precise definition.

The preparation of a tax return is inconsistent with the independence which is necessary for the Attest Function. In many respects, preparation of a tax return is advocacy, in which the accountant takes the position of looking for the best way to benefit his client. This is a very different approach from the independent viewpoint which must be preserved when one is auditing accounts and preparing financial statements and reports.

2. Tax Practice.

How should we increase standards in performance and conduct in tax practice?

Here, it seems to me that we have to fall back on some fundamental things. Especially, concentration on tax practice. Nowadays, taxes are becoming more and more important in our practice, and many of the problems presented are so complicated, when concerned with businesses of any size, that the subject of taxes is becoming a full-time study. There is so much to know about all the ins-and-outs of the tax regulations - and they are changed so frequently in regard to special situations - that it is practically impossible for someone who is chiefly concerned with general auditing to keep up on all of this. Therefore, in a CPA firm of any size, there should definitely be someone whose practice is concentrated on tax work.

Perhaps the Institute should have a degree for a Certified Tax Practitioner. Increase in competence can only come about through specialization. This includes the moral, as well as the technical aspects of tax work. The sense of moral responsibility should also be developed, along with technical competence in the field of taxation.

I believe this sense of moral responsibility in regard to taxes is very important. We do not want to have situations arising where a client might get into trouble because of the way his tax return was stated - and he says, "That is what my CPA told me to do" - unless we can justify what was recommended and show that it was according to the applicable law. We do not want to have CPA's getting into trouble, either, for preparing returns that are fraudulent or not according to law. This brings discredit upon the whole profession. Only a developed sense of moral responsibility can guard against this sort of thing, because often the client will bring considerable pressure to bear upon the CPA to devise ways of lessening the amount of tax that should be paid.

It is, of course, part of our purpose to see to it that our clients do not pay any greater taxes than necessary. At the same time, it is a moral responsibility on our part that all taxes which are properly due to be paid, should be properly shown and properly calculated.

The client comes to us not only because the preparation of tax returns is a tiresome job which he feels he is not capable of doing very well himself, and would prefer to have it done by someone who knows what he is doing; he also hopes that, by reason of our special knowledge, we will be able to ensure that he does not have to pay more than the minimum amount called for -- but, if he is honest, he also relies upon us to prepare his tax returns honorably, so as to perform his obligations to the government correctly.

It is true, of course, that sometimes a client may not give the CPA full and correct information; and the CPA, if he has not performed an audit, can only base the return he prepares on the information submitted; he can then hardly be blamed if subsequently there is difficulty about the return with the taxing authorities. In most cases, however, businessmen are honest and want their tax statements properly and honorably prepared, and it is the responsibility of the CPA to prepare them so as to fulfill this requirement. At the same time, the CPA's knowledge of the tax laws should be such that he can advise his client as to how he may legitimately save some tax money, where possible in accordance with the terms of the law.

Most clients assume that, by coming to a CPA to have their tax forms prepared, they will save on what they would otherwise have paid in taxes, just by reason of the CPA's greater familiarity with the tax laws. This often proves to be the case. However, the CPA should have the moral responsibility not simply to yield to client pressures and lower the amount of tax when this is not properly justified.

If I talk too much about the State Board, forgive me; but I think it is germane. The State Board cannot take away the license of a CPA who is convicted of fraud in the preparation of his own income tax returns!

We had a case in Redwood City of a tax accountant who had failed to file any income tax returns for himself, for ten years. He was sent to McNeil Island -- but the State Board could not take away his license, because that is not something that can cause a person to be deprived of his license. But there is certainly a question of ethics involved here. And, in a way, it is something that reflects upon the whole profession, and I'm sure the public would find it very strange that this sort of thing would be apparently condoned by the CPA profession!

If we want the public to regard the CPA and the profession as a whole with increased respect, it seems that there should be an application of some rule of professional ethics in a matter of this sort. There is something lacking in regard to our professional ethics, when a member of our profession feels no necessity to file any income tax papers on his own behalf -- and, when convicted, he can still retain his license to practice and can still be in the position to advise members of the public about their income tax returns.

3. Management Services.

Almost all Certified Public Accountants, and many Public Accountants, are involved in the field of Management Services to some degree. The conduct of management services involves the attest function in some respects. One may recommend that a client install a certain piece of equipment for use in handling his accounting. In the opinion of the practitioner, this is the best piece of equipment for the purpose, in the light of his experience. This is

clearly related to the matter of accounting and, specifically, to the practice of accounting; yet it is also related to Management Services.

That is one clear-cut example. But there are many occasions when, in the ordinary course of his practice as an accountant, a CPA will also be involved in the field of management and management services - and sometimes they will overlap the work of an auditor. Sometimes, the Management Services may be a featured part of the services offered by an accounting firm and it may even be the specialty of one or more members of a large firm.

I don't think I have any serious qualms about extending the attest function to this particular area. It is objective, and it involves sufficient judgment to be in the area of professional determination.

However, there are many areas which do not fall into this qualification. There may be studies in production control, inventory management, paper studies and studies of work flow. When we get this far afield, I begin to get a little shaky, because it is somewhat beyond the purview of the attest function.

If we come back to the attest function as being the proper function, the chief function, of a CPA, I think we are getting a little too far afield.

4. Ethics.

In the field of Ethics, I think we concentrate too much on the niceties, without getting down into the guts of the problem. We are perhaps too much concerned with the problems of accountants in the profession as against other accountants, and the niceties of their professional relationship - with such things as not stealing each other's clients, or each other's staff personnel, etc. This is all very well, and necessary in itself; but I think you really have to get down to standards of practice - ethics as they affect our public practice.

That would include such things as:" Ethical behavior and ethical standards in regard to disclosing of financial information; the course of behavior to be followed by a practitioner who is in the position of having a client who is turning out misleading financial statements, etc. -- many of the delicate problems which can arise in the course of a CPA's practice. These things have not received the emphasis that they should have.

There are also many matters of ethics in connection with tax practice -- the preparation of accurate, honest reports for tax purposes, resistance against client pressure to color the financial statements in such a way as to lessen the tax, without proper reason on legal grounds; how much an accountant should investigate before giving any statement as to accuracy of any tax report, etc. And I have already mentioned one very strange situation in regard to tax ethics as presently obtaining in our profession in California, where there is apparently no obligation upon a CPA that he shall observe any sort of personal ethics in respect of his own income tax!

However, in California there is some study taking place on the subject of ethics for our profession. We are proposing to give an examination to all students who apply for a CPA certificate, on the subject. A course on Professional Ethics will be offered in about six locations next year, so that the prospective candidates for the examination can attend. This will be more the concern of the Society and the Institute, than the State Board. The candidate can take this course of lectures, and can then take the examination in Ethics.

It would be rather difficult, though, to give the Ethics Examination at the same time as the CPA Examination. So the Ethics Examination will be given separately, later - and it will be given only to those who pass the CPA examination.

We frequently find that a practitioner who comes up for a disciplinary hearing regarding some infraction has not even read the Rules regarding Ethics. He says, "I never heard about that" -- and seems to think that is a good and sufficient reason to be found blameless. How can he be blamed for it, he argues, if he never knew anything about it?

Of course, it is usually fully covered in the Rules; but he hasn't read them!

We have decided that the best way to combat this kind of argument is to have a course on Ethics, which will be available to all candidates. Better yet, it should be compulsory for all candidates.

It may become compulsory for all CPA's to have passed the examination in Ethics, before they may hang out their shingle. Then there will be no excuse for any CPA who does not abide by the proper high standards of ethics that are suitable to the practice of a respected profession; and everybody will know what is expected of them in a given set of circumstances.

What is more, the public will then have a frame of reference for ethical performance in the profession of accountancy, just as they have in the professions of law and medicine. There will be certain definite standards laid down for all to recognize.

P. We are thinking seriously of something of the same sort in Oregon, right now. We have had similar problems there.

P. Having specialized in tax practice, I think I ought to speak of this subject of ethics in respect to Tax Practice - especially in my official capacity as chairman of the Institute's Tax Committee.

I am sure you are all aware of the Subcommittee of the Tax Committee which is dealing with responsibilities in tax practice. We have issued already two bulletins on fairly innocuous subjects, and we are preparing others which will create very considerable discussion.

Such questions as: What do you do in regard to the current year's return, in respect to an item in the past year, where you are aware of an error inadvertently made in the preparation of the return -- but your client, the taxpayer, tells you not to disclose that in your preparation of this year's return?

Many other very difficult questions may arise, in connection with preparing tax returns. You don't want to lose your client, if he is a good and continuing client. You don't want to offend him by indicating that he is dishonest, or a crook. But you can't afford to follow any procedures that may amount to cheating in the tax returns, because your own reputation is at stake. These situations can present some really difficult problems, and should be covered in the professional code of ethics, for the guidance of our young practitioners.

P. I think we will soon be concerned with standards of performance. I think we should adopt standards of performance to measure up to increasing moral concepts, and to improve the standards of the profession in general, and to do a better job in compliance with the law, especially where we deal with taxpayer-provided information.

I think some people will object to establishing this kind of standard, on the ground that people will not then come to the CPA to have their returns prepared. They will go to the unlicensed person, or to their attorney, instead. I think a lot of people might fear these possible results.

However, we should remind ourselves that we all, from time to time, have clients who want us to issue non-audited financial statements -- but we advise them to have an audited statement, and we point out the greater value of the audited statement and show how it is much more satisfactory for everybody concerned. I think we also have to extend this thought to their tax statements.

At the present time, when making tax returns for our clients, we are really in the position of an advocate. We are doing everything possible for our client, and in his favor, to get him the best break possible -- everything that is legitimately possible, I should say. I am not speaking for those who may go beyond the law. The majority of us take the position that it is our job to prepare the tax returns as favorably as possible for our client, who is paying us for preparing them - but within the tax laws as they are written. In most cases, this is precisely what the client wishes us to do. However, we are not taking the impartial view of an auditor; rather, we are adopting a position of advocacy.

As to extending the attest function to tax returns, I think the Internal Revenue Service would have to change its posture very considerably, before I could visualize our performing any attest function in regard to tax returns.

If we were to assert and attest that the tax return was prepared in accordance with generally accepted accounting principles, we would first have to know what those principles are. There would have to be a considerable clarification, in order to arrive at a standard which could be used in preparing an attested tax return.

At present, we do not have such an established standard. There are too many possible ways of preparing a return.

P. We do sign the tax return, of course, at the present time, saying that it is "true and correct to the best of our knowledge and belief". By so doing, we are to a great extent lending credibility to the tax return.

At least, it shows that it has been prepared by a qualified accountant, and that it is presumably correct as based on the information available to him. If the information was false, or incomplete, then that is presumably the fault of the client, who may have had his own reasons for omitting to provide certain pertinent information to the accountant.

If we have not actually examined all the records of a person's business, we cannot undertake to certify that it is absolutely true and correct; but we can say that it is true and correct to the best of our knowledge and belief. Where we have examined the accounts, we know; where we have not examined the accounts, we do not really know. Nevertheless, we ourselves feel that we are doing the job in a professional and competent manner at the present time; or, if any of us do not, then we are not maintaining our professional standards.

P. The professional standards have to come first. If the accounting profession takes leadership in developing accounting principles and relating them properly to the preparation of tax returns, they will attain a higher standing with the IRS. (Internal Revenue Service)

You have to have leadership within the profession. You have to recognize that we must maintain a high moral standard in all our dealings. Once we project this image to society, I am sure the profession will be much more highly regarded by the general public, as well as by the Internal Revenue Service, and it will reach a higher standing in the community. If the profession as a whole will follow through, I think this would have a great impact.

P. Right now, there are two statements put forth by the Tax Committee and by the Subcommittee. Statement No. 3 is about to come out. Those statements have all kinds of exposure to criticism and comment by experts, before they are finally adopted. One of these days, somebody is going to wake up and ask about them. They are all submitted for comment, before being published.

P. Well, for instance, are you going to consider such problems as: What kind of investigation you are going to make of a non-audited statement?

I can see where you might prepare a tax return, where you took the right numbers from the books, and computed them in the right way, and considered the tax problems quite correctly, and arrived at a certain result which was quite correct, based on the information provided -- and yet, every one of those figures was fraudulent.

This is later discovered. What are you going to do in a case like that?

P. I don't think you could be drummed out of practice for not having investigated all of the figures.

Actually, the difficulty comes in arriving at the exact degree of performance required. Has this ever been determined? One may ask:

How much is required of a CPA, when preparing a tax return? Should he merely accept the figures provided him by the client - or should he make an investigation of some sort before preparing the return?

P. Does anybody know what is the British system, and how it works? It might be worthwhile to look into this and make some comparisons.

In Mexico, for example, they have the system of certifying tax

returns. If it were found that a firm of accountants had put in a false return, then in the future tax returns would not be accepted from that firm.

This acts as a good deterrent to any deliberate falsification on the part of the preparers of tax returns.

P. Some years ago, the Institute suggested three different formats for a return, each of which would describe the amount of work done in connection with the preparation of the return, with the idea of establishing certain standards for certifying a tax return prepared for a client - at three different levels. However, no decision was reached in regard to that.

P. I think we do have the responsibility of doing the best possible job for our client. And if auditing the figures would represent doing the best possible job for the client, fine! And if the IRS. would take our assurance with regard to a return, that it is based on audited accounts, that would be fine, too; but they are still going to look beyond that, and they may want to ~~make~~ make their own investigation. Then we still haven't done anything much for our client - except, perhaps, we have spent much more time on the preparing of his tax returns, and accordingly we have charged him more!

P. One thing that bothers me is that, once something like this is adopted, it becomes the rule of the land, and you develop into another I.C.C., completely unresponsive to the problems of the day. The mechanism cannot be changed. You cannot get things changed to satisfy the needs of the times.

This is such a rapidly changing world today, if we try to establish any rigid rules, we may well find that the basis we must now go on will run us right out of our profession in just a few more years.

P. Any procedure for determination of a basic concept has to include procedure for changing that concept. Otherwise, you can build yourself tightly into a little corner.

P. You mention the I.C.C. They equate that with a standard of accounts for all of industry. This is just not the right answer. The problems are too complex for that.

That is why I say, we are talking a little about the problems of semantics. There is a general accounting set of principles with regard to inventory and FIFO and LIFO. Unless there is a good reason, in regard to one company and another company, why should there be any different treatment?

Let us have accounting principles determined by differences in facts or circumstances.

P. By the very way in which they are stated, it should be possible for principles to be changed as necessary, in accordance with changing times and changing requirements. Flexibility should be preserved. This is easily demonstrated when we consider that many of the things we do in accounting today are done very differently from the prevailing practice of ten or twenty years ago.

In law, the Supreme Court from time to time is able to incorporate the needs of current society. It should be possible for this sort of thing to be done in accountancy, also. We have to keep ourselves and our profession current with the needs of the time, or fall behind - and then others will step in and take our place.

We have to be flexible and not static. However, in regard to the principles to be used in accounting, if we have a very general statement -

would we have to have some sort of a Court system to make it adaptable to change? -- just as the Supreme Court is sometimes availed of in order to bring about changes in the applicable law.

P. I think that since the Myers study on reporting was put out, there has been some improvement. He recently reported that in no case has there been a backsliding.

We might have the same result in other areas. Once we have decided what a principle is, and what we want to follow, I think we could make some progress without a Court being necessary.

P. I still don't think they will succeed, unless all CPA's abide by those principles. This is because our various governing bodies do not encompass all of the practitioners, and so people go by different rules.

I don't see how a man next door to me, who is not a member of the state CPA Society, is going to adhere to the same rules that I do, as a practicing CPA. There will probably be deviations, even if we are all covered by it - but not to the same extent as there are now.

P. But what are we going to do tomorrow? That is really our topic.

Will these suggested improvements in standards of performance take care of all of the people who are violating professional ethics, knowing that they can get away with it?

I think that we, as a profession, should think about this.

P. Do you think Bulletin No. 6 on Accounting Principles, which has just been issued, will be a good step toward providing uniformity?

P. The easy answer is "NO". I think the bulletin needed to be issued

- but it only recognizes what has gone before. I am concerned with a solution of our "aberrations" for the future.

"Investment Credit" is another example. The Accounting Principles Board had to act on a new situation, and make a determination. Just a couple of months later, they turned around and had to reverse themselves!

Certainly, difference in the treatment of accounts for two similar companies should not be a matter of "choice". It should be governed, and determined, by certain facts.

P. Any variation from the approved accounting principles, as approved by the Accounting Principles Board, would be a deviation from the present "accepted accounting principles".

If you vary from that, you must disclose the fact that such a variation has been made. There may be a good reason for it, and it may be perfectly valid -- but it should be disclosed, and the reason explained.

P. I don't think you are talking about Bulletin No. 6. They said, "We adopt these - we reject those."

I think you are talking about the meeting of the Council of AICPA, on October 2, 1964, which said that any departures from the accounting principles approved by the Accounting Principles Board must be disclosed.

This enables the practitioner to focus on the principles of accounting as laid down by the Accounting Principles Board, to establish his standards.

P. After December 31, 1965, the departures from those principles have to be disclosed. But, after a principle is decided upon, it may take some time to put it into effect. This is the way the world works, and you can't get away from that.

P. I would say that you can't take a look at a principle in a vacuum. You have to consider many other factors, which cannot be disregarded.

You can set up the optimum situation, and then you need to have a few years elapse before the Accounting Principles Board can say, "This is what HAS to be done!"

I think a good example is the regulation that disclosure had to be made as to investments held by members of the profession when auditing the accounts of a corporation.

P. What would you say is the probability that we can develop a set of accounting principles which will be meaningful and can be generally adopted - considering that there is a notable difference of opinion as to what they should be?

P. I understand there is another effort being made right now.

It is the hope of the Accounting Principles Board to arrive at a decision as to what the principles should be - ideally speaking - and then develop a set of accounting principles which will be applicable to all situations and can be generally adopted.

They have a research staff, and they are investigating widely, in an attempt to come up with a meaningful and acceptable set of accounting principles which will be flexible enough to cover all the demands of modern business. It is not an easy task.

They have issued some Research Bulletins, and have done considerable research and studies, and have issued some pronouncements - but they have not yet reached any definite conclusions in an overall way.

P. I think we are reduced to studying areas of accounting, and deciding what should be done in the particular area, on the basis of research, rationale, and reputable theory and practice.

P. Should we stick to the basis of cost for accounting? This is rather a fundamental question. Maybe we should stick to this for a time.

P. My complaint - which I share with others who would like to see certain alternatives available - is that these research studies have been nothing more than a continuation of the alternatives such as investment credit.

P. Do you think that the investment credit is something that the Accounting Principles Board should have ruled on? Is this something that they should have concerned themselves with?

P. Are you arguing about whether this is a significant determination? -- Something which is subject to a reasonable determination, rather than an arbitrary selection of method?

P. Apparently you feel very negative about the situation. Apparently there are a lot of pressures -- the lack of uniformity springs from this.

P. I know that Andy Barr and the SEC said that the SEC would not step in and tell us what is to be done and what we have to do. But it is quite a possibility, all the same. This threat is always in the background, especially if there should be a change in personnel.

P. I would say that the SEC is a political body. If, at some time in the future, the investing public becomes disenchanted with the financial state-

ments of companies as they are presently being issued, the pressure on the Commission will become so great that it will act.

If there is any sort of a financial debacle - not necessarily a full-scale depression - and there is a question of a large variation in accounting principles -- then the Commission will act. Just as it was formed in the Depression of the 1930's.

P. Don't you think that, as the result of a depression, you could get a tremendous number of people interested in the question of accounting principles who do not presently take much interest in the matter?

P. Yes, it probably would serve to step up public interest in the question. However, we would rather not have to wait for such a stimulus!

We should do something ourselves, of our own volition, to see that a proper pattern of accounting principles is established which will be meaningful both to management and to credit grantors, and to the investing public and financiers -- and it should be reasonably uniform throughout the whole country.

People want to know, when they look at a financial statement, that they can depend on it for an accurate picture of the condition of that business organization. And they want to be able to understand it and compare it with the financial statements of other similar businesses - without having to investigate to see what method of accounting was used, and how that method will have affected the final results shown in the financial reports of each of the separate companies.

P. Actually, there are so many possible variations at the present time, it is pretty difficult for a member of the ordinary public to pick up a financial statement and decide just what it means. You need to be an expert, in

order to make a proper decision. I think steps should be taken to simplify this situation so that the general public can make comparisons for purposes of investments, etc., without having to call in an expert to explain how one financial statement differs from another because of the procedures used in preparing them.

P. I really don't think the profession has taken many steps to defend itself, if the Commission should step in! The way we go about these things simply would not do the job under certain circumstances. This presents a rather sizable problem.

P. Why do you feel so negative? Is it because of the personality of the Accounting Principles Board?

P. Well, look at the Yale Lock Company situation, for instance. There is a rise in the number of suits of this nature, based on gross negligence, or whatever. If this continues to be the case, and we continue to get more and more unfavorable publicity, and the public begins to get the impression that our audits and certification are of little worth, then we are going to be a profession that lacks purpose, and we shall lose all public respect.

If our attestation appended to a financial report is later found to be unsubstantial, it is misleading to the investing public because they cannot depend upon it - and the very foundation of our profession is undermined.

P. The question is, What is the Institute going to do about it?

We have got to take steps to achieve some sort of uniformity and prevent such things as the Yale Lock situation.

P. I think that the composition of the Institute is mostly smaller firms. These practitioners are looking for some definite guidance. They want to be told what the Principles are - and what they should do.

They are not concerned with Standard Oil Co., or with other big corporations - they are not concerned with the problems of large-scale business. Their clients are smaller businesses, and they are concerned with the problems of smaller businesses.

Not much has come out of it for these people. The question immediately comes up: What sort of leadership do we have?

P. The Investment Credit thing didn't make much difference to us, with the type of clients we have. Our small clients do not care about the earnings per share.

In terms of auditing, the large firms provide directives from their executive offices as to the financial treatment of a particular transaction.

We get around - just three or four partners - and we ask, Where should we go? What should we do, in one or another situation?

P. Everybody wants to simplify things. The security analyst wants to know what are the earnings per share. The stockholder wants to know the earnings per share. But the set of rules may not be quite so applicable in a securities situation.

P. I think we should arrive at accounting principles on the ground that this is what we ought to have, and this is what we need. I don't think we should concern ourselves too much about the security analysts and what they desire. If, in the final analysis, they feel it necessary to adjust earnings per share, there is something wrong.

As to LIFO vs. FIFO, and all of these things - the CPA is the man who has the knowledge of how these things should be handled.

Perhaps the worst illustration is the case of life insurance companies. The larger the losses, the more attractive the stock is, apparently! They will start out with reported earnings, and will work down to a figure that they call "Adjusted Earnings" -- and then they will publish the "adjusted earnings per share". They will publish these figures -- and all it would take is one single happening, to change the whole picture!

P. Surely it should be possible to establish a set of principles that would give a more dependable type of statement, so that the public could know the true situation?

P. I think this would tend to create an atmosphere of fumbling around, instead of positive leadership. The SEC could step in, and the motivation might be the death of somebody on the Commission followed by a replacement by someone unfavorable to the position of our profession. That could trigger it.

P. Younger people particularly tend to get impatient, and I think the younger men in the profession particularly are concerned. They are dissatisfied with the way things are going. They are restive. They want to see more positive action taken - but there isn't a whole lot they can do about it.

P. Even if the principles were established, the first thing is, we get action by the Council after some very spirited debate. Of course, nothing is going to be submitted for general vote, until it has received Council

approval. Even after the Council moves, it will still be five or ten years before it shows up in financial statements; but at least we isolated the problem and came up with something that could be generally accepted. But we are talking about ten or twelve years, before some of the things we are now talking about can be accomplished.

P. When certain principles and philosophies have been inbred for the life of the profession, I think it is worth while to spend time, before we change them.

P. Well, we are only human, and we are going to make a certain number of mistakes - that is for sure. You have to have a certain tolerance for error. But the thing that keeps "bugging" me here -- the thing that was passed by the American Institute meeting: Apparently an accepted procedure now is that any variation from the Accounting Research Bulletins (and, if I am not mistaken, all of the bulletins they have issued are to be considered accounting principles, beginning from January 1, 1966) will have to be disclosed. The disclosures will have to be made - and the dollar difference between accepted practice and the practice used will have to be disclosed.

I think this is going to have a very dramatic effect in regard to the accounting principles. Within the next year or two, I think there will be a much greater trend toward the uniformity we need for the growth of our profession. I would say this is a major move in the direction of obtaining uniformity in the profession.

P. An illustration of the Board's vacillation is the treatment of deferred income taxes for companies that report profit on the installment basis. The

question is whether it is a current liability or a deferred liability. The Accounting Principles Board said that, since the receivable is shown as a current asset, it would be logical to show the deferred income tax which is applicable to that current asset as a current liability. The original vote was for this treatment.

P. Some of the members of the Board who were for it at first are now tending to vacillate a little - primarily because of client pressures and the things this would do to their financial statements. It makes a material difference.

Many of these companies have bond agreements and loan agreements with the banks, that they will maintain certain working capital standards. But throwing this into current liability -- this will make them breach their agreements.

Now, this could do something drastic to business. The Council could say this is a good principle - but you are going to have two or three years in which to comply.

If this approach were not taken, the company would have to tell the bank it would have to make a side calculation, since this was not a generally accepted accounting principle when this agreement was entered into. With the bondholders it could be even more of a problem.

P. Getting back to disclosure, the rule provides that the disclosure can be made in a footnote. This is a somewhat peculiar situation. A footnote disclosure is made of departures from the accounting principles of the Accounting Principles Board!

If the pronouncements of the Accounting Principles Board are to be

accepted as "generally accepted accounting principles", there is no reason why this does not call for an exception in the certificate. If the pronouncements of the Accounting Principles Board are excepted, this should call for an exception in the certificate.

P. Even though it is the first step toward tying these things back to the Board, the Board has not made any significant contribution to accounting principles since its inception.

P. You can get into a long argument as to whether these are accepted accounting principles, or not. They will become accepted in time, because they are principles which have substantial authoritative support.

P. There are rumors that there are a whole lot of suits waiting in the wings, depending on those which are presently being pushed. Isn't this a real threat to the profession?

P. Yes, I think it is. I also think that there are a lot of suits being pressed against accountants which are merely a symptom of the times. It is getting to be a sort of legal game, to sue your professional man - doctor, lawyer, accountant, or whatever. He is covered by insurance, and you may be able to some financial profit out of it.

P. I rate this pastime of suing with "rock and roll". It is somehow a sign of the times. But, of course, it is not a joke -- it can have some pretty serious effects for our profession, especially where any real negligence or actual deception are found. Even where none exists, the fact that a law suit is filed can create a very unfavorable impression which can be hard to erase.

P. The Yale Lock case is based on alleged deficiencies in the auditing procedures. It is also based on officers of the company having withheld information from the accountants. Also, on injudicious application of accounting principles, particularly in regard to inventory. It says that the determination was not properly made as to the market value of the inventories.

P. Nobody has yet sued an accountant because he priced the inventory at LIFO, when it should have been FIFO.

P. One of our chief problems is that we are looking at a profession which is currently faced with very rapid changes, from the point of view of a profession which has to change slowly in making its decisions as to principles.

We cannot rush into things. Everything has to be given full consideration before any ruling decisions are made. If we do it too quickly, we may find ourselves in difficulties. It is a matter of adjusting the profession to the needs of the times -- but we don't want to change the established and tried procedures too suddenly, or we might regret it very seriously.

P. We have also got to think about the SEC. Suppose somebody passes away, and someone else takes his place. There may be considerable changes in the requirements. We would have to be able to adjust to such changes.

P. Perhaps some arrangements might be made for the acceleration of decisions as to accounting principle changes to suit changing conditions. I think we have to look ahead, to see what we can do to bring the Accounting Principles Board up to the Atomic Age - the Nuclear Age, the new age in business.

P. I have indicated pretty generally why a number of people I have talked to are disappointed; but I can understand why it has taken so long.

The very pillars of the profession are there, on the Accounting Principles Board, and their purpose is to make the decisions we need for the current times. I think they have made at least one decision that they have had to withdraw. This is some indication of the difficulty of their task.

If we don't have confidence in them, then I'm afraid there isn't much place for us to go, as a profession.

P. You are referring to the rigidity of an enterprise, once established. We recognize this as a deficiency in our profession at the present time, and are trying to see what changes could be made to enable our profession to determine accounting principles in the Computer Age.

Unquestionably, whether we like it or not, we are now proceeding into the Computer Age. It is necessary for us to learn how the duties of an accountant should best be handled, with computers as a tool --, and, of course, we have to learn how to use computers to the fullest advantage.

Some people have been afraid that the advent of computers may put the Accounting Profession out of business; but I don't think there is any danger of that. However, we do have to learn how to make use of the computer to serve our requirements and enable us to deal more swiftly with the large-scale problems which come up in the course of auditing very large businesses - very large corporations. They use computers to handle a lot of their own accounting. So we have to be able to use the computers also - or we're going to be left behind by our clients!

P. Isn't it true that some industries have recognized the need for establishing some generally accepted accounting principles for their particular industry, and have established some means of arriving at this? This is where the real pressure comes from, I believe. The industries themselves want an established practice for accounting as applied to their industry, and for all members of it - so that they have a real standard of comparison which they can rely upon.

P. You have to find some way of resolveing what appears to be a deadlock in regard to accounting principles .

P. The reason why we get scrambled on some of these things is often due to client pressures and clients' wishes. For instance, the Accounting Principles Board made a certain determination, and a client got word of it and said, "You can't do that here!" They had made a tentative decision - and they got pressured out of it.

So what we have to think about is: How can we put a group of people together to make decisions - and make decisions in a vacuum?

Again, once decisions are made, there has to be a period of years, in which the companies can conform their accounting. It simply cannot be done all at once.

The president appoints the committee, or the board; and then industries have people attending the meetings who know pretty well what is happening. It just cannot be done all at once, though.

I think too much haste would lead to other difficulties. We should not rush into these things.

P. When Art Cannon was living, he was on the Accounting Principles Board, and he was a member of industry.

P. We are making some progress. Dick Lytle, is now the Administrative Director of the Accounting Principles Board and has an assistant. So they do have more help now, which should enable them to grind out decisions more rapidly.

P. And if you do make decisions as to principles, then your next difficulty is implementation. This can be a considerable problem in itself.

CHAIRMAN: Well, gentlemen, it is now 5 p.m. and time to adjourn for the day. Thank you for your very lively contributions, both in the talks and in discussion. We shall convene again at 9 a.m. tomorrow.

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SESSION OF FRIDAY, NOVEMBER 12, 1965

The Seminar on Long Range Planning reassembled at 9 a.m. on November 12, 1965, with Mr. James W. Porter presiding. The Chairman opened the session with a brief review of the topics to be covered in the course of this day.

CHAIRMAN: It is nice to see you all here again - evidently not too much exhausted by our labors of yesterday - and I hope that we shall be able to continue through our Second Session the excellent spirit of enthusiasm that enlivened our discussions yesterday.

When we adjourned yesterday's session, our discussion was just leading up to what will be the first topic for today:

What will be the probable impact of computers on all aspects of accounting practice - and what should be done to prepare for these developments? This is, of course, a subject that is going to be of increasing concern to all of us who deal with larger business clients; and even a great many smaller businesses today are hiring computer services to handle many of the day-to-day aspects of their business. So this is a subject that is going to be important to all of us - not only to the larger firms.

The second subject will be: The Firm, and the size of the firm -- and what are the implications of the firm as the unit of practice, rather than the individual CPA? In preceding seminars, a lot of excitement has been generated in the course of discussion on this subject.

Next will be the question of, What action should be taken to improve

client and public understanding of the nature, scope and value of present and future services of CPA's, in addition to whatever action is presently taken toward this end.

Then we shall ask, What research programs or studies should the Institute conduct or stimulate, in addition to research on generally accepted accounting principles?

And, lastly, What should be the role of the Institute, of State Societies, State Boards, CPA firms, and the individual members of the profession, in delineating and implementing the profession's objectives?

Now, we have the advent of computers as a new influence in the field of accounting, and we shall examine the problems accompanying their use and the effect they will have on the practice of our profession. Vince Kane has had considerable experience in this regard, and I will ask him to give us his views on the subject, which is No. 5 on our agenda.

VINCE KANE:

WHAT WILL BE THE PROBABLE IMPACT OF COMPUTERS
ON ALL ASPECTS OF ACCOUNTING PRACTICE? AND
WHAT SHOULD BE DONE TO PREPARE FOR IT?

In this subject, it seems appropriate not only to try to look ahead, but also to look back about ten years - to the very start of the use of computers in the business area.

As we know, there has been a tremendous acceleration of the use of computers in recent years; and the years immediately ahead are going to see

computers ever more widely used, even in relatively small business, which may hire computer services although it would not be appropriate to install their own systems. As time goes on, a great deal of internal accounting procedures will be handled by computers, especially in larger corporations, and they will be used to obtain all kinds of financial data and business information quickly and easily - information and data which used to require a whole staff of accountants.

It might be said that there are three dimensions in the application of computers to accounting:

One would be the actual knowledge of computer technology. Another is the client's use of the computers. Thirdly, we have the interest, or role, of the CPA, in auditing, attesting, and in instruction and management services.

From the standpoint of computer hardware, as it was ten years ago and as it is today, we find that there has been an immense improvement both in speed and flexibility - and also in the cost per unit. So not only can the computer do a lot more for our clients today than it could ten years ago, but also a lot more of our clients are beginning to feel that they can afford to install computers - computers are becoming economically possible for smaller businesses, and this trend will continue, so as time goes on we shall find more and more of our clients are beginning to work with computers.

Of course, a computer is only as useful as the direction which is given to it. This requires the human brain - the machine can achieve no results by itself. This also requires a very specially trained human brain, capable of taking a certain problem and adapting it to the requirements of

the particular computer system, in such a way that the information desired is the information that will be produced by the machine.

One can buy and install a computer - but the next problem is, What to do with it? How shall it be handled to gain the results required?

We still have a tremendous problem in trying to develop the information systems approach, which requires the services of a top-skilled man to relate the program to the needs of the organization, and then to relate those needs to the machine which is to be used. This is often a pretty complex problem, requiring very special skills and special training. It can be very difficult to find the person who is capable of doing this - capable of taking a problem, and translating it into computer terms in such a way that the machine will deliver the answers that are required for a given purpose. I would say that one of the chief problems in regard to the use of computers today is to find the skilled personnel to use them.

As we get down to a junior programmer, who is doing a routine type of job, these people are not too hard to find; but it is very hard indeed to find the top man. Salaries for such top people are, accordingly, very high. In this respect, it is more expensive in regard to what we are attempting to accomplish. As time goes on, we think systems computers will become still more complex, and more demanding than ever as to the person who has the management responsibility for directing them in relation to the needs of the company. Continuing education in the use of computers and their application will be necessary.

In the area of overall systems, we might consider some of the more advanced techniques showing up on the horizon today. M.I.T. and C.I.T. are both doing some work on this subject, on the time charting approach,

on having teletype input and output, on interrogating the machine and getting an answer to a question, relating it to information available, and obtaining an answer as to the current problems one may be faced with. This area is being researched and much developed at the moment.

In its earlier years, the computer was used as a high-powered punch card set-up, rather than for individual transactions. The type of output we were looking at, as auditors, too much the same shape. They were just a more high-powered data processing machine.

But that picture is rapidly changing, and we are developing much more powerful machines with many different capabilities, many of which incorporate several different kinds of "memory" facilities and information storage facilities. These abilities are going to expand the uses and purposes of computers for solving all manner of problems that arise in connection with business transactions. But in order to solve these problems, we have to be able to think along the lines of computers - we have to be able to plan for the computer so as to obtain the correct results we are after.

This means that we have to adjust our thinking - in many instances, we may have to make very considerable adjustments in our thinking. We may have to drop our old audit techniques, and relate our techniques to the particular computer system that is in use by the client. We shall have to be able to understand not just one computer system, but many different types of computer systems. We shall be confronted with a certain computer system, and we shall have to adjust our thinking to that system, that computer, and see what it can do and what we can do with it.

Clients are developing information systems and are installing computers to provide them with the answers they need. Many reasons have existed

for their comparative slowness to adopt this approach. One of the chief problems at first was that the equipment was not too adaptable. But the main reason probably was that the companies themselves had not developed the systems needed to go along with the use of computers for obtaining business information. They had not acquired what one might call "computer vision" -- they had not begun to understand the full scope of the uses of computers in business for providing management with many kinds of information at a very high rate of speed.

When you have to try to relate all the various activities of a large corporation, it is a very complex matter. It is now coming to the point where only the computer can enable all the factors to be related to each other with sufficient speed to be serviceable for the needs of today's business management. So we are certainly going to see an ever-increasing use of computers by our larger clients - and by the smaller clients as they grow in size.

Some of the questions that arise today that the auditor must face are the questions of audit tests. Now that we have a computer technique available to us, it is often better if we use the computer, rather than attempt to work around it. If the client finds it advisable to use the computer, we will do well to adjust our thinking to that computer and make it work for us.

Why don't we use the computer in making our audit tests? We are now in the stage of taking just one or two steps in this direction. We are only in the early processes of learning how to use the computers in our own business. But a great deal of tiresome, routine work can be accomplished by use of the computers, if we will relate them properly to our purposes.

For instance, computers can be used to add up the invoices and arrive at the total that will appear on the statement. They can be used for aging the accounts receivable, and for obtaining much of the other information needed for the audit processes. But in going much further and relating matters to the role that the computer plays in the information systems of the company itself and its control problems, the auditor puts himself in the position of being able to evolve to a much higher use of the computer equipment, so as to provide information for the service of his client.

Now, how about the small client? What is going to be the impact of the computer on the small client?

Up to now, the impact has not been very great on the smaller businessman. However, from the examples we have seen - in preparing our own work and tax returns on the computer - the future does not leave much room for doing clerical work by the old methods, manually.

Even in smaller businesses, preparation of payrolls, etc., will be done almost entirely by computers. Many small businessmen who could not afford to have their own computers are now hiring the services of computers for such purposes as payroll, and a number of banks are already making the spare time of their own computer systems available to their customers for a small fee - together with the trained personnel to operate them. As time goes on, doubtless more and more small businesses will avail themselves of these services, because they will find that it either makes it possible for them to operate with a smaller clerical staff and thus save salary expense - or else it will enable their present office staff to use the time saved, for accomplishing other work of perhaps more profitable nature.

Five years from now, very little of this routine work will be done by hand; the computers will have taken over. The same will apply to many other business requirements, which will be handled by computers as the use of computer service centers increases.

Where does this leave the CPA?

Looking at our systems applications today, we find that, as far as our service bureaus are concerned, the greatest problem is that of providing individual service. The computers can handle a great many different kinds of operations; but there must be human ingenuity and human brains to guide them - to fit the capabilities of a computer to the needs of the particular business. This is where the skill of a CPA can be used to advantage - provided that he has armed himself with an understanding of how computers operate, and how they should be operated in order to obtain the results that are desired.

Looking ahead, we may all have different views of the future -- and who shall say which view will prove to be correct? But at least we can ask ourselves: What can a CPA do in order to prepare himself for the future, in relation to the growing use of computers?

What are the individual capabilities that will be required?

These are very necessary questions for us to ask at the present time. We don't want to get left behind in the rush for development of new skills and new understanding to meet the needs of the Computer Age!

Management needs all manner of information in regard to communications, the various aspects of planning, financial data, control, and evaluation of information supplied, etc. We have the information system and the computer.

The information required is the end; the computer is the means. The information system is the service that is being provided through the computer.

To relate these to each other in a serviceable manner necessitates not only an understanding of how the computer itself works. It also calls for an understanding of organization and management requirements, with an understanding of the business as a whole and its various functional aspects - marketing, management, and so forth.

An important point is the knowledge of the concepts and of the requirements of an information system. Just to be able to think in terms of the needs of management, having in mind the different types of systems, is a requirement in order to be able to understand a particular client's situation. Without a proper understanding of the client's situation, and his needs in regard to that situation, no amount of hole-punching and button-pushing will be of any service to him!

You have all heard the term, "computer science". It is the science of using computers effectively to obtain the results desired, accurately and speedily; to obtain, easily and quickly, all manner of information which was never before available, except by means of an enormous amount of individual work. Now, with the development of higher-powered, more flexible computers with built-in memory applications, a great deal of information can be developed economically which previously was impossible, simply because it would have taken too long to acquire by ordinary means. This is an area in which we certainly need to be schooled, to prepare for the accountability of the future.

There is a greatly increased use of many different aspects of mathematics

for purposes of information and control. The computer provides the very important advantage of being able to make the necessary mathematical computations at a far higher speed than the human brain -- once the correct data is fed into the computer, and the correct instructions given the machine so that the desired information will result. This is all a part of Computer Science.

Without a knowledge of Computer Science, the accountant of the future is going to find himself getting left behind, because he will not be able to keep up with the needs of modern business for speedy results, and for information that combines accuracy with high speed.

Then there is the question of problem-solving in communications. We have the problem of reasoning and coming up with conclusions. That is very important - to come up with information that is of service to the client. It is not only a question of communication to a person, but of understanding the problems and needs of the particular client - and communicating those to the machine for solution. The CPA will need to have ability in problem-solving by means of computers, in order to be able to communicate quickly and use them effectively.

Another matter is the production of Computer specialists within our profession. We could have a great team of specialists in different areas.

We have to have a person directing our efforts as a whole; and the person you might call the "Team Captain" would have a picture of the audit as a whole, and a picture of the client's needs, as a whole, for constructive suggestions.

The Operations Research men would be people with a background in mathematics, together with experience in problem-solving by means of computers.

Let us take the audit, a statistical sampling task. We have there the problem of being able to relate this capability to our whole audit, and of relating the results of the test to the audit, and evaluating it as a whole.

There have been quite a few communication blocks between the auditor and the client. The Team Captain has the problem of understanding, much more than he does now, how these different abilities can be brought to bear and used for the benefit of the audit and of his client.

The specialist must be oriented to the problem as a whole. This poses some rather interesting problems. So we feel that the Team is probably the approach we shall need to accomplish much of our work in the future, and then we can just delegate our problems to a specialist.

What can the CPA do to prepare himself for these developments?

Well, we have to look at the speed with which things are changing. Look at where we were ten years ago, and then five years ago, and now! We find that many things which were just beginning then are now coming to fruition. Notably, the use of computers in business, of course; and the uses of computers are being greatly expanded, year by year.

Looking back over the past ten years enables us to see the trend. We have to see the trend - and then place ourselves ahead of it - in order to meet the requirements of our clients in the next five or ten years. If we don't move ahead with these developments, we will get left behind, and someone else will fill our places.

There are two main problems: The first is: How about our staff for the future? Should they be largely specialists, or should they be auditors who have made themselves familiar with computers?

We hope, in the next few years, to develop a staff with a more broadly based education - one in which computer techniques and tactics will be included. Today we have a lot of men in the profession who do not have this educational background. A busy accountant finds it very difficult to take time out to go and learn the science of handling computers; so, aside from a few, they mostly will not acquire that knowledge. But we have to deal with the problem of training the younger men for this in the future.

We can institute Computer courses in schools of accountancy. Or perhaps the accounting students can attend a special course in another place where they offer instruction in the use of computers. Only in the last year has there been any concentrated study offered along this line.

In evaluation of the information systems, we are taking the first stumbling steps in the area of using the computer to produce information that will assist us in making our audits. I am not sure whether our results, at first, are going to be any better or more efficient.

I would put this in the Research and Development area.

However, we can in time develop some case histories, which we can then share among a larger proportion of our staff. This should be quite valuable.

It is very important to be able to decide just what to look for. This is particularly important when working by means of computers, since the machine has no brain of its own; it only does what you direct it to do.

Aside from attending courses in the use of computers, it will become possible for staff members to acquire on-the-job training in using computers

for auditing and information purposes. This will assist them in developing a much greater application use for computers in the activities of their own profession, as well as for advising clients in their use.

There will be leaders who will take the first steps. They will then instruct and inspire others; and I think that, five years from now, we shall be doing a great deal of this type of work, because unquestionably we are going to come up against an increasing use of computers by our clients, and we are going to have to keep in step. We cannot afford to be behind our clients.

We should be in a position to advise them, when they ask us about computers. So we should be ahead of them, insofar as knowledge of the advantageous uses of computers is concerned. Also, we should be familiar with the different types of computers on the market, and we should know which make of machine would be best suited to a client's needs when they ask us for advice. Meanwhile, we have the problem of getting started along these lines, ourselves.

These are some of the things that the man in charge of an audit needs to do, to equip himself for handling the auditing assignments of the very near future. If he does not take the trouble to understand computers and their uses in business, he will be pretty much outdated, to the point where he will not be equipped to handle an audit and perform the proper attest functions for his clients. As time goes on, the question of our constructive suggestions to the clients will become of even greater importance. And as businesses continue to grow in size, the computer will play a constantly increasing role in business; in fact, large-scale business will be unable to operate without computers.

In fact, we are already beginning to approach that point, and many large corporations are today accomplishing a great deal of their work by means of computers.

Evaluation of the system of internal control, if it is very complex, can be a big problem. We cannot work at just one piece of the system; we must look at the system as a whole. In the Computer age, this will require a man of more experience and judgment than we now have generally available.

With the knowledge of computers at his fingertips, and a thorough understanding of what they are able to accomplish, he will be in a position to make really constructive suggestions to his clients. We feel, therefore, that in the future more service in the way of constructive suggestions is going to be provided on the part of the auditor.

Next, we must ask the question: What will be the needs for the Computer Specialist? What will be the techniques to be used in applying the computers to the work of carrying out an audit?

The kind of Computer Specialist we are talking about will be himself in a public accounting firm. He will, presumably, be a CPA. He can then assist in the training of the juniors on the staff, in the use of computer techniques.

The Computer Specialists will be available as consultants, to deal with particular problems as they arise, and will play a part in the Audit Team -- and they will play a very considerable part in providing Management Services for the client.

The most notable measure of the speed of change presently taking place is that a person who is ten years out of school, who has not kept up

with additional academic training, is already fifty percent obsolete. There are such swift changes taking place in business and industry at present - largely due to the increasing use of computers; and these changes are now moving very rapidly. This imposes a tremendous demand for people who have an understanding of computers and their application in modern business. Those of us who have not yet faced the necessity of becoming acquainted with the use of computers are in danger of being left behind altogether. We have to try, first, to catch up - and then, to keep ahead of the developments. This is not going to be easy.

Each of us assembled at this table may have different views as to where we are today, and where we are going - and as to what the CPA's role will be in the future. If we have a question as to where we are going, then we must also have a question as to how we shall get there.

Should our staff members all have the same type of training? Or should we be more selective, and should the staff consist of people who become specialists in different branches?

These are questions for debate, and it would be interesting to hear what your thoughts may be.

P. I would certainly agree that you cannot leave things entirely to specialists. I think the most important thing is: How are we going to develop individuals with this broad perspective, not only of accounting, but of accounting by means of computers, and the application of computers to many uses for the benefit of our clients, so as to solve their problems?

P. I used the term "leadership". The fact is, we must provide leadership in this field, or be out of the picture entirely.

We must develop technical competence in regard to computers. From that, we can develop the approach to management services.

I think this fits in very well with the overall thoughts we have been trying to develop, that this is the direction in which our profession is presently evolving.

This goes back to the original question: Are we going to provide leadership, or followship - in these areas?

I say, We must provide leadership. It is only if we provide leadership that we can stay in the forefront of the computer field, which is becoming such a major factor in business development today.

Today, if you speak to Systems and Computer people, they don't think much of us. In fact, they tend to look down their noses at us. And especially they do not like to see the auditor put in charge of the computer operation, which they regard as their province.

We must look at the picture that we present in this. If we develop the total management perspective, ours is the logical profession to provide this leadership in the business community.

P. In your staff training of your auditors to work with computer systems, are you training them to deal with the use of computers?

P. We are training them to audit through the computer. This requires a good deal of understanding of the computer itself.

There is an IBM course, which is available for people to attend who will need to work with computers. It takes about a week's time.

There is also a discussion course at ,
with the EDP people.

P. The audit people are the instructors, although we have kept the EDP people available in the meetings to refer to, for technical points.

One has to make sure that this is related to the audit objectives. When you have only Computer specialists, there is a tendency to get the means tangled up with the end. There can be too much emphasis on the tools. But there is an advantage in having the EDP people set up the tests. The Audit Manager - the Team Captain - will have the responsibility for being able to relate these to the audit.

There are similar problems in Operations Research, of being able to relate the techniques to a particular objective. These can only be overcome by an increasing familiarity with the best way to handle the computers in order to obtain the results desired.

P. Who would be primarily responsible for all work done for a particular client? A line partner, or general services partner?

I don't think you can manage an audit very effectively, by calling in all these people, if you don't have some basic knowledge of what you are trying to achieve and what the purposes are.

P. I think that, as a result of the use of computers, there will be less and less decentralization of management functions.

Just lately, in the San Francisco area, U.S. Steel Corporation has largely closed down its management facilities here, which were quite considerable. They have now concentrated all of their management in one

office. This concentration of management functions at one office, to cover the whole of the country - in a large corporation with many branch offices spread around the country - has been made possible by the computer.

Formerly, there had to be a decentralization of management, because there could not be sufficiently speedy communication of information between the different branches and head office. It would have entailed too much delay to refer all questions of management to the head office on the other side of the country, and business would have been held up while waiting for answers to the questions submitted. This meant that a great deal of essential management information had to be kept on hand at the branches, so that most decisions could be quickly made on the spot.

Now, with the advent of computers, as well as teletype techniques, it is becoming more efficient to have all management information channeled into the home office from all over the country. This information is then fed into the computers and classified for ready reference.

When any question comes up at a branch office, they only need pick up the telephone or get on the teletype directly to head office or to the computer center, and all the information required is made available to them without delay. This is a completely new way of doing business, which has only been developed during the last few years.

I think there will be more and more of this sort of arrangement, as major computer systems are installed in head offices of large corporations.

P. I don't know about that. I am inclined to think that the developments in fast-moving systems for transmission of information may make centralization unnecessary! It depends which way you look at it.

P. With such a centralization of management and business data as you depict, where is the small practitioner going to find himself in the coming era of the Computer?

Are we going to find that computers will also come into use in connection with small businesses?

Is it possible that CPA firms also will come to depend on the computer, in order to arrive at their results more speedily?

Many of us in small practices have been constantly bogged down with the problem of cramming into a certain amount of time a certain amount of work -- the amount of work which is necessary in order to arrive at a proper result when auditing the books for smaller clients, for example. There are certain things that have to be done, and many of them are very time-consuming. But sometimes I wonder whether the client has been given anything much beyond a sort of bookkeeping service.

Are we now going to be able to contribute to the small businessman more than we have been able to give him before?

P. The computer can take the responsibility for the detail work -- and the CPA will be less burdened by the details and will then be able to guide his small businessman client much better than he was formerly able to do.

P. I have heard CPA's complain that the Banks are taking over their practices - since the banks have been installing computers and data processing services which they have made available to their customers for a small cost. Sure, the banks are now doing a lot of the data work by means of their computers -- but the computers can be made useful for our purposes also.

P. Perhaps you have some of these write-up assignments, where the small practitioner often gets his start. I think that, when the awareness sets in that the computer does have a useful function and that it will enable him to extend himself into other and more valuable areas, the small practitioner will see that the computer can be very beneficial to him, also. So I hope it isn't going to take too long for the small practitioners to wake up to the advantages of the computers.

P. Computers cannot do everything, however. There will still be many areas where the small practitioner can do things for the small businessman that the computers cannot do. He can call on the computers for assistance as needed.

P. George has said that the CPA is the logical man to take over the total information system, by reason of his training. Accounting data, as such, in a major systems installation or data processing installation, is a relatively small part of the potential applications of such an installation.

Unless a CPA prepares himself especially for the approach to the total systems concept, he will lose what he has now, and other professions sitting on the sidelines will move and handle these things for the client. We must realize that we are going to have to do this - or get out of the picture and get out of that field. It will then be handled by others.

The only way we can keep it is by studying the proper approach to the total systems concept. Then, we shall be ready to meet it and grasp our opportunities in this field as they arise.

There is no doubt that they will arise, more and more often, in the

next few years - and continually there will be more, as time goes on. If we are not prepared for them, we shall simply be pushed aside. There are many others waiting to take our places.

P. I didn't say that we should "take it over" -- but I think we have to be one of the leaders in this field.

I have had considerable contact with data processing people and with systems people, who are more specially trained than we are -- and I have very seldom found anything in the nature of broad perspective thinking amongst these people. They do not have the type of concept that relates to management problems.

They can carry out a routine assignment - but they cannot think a management problem through.

I think these areas have to be thoroughly understood, in order to do an intelligent job for management. So, even more than the CPA, the Management Accountant is the man to tie the Systems together so as to produce a really useful result.

You use the EDP people, and the computers, to obtain a result that management needs. And it is the CPA who really knows and understands just what that result should be, or the Management Services specialist, even more so.

P. Measurement of economic data includes statistical information, and marketing information, etc. Much of this work is statistical rather than accounting in nature. The computers and EDP can be very helpful in these areas. We should certainly prepare ourselves to make use of

them to produce the speedy results that businessmen need, and they can certainly be very beneficial in these respects.

P. With regard to how this use of computers will affect the smaller firm, and how the smaller firm can adjust to the situation:

I think, to put it brutally, the small firm is going out of date -- except, perhaps, in country centers. I think, in order to be effective, there will have to be at least three specialists in a firm of CPA's. No - four. There must be a CPA with auditing experience and background. There should be a tax specialist. There should be a management specialist. And there will have to be Computer, or EDP specialist.

As he gains knowledge and experience in data processing work, the senior partner and CPA-auditor will also see that the organization - the staff and partners - understand the audit possibilities and the management possibilities of computers. Computers may even be used in regard to working out tax returns, before very long. Perhaps some people are doing that even now.

With regard to management specialists and systems specialists and computer specialists, these are all interrelated. Perhaps, in a smaller firm, one man could cover all of these fields. This would be a real economy.

P. But how are we going to go about getting people with these special abilities into public accounting? The plain fact is that they can usually get more money in other fields.

Last night, we discussed Booz Allen and McKinsey. How are we going to get guys like these to filter down, so that we can have such management specialists in a firm like ours? Ours is just a fairly small firm, and we cannot offer any inducements that would be likely to attract such people.

P. Perhaps we shall have to get young men recently out of colleges, who have been studying such subjects, and build them up as specialists - rather than men who have already made a reputation in these special fields. That is possibly the solution for the smaller firms, as this type of service comes into more general demand.

Another possibility, of course, is that you select somebody who is on your own staff, and send him off to attend a course - or encourage him to go and attend a course - covering the background material needed for the effective performance of these new services. He would then have the experience of practice as a CPA, together with the specialized knowledge required -- and then, you have developed your own specialist within your firm.

P. When we started out doing accounting systems work, about twenty years ago, we developed certain capabilities along those lines. Then we developed certain problems, and we added some industrial engineers to deal with those problems.

Then, in data processing, we needed a man with data processing knowledge, capabilities and experience; so we hired some of these. The same thing applies in Operations Research.

By this method of meeting the need as it arises, we have gradually acquired a very varied staff. But we found, when a situation arose where we needed a certain type of skill and understanding, we had to go out and buy experience - and this can be rather expensive. Perhaps a small firm could not do that. But if you can afford it, it works very well.

P. What I would like to have is good communicators, with a very broad background, come with our firm on the audit staff - and then work toward their CPA certificates. Then, when they have acquired some experience as CPA's, move them over to the point where they will develop management capabilities.

For example, one of our fellows just recently transferred over from the Audit staff. He is now working directly on a data processing assignment with one of our top people in data processing. He is getting a lot of data experience, and in time he will become very expert in that area.

The top people in our firm have been forced to acquaint themselves with this kind of work. But, for the future, we are hoping to get people with broad concepts in computer areas and in mathematics, and we believe these will provide a broad base for building toward the future.

The man on the audit staff cannot possibly hope to know all there is to know about data processing and mathematics and computers. But he can handle, right on the job, most of the problems he will run into. Then he can turn to the specialist for advice, for the answers to any problems that he does not feel qualified to solve. Is that what you had in mind?

P. Yes. We could bring in an Operations Research man, to make detailed studies; but the general auditor will handle most of the work in the field.

P. Do you think you would get better results from a man who knew his mathematics well, and then became an accountant, and later took up the study of data processing and computers?

P. I would prefer to have a man become an accountant first, and then go into the other areas of specialization. However, everything is moving so fast nowadays that, in two to five years, we shall need to have this computer competence on our staffs, or else this whole area will be taken over by other groups.

The whole thing is for us to make the decisions that are necessary. It takes such a long time to get a decision back, and then to communicate it to the membership of the CPA Societies. The dynamics of our communications within the profession are going to have to be speeded up in the future, if we do not want these other groups to come in and take much of the business away from us.

P. Well, in respect of communications within the profession, we need to be able to attract a greater number of our people to the meetings that are scheduled. The small numbers that attend the meetings serve as an indication that there is little to attract them.

There are, of course, the bulletins that are circulated from time to time; and there are the publications, such as the Journal of Accountancy, and so on. But the people who cannot find the time or the interest to attend meetings of members of the profession probably also do not read the bulletins.

Here is a real problem - to communicate with our members, and to educate them for the developing needs of the future.

P. There are always going to be some who will not attend meetings, and they will fall by the wayside. If one falls behind, this cannot be helped, it seems to me. You cannot just drag people into the meetings. They have to have the interest to bring them there, in the first place.

Perhaps, when they find they are getting left behind, this will serve to interest them in attending meetings.

P. At the EDP sessions this last year, in the Los Angeles area, we had more than 700 members attending! This certainly shows a very considerable interest in developments in EDP among the members of our profession - at least in that area. This probably represents some ten or fifteen people from just one organization.

In fact, I would say that the profession in California has done an excellent job in reaching a very large number of our members. I believe this type of communication (meetings and lecture-discussions) is taking place very effectively here in California, and in certain other states, such as Texas.

However, the disadvantage often is that many firms cannot afford to have five men go and attend a conference. This is quite expensive for a firm, and only the wealthier firms can afford it. So most of them have just one man attend, and then he comes back and writes a digest of what has transpired at the meeting, for the benefit of all the others in the office.

The others do, presumably, read the digest; so it is very possible that these meetings have a much wider effect than would immediately appear from the actual number of people present. So the large attendance at these EDP sessions would certainly appear to prove that there is a very widespread interest in the subject of electronic data processing at the present time.

P. In our area, the number of chapter members who actually attended the meetings was very low. One does not know, of course, whether a

much larger number may actually have been reached by such digests as you refer to.

P. Well, perhaps as the Banks and other organizations begin to take over the business, the backsliding members of the profession will find that they do have time to attend seminars -- and then they will realize that they do have to come up to date.

P. Regarding the Attest Function, and expressing an opinion on a balance sheet, we have always had a partner in charge who has to say that the balance sheet fairly presents, etc., etc.

In the past, the partner could look at the statements and consider the other factors involved, and could feel rather comfortable in signing the certificate. Now, however, are we going to have sufficient knowledge of the computer systems, to feel the same comfortable confidence?

P. There are two sides to that question. Certainly it is going to be a more complex matter. The partner will have to develop an understanding of the use of computers. He is going to have to know a great deal more about the actual business than he did before, and there are going to be a great many more control points about the business which he can look at.

So, if we have the man trained properly, he will be in a far better position than he has ever been before, to sign that certificate.

* * * * *

Here, the meeting adjourned for a coffee break. Some ten minutes later, it reconvened, and continued with the discussion about computers and EDP systems.

CHAIRMAN: Well, it seems that we have two burning questions -- two people who are burning to make a comment.

P. In respect to the matter of communications within the profession: The Institute has spent \$160,000 for Systems Development Corporation to determine what should be done with the small practitioner in the field of EDP. Out of this is to come a new five-day course for small practitioners -- a course in much greater depth than the course which the Institute is now offering, which in itself is a very good course.

The new course will enable small practitioners to learn something about controls on EDP systems, and how to deal with data processing methods in their practice. I don't think the Society can do as much.

P. We have one series going in Portland. The day after the course on introduction to EDP, we started a course for one day a week, for twelve weeks, with somebody who has worked a great deal as a systems analyst. A good share of the Institute's budget is now being devoted to this type of educational development.

P. We are in the process of a rather careful revision of everything we are doing, at this moment. In Carey's book, he suggests three levels of training: The kind a school, or university, can give. The kind that can be gained on the job. And the kind the Institute can give.

This makes a pretty good combination. However, we should perhaps ask at this point: What more should the universities and schools be doing, than they are doing now, to assist in this greater education that will be needed for accountants?

Also, We should ask: Can we assist in the process? Or should we just back off and say, "That is up to the profession"?

P. You may be familiar with the Commission's study on the Common Body of Knowledge for CPA's. They concluded that, to prepare for the CPA practice of the future, at least a master's degree will be needed - and possibly fewer hours of actual accounting will be included. This type of graduate is going to cost you more -- and yet they will actually know less about accounting, at least to begin with.

From the commercial aspect of being able to hire a man to do a job, and train him to your work and then get something out of him before he leaves to go somewhere else, this is going to be very difficult.

P. What is your experience in terms of a good accountant or auditor being a good MS (Management Services) man? Do you find that you are talking about two different people entirely?

P. Not necessarily. Many of the people in MS. practice come up through the auditing side. Some people like to get into new situations and new problems all the time, and are not so involved with the auditing problems. When they are line seniors, they should have gained enough experience in the accounting area that we can treat them as members of the accounting staff. But one of our main problems will be to relate the audit staff to the tax matters.

P. There will be perhaps three people in an office who will be outstanding individuals, who appear to be fitted to become specialists in one field or

another. There are a number of different fields within our profession in which people may become outstanding, however, and it mostly seems to depend on the particular interests of the person; this will decide which direction he should go.

Even outstanding people do not all have the same capabilities -- a man may be very successful in one field, and a failure in another. A man may become a successful salesman, or a successful research scientist. But a research scientist would make a lousy salesman - and vice versa, a salesman could not possibly make a research scientist, not even if he had the opportunity of attending a university -- because his temperament and his interest patterns are entirely different. Success in a given field, or the possibilities of being successful, are determined in terms of interest patterns and personal characteristics.

P. What would be the characteristics you would look for in a prospective accounting employee, with a view toward management services?

S. I would say, the most important question to ask is: Can he get along with people? -- as well as being able to handle accounting problems, of course.

In Management Services, particularly, it is very necessary to be able to get along with people. One has to be able to make recommendations in such a way that they will be acceptable to the people who will have to handle the new system or procedure. First, one has to convince the top management of the advisability of making the change; and then, one may have to work with the personnel in the client's organization who will be

actually going to be doing the work. Sometimes people who are accustomed to doing things in a certain way are very much disinclined to change their established set of procedures. Sometimes they are actually resentful of any change and will resist it. It takes a great deal of patience and understanding, and the ability to talk persuasively and to demonstrate just what is needed, and why it is needed, or the result will be chaos. You have to have an ability to work with people and keep their good will.

I would say, therefore, that the ability to get along well with others is one of the most essential qualities for a Management Services specialist in addition to a feeling for management and efficiency.

If I were trying to pick out a prospective candidate to develop into a management services specialist, I would like to have a man who first has acquired a good understanding of accounting and has shown his ability to get along with people -- and then develop his other abilities. One could have him work on the job, perhaps in an off-season, in order to test him out and see what his particular abilities may be in that direction.

P. As to a man's particular abilities, doesn't it depend somewhat on the type of specialty you want a man to wind up with?

Sometimes the other approach may be good. If you want a marketing specialist, for instance, then start off with a man who has marketing knowledge -- and then build him into an accountant by giving him some experience on the job, working alongside your accountants.

P. Perhaps, for the marketing specialty, one does not need such a lot of actual accountancy experience.

However, it is quite possible for a man to be an excellent accountant

- and yet he may not have the special interest that would make him a success in a specialized field. We can find on our staff very capable and intelligent auditors, who do not seem to have any feeling at all for this Management Services concept. In fact, I would say we find the Management Services type of man very hard to obtain.

Similarly, a good accounting man often cannot do anything at all in the field of Market Research.

However, many of the Market Research people do have an Accounting background, and they have later switched over to Market Research, or vice versa. One is an analytical technique, and structured; but in the area of Management Services, it is very unstructured and many people cannot relate to that type of situation.

P. Production control might be a better example. Statistically oriented people can do a good job on this. It should be relatively easy for a man who is a good accountant to become an expert in production control.

P. Well, you are talking about a lot of specialized branches for dealing with specialized problems. What can a small firm do, to get some of these special people?

If you cannot just move them over from an accounting staff, then where do you find them?

We haven't been able to recruit them. Can you perhaps borrow someone from a national firm, when the occasion arises that you happen to need a man with one of these specialized skills? You might find yourself in a position where you need a specialist in a hurry, and there is no time to start training one.

P. That might be a possibility. While one would have to pay for the use of their services, it might be less costly than to have such a specialist one one's own staff, if there are not many calls for such a person's special skills.

CHAIRMAN: Well, the trend of the present discussion seems to be leading toward the topic that was listed as No. 6 on the Agenda, which was scheduled to be led by Wilbur Stevens. Since he was unable to be with us today, I have asked Irwin Pomerantz to give us his views on the question.

IRWIN POMERANTZ:

WHAT ARE THE IMPLICATIONS OF THE FIRM AS THE
UNIT OF PRACTICE -- RATHER THAN THE INDIVIDUAL
C.P.A. ?

It seems to me that this topic really boils down to these two questions: What is the future of the Firm? And what is the future of the individual in practice as a CPA ?

In considering these questions, we might do well to ask ourselves, How does a firm grow? How does it come to be a combination of a number of different talents and personalities, and people with special skills?

Obviously, it grows as the result of the needs of its clients, of its clientele. In the beginning, probably all CPA's were individual practitioners. As their business increased, a man would take on a junior whom he would train to assist him. In the course of a few years, when

that junior had acquired enough knowledge and experience to qualify him , the senior practitioner would be faced with the probability that the assistant would leave to commence a practice of his own. This would leave the original practitioner in a difficult situation; so, rather than lose the assistant, he would propose that he enter into a partnership, and then the partners would take some more juniors , because in the meanwhile the practice would have grown. As the new crop of juniors matured, again the same type of situation would develop; and again, in the meantime, the practice would have increased, so that it might be advantageous to take another one or two into partnership. With the increase in the number of partners, the tendency to specialize in certain aspects of the practice, according to the individual tastes of the partners, began to develop - and one of the first and most obvious areas of specialization was, of course, taxes.

Then, as certain clients begin to request a particular type of service - as, for instance, management services - it becomes obvious that it would be a good idea to have one partner who can specialize in that area. The question then arises: Should we delegate one of our existing partners to take over this particular specialty, or should we call in someone who has already had considerable experience in that field? Perhaps it is decided to engage such a specialist from outside the firm for one or two particular assignments; but then, as other demands are received for the same type of service, it is decided that the specialist should be invited to join the firm. In a nutshell, this is the history of the development of the firm. First, there is the need of the clientele for expanded services on the part of its CPA, and then the CPA makes the adjustments necessary to accommodate

his clients, rather than lose them to somebody else. This may involve enlarging his organization, and just for one call this may not seem fully justified; but experience seems to show that, once you have acquired the people who are capable of exercising special skills, you will find that those special skills are called for more often.

The historical and anticipated experience of the need for accounting services is governed by the expanding requirements of business and industry. We have only to observe the growth of business in the last twenty years, in order to realize that there is and must be an increasing demand for Certified Public Accountants and for CPA firms.

In the rapid expansion of business activities in today's economy, there will be a constantly greater pressure to provide sophisticated services. By and large, in these days, that will mean the services of specialists. The alert firms of CPA's will take steps to meet these demands, and this will involve expanding their staff to provide people who can handle the new problems that are coming up in this expanding economy.

The Institute, in its programs, must reflect the interests of all firms and of its members, and must observe its responsibility for providing mechanisms by means of which our members can prepare themselves to meet these new demands of expanding business situations.

I am myself only a rather small practitioner, but I still feel self-confident about my prospects for the future - because I feel I have an awareness of the needs of tomorrow, and I am endeavoring to prepare myself for those needs, so that I shall not be found lacking.

On the other hand, I am concerned about the small practitioners

who do not have this awareness. I am concerned as to what is going to happen to the CPA who may be forced out of practice because the times have left him behind. How can these people be alerted?

These are questions of interest to the Long Range Planning Committee. I hope they will give some answers.

As a small practitioner, where do I find myself in the accounting world of today?

It is my opinion that the firm has assumed the dominant position in the world of accounting. This is because of a number of economic factors. Businesses today are growing and expanding very fast, and many of them are diversifying their activities into a number of new areas. Their accounting needs are expanding accordingly, and are becoming a great deal more complicated. This means, in most cases, that their accountants have to grow, too. They have to increase the size of the staff, to meet the growing needs of the clients. Then the original accountant usually finds that he needs to take in another partner or two, and perhaps include a specialist in taxes and in management services or EDP - and pretty soon, we have a firm, where originally there was only an individual practitioner with a small staff, or associates.

Today, most practitioners consult with their staff members in seeking varied information, and conduct themselves on a firm level. The little man working by himself practically does not exist any more - except, perhaps, in small country centers. But nowadays, even farming and the distribution of farm products is getting to be big business; and even a rancher may need the services of a CPA firm!

There is an increasing demand for accounting services on a larger scale, and this has forced accountants to band together in order to cope with the problems of this larger-scale accounting service. I just don't think the small man can continue to be everything to all of his clients. The Computer Age and the Age of Specialization are bringing to the smaller practitioner a tremendous area of concern, and he cannot survive these pressures alone.

The firm can think about how a more comprehensive service can be rendered to their clients; they can think about how special requirements can be met; and they can take whatever measures are necessary to provide such services.

The individual is very much limited in what he can undertake to provide, when one of his small business clients begins to become a bigger business with expanding needs.

A small businessman can be better informed by employing a CPA who is well informed about business methods and management practices. This gives the small businessman an advantage which, in all likelihood, will enable his enterprise to grow considerably larger. As his business grows, he will develop a need for certain specialized advice and special services. He is more likely to find these available in a firm, than in one individual practitioner. The individual practitioner then finds himself in a situation where he must either expand his own facilities or lose his valued client.

I think a firm also has many advantages to the individuals who comprise it. A firm - a good firm - permits a CPA to grow, and if he wishes, to become a specialist in the field that interests him the most.

A firm nevertheless allows a CPA to continue his close personal relationships with the client. This is a very important aspect, in many respects. In this regard, a smaller firm has a considerable advantage over the "Big Eight", in that a smaller firm is able to maintain a much closer relationship with its clients, and this can be very beneficial to the client. He gets more personal attention from his accountants, and they have a more intimate connection with, and probably a better understanding of his particular problems.

On the other hand, the individual practitioner is markedly at a disadvantage in many respects. What, for example, do you do if you are taken ill and have to go to a hospital for a time? Often, your client has problems that cannot wait. So he must turn to another CPA.

What happens to your practice, if you are ill for any length of time? Who will carry it along? Can you suddenly find somebody who can step in and handle it for you, in your absence, and keep your personal clients happy? This is a very real problem for the small practitioner; and this is one way he is very much at a disadvantage as compared with a firm. And, if you die suddenly, what do your clients do? They will have to look around for somebody who can take over where you left off -- but without any previous knowledge of their business. In the case of a firm, this problem does not arise.

Also, as an individual practitioner, suppose that you want to retire? Will you have economic security? The firm can supply answers to all of these questions.

Lending institutions recognize the name of a practitioner and often make loans on the strength of that practitioner's reputation. Even more than on the basis of the figures on a piece of paper, the lender relies on the name of the firm which has done the accounting. The CPA provides the information which will assist his clients in obtaining a loan that they need. An individual practitioner can do this, of course; but a firm provides a sufficiency of staff so that you can have diversity.

I think in the area of fees, it is also better to have a firm. You can then upgrade your fees and get a better personal income if you are with a firm, rather than working alone. A member of a firm also has the very big advantage that he has the opportunity of more time in which to improve his knowledge and his standards of performance. He can take time out, now and again, for studies and for attending meetings and lectures. Most smaller practitioners find this very difficult to manage.

Many of us have faced the problem of being recommended to a business organization as a CPA -- and have then found that our individual status does not enable us to handle the assignment, and we have to call upon a firm to assist us. These instances bring us face to face with the disadvantage of being a small practitioner.

However, there is another problem which can present very considerable difficulties: How do you change from a two-man operation which has been running along pretty smoothly, to a firm with a large staff? Do you upgrade your accountants on your staff, to partner level? Do you purchase another practice? Do you merge with another practice? Or do you choose someone to become a partner with you, someone who is

perhaps employed already by another firm? And then, having obtained one partner, do you both then have to decide upon another partner? These are some of the ways in which the growth to a firm may be accomplished; but it is not always easy to decide just what is the desirable way for you, yourself, to expand. This is more or less the position in which I find myself at the present time.

There is no question in my mind that the firm is here to stay -- but I think the small individual practitioner is not. The small practitioner is on the way out, unless he brings himself face to face with these problems of expansion.

I think the small practitioner must look forward to developing a staff-training program. There is a natural progression, as one's staff members become trained. Some will go off on their own, or will go to join larger firms; but some will stay, and, given the opportunity, will gradually rise to the point where they are qualified to become partners with the original small practitioner, provided his practice justifies the expansion to a partnership. Actually, bringing in younger partners will often tend to increase the amount of business available and the number of clients. So everybody is better off.

One of the disadvantages of a small practitioner is that sometimes he will take on more than he can handle. The firm, however, can take over the practice of a smaller practitioner and can provide a more integrated service for his clients.

Looking to the computer world of tomorrow, the firm that understands this field can make itself even more indispensable to its clients.

It will be almost impossible for the small practitioner to cover this field, in addition to the ordinary accounting and auditing and tax services for his clients; so the advance of the computer, in itself, will practically force the smaller practitioner to expand his own organization or else to combine with another firm.

Looking at it from another angle: The future man of business who will be emerging from our schools and colleges is going to be a very highly competent person. Many of the young men today who plan to go into business first become M.B.A.'s. They go to technical colleges and to universities to gain a degree in business administration or management sciences or whatever, before they enter the business field. They have a very considerable background of education in business, first. This is a new kind of businessman.

The CPA will be called upon by this highly qualified businessman for advice in various aspects of his business, and for advanced services that research and the new fields of business are beginning to call for. The CPA has the responsibility of trying to be even more competent than his client. At least, he cannot be less competent, or he will lose the respect of his client -- and will lose the client. An individual practitioner who ignores these challenges is going to be left at the side of the road.

However, he is faced with the uncomfortable fact that it is not usually easy to find exactly the right individual or individuals to combine with, in order to form a partnership or firm. This is more or less the situation in which I find myself at the present time. So many different considerations may enter into the choice of one's "business wife".

It is not only a matter of a person's ability, but also of personalities that must combine agreeably; people have to be well suited to each other, in a business way - and your partner has to be someone who will get along well with your clientele, not someone who will offend or annoy them. To find just the right person can be quite a difficult problem.

However, while I am myself still in the ranks of the small practitioners, I am facing up to these problems and giving them much consideration - and I feel that in ten years from now I shall be in a far better position than the small man who just stands back and complains about the situation, and does not try to keep up with the changes that are taking place in business in this decade.

The Institute and the Society will be looked to, to supply the continuing up-to-date information that the small practitioners will need if they are to keep abreast of all the new developments in the business world of today, and the effects these developments will have on the practice of accounting.

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P. Well, this brings us to the primary question of: How small is too small, and how large is large enough? In this day and age, even the giant firms often complain that they are too small!

I find that a firm of fifty or a hundred people considers itself too small. So the question arises: What is a small firm?

It doesn't seem to me that a firm comprising 110 people is small. But according to the standards of the "Big Eight", that is only a small firm!

What, then, is a good-sized office for providing an adequate service to the business community today? To obtain an answer to this question, we must consider the services that may be called for.

In a medium-sized firm, you do not ordinarily find the services of a Management Services expert. You will probably not find a Data Processing technician. But the need for these services, if it isn't there already, will very soon begin to appear.

I think you more or less have to develop these people from your own staff, and educate them as they come along, so that the firm will be able to meet the growing needs of its clients.

I think you have to have enough different kinds of people in your organization to provide these services. Of course, where the need is only occasional, it may be possible to borrow them from another firm as required. But then you may run up against the situation where the firm that has them cannot spare them when your client needs them. All the more reason why you should try to develop some specialists within your own organization.

P. If we are going to survive, and do a proper job for our clients and render the services they should have, we are going to have to have a pretty good Management Services Department; and, of course, a Tax Services Department; and a competent Auditing Department. That means we are going to have to pay these people pretty substantial compensation.

In order to be able to afford this, we have to spread this administrative cost over greater numbers of productive units; and the extent you have to grow, in order to enable this to be done, depends on the needs of

of your partners and what compensation they feel they should have.

P. I think there are a lot of people who are not suited to being in a partnership. Their personalities will not allow them to be partners in an effective way. You are always going to have some of these people.

If they have to be in a firm, and yet they cannot become a satisfactory member of a firm, in time they will be left out in the cold. They may be excellent men at their work, but temperamentally unfitted for partnership. I think there will be a tendency for such people to develop specialties and become experts in a particular field.

More and more, I think we are going to have to realize that one person cannot be all things to all men.

However, there are certain areas that simply will not support a partnership, because the areas are too small. This is true of a lot of country centers. Perhaps in these areas individual practitioners and small firms will survive and flourish, because they can provide a better service to their clients in such locations than could any big firm that might come in from elsewhere to do a particular job.

But when business gets to the size that it needs bigger and more varied accounting services, then these smaller people will lose their place to the bigger firms, even in small towns - or else, they will have to grow to meet the new situation. We have seen examples - as in the Los Angeles area - where many of the formerly small towns, which were formerly separate entities, have now become absorbed into the expanding metropolis; and many of their formerly small business enterprises have today become big business - in some cases, very large business concerns.

In such circumstances of population growth and consequent business expansion, the small CPA practitioner must either be willing to increase the size of his organization to provide the services his growing clients require - or he must inevitably lose those growing clients to larger firms of CPA's, who have on their staff the specialists that the expanding business requires.

P. I agree that there are many areas where it is not presently feasible to have a firm. In such places, the small practitioner is better able to serve his community. Then some expanding business may have to bring in a larger firm; but there will still be a lot of small businesses which will need only a small practitioner.

We have young fellows leaving our offices to open their own offices. They will have to be concerned with these concepts, also.

P. On page 429 of Carey's book, he says that:

"It may well be that the fifteen- or twenty-man firm, including both partners and professional staff, can best combine the advantages of being able to serve most of the needs of fairly large clients and being able to develop specialists without the necessity of formal and costly administrative procedures. Close personal acquaintance and frequent personal communication are possible in a group this size. Idle time can be minimized without elaborate controls. Sound personnel policies, job evaluations and salary classifications can be administered informally, without requiring the full time of a partner or office manager."

He also goes on to say that when the firm gets somewhat larger, the expenses increase sharply and overhead reduces net income, until the volume of business "reaches a higher plateau at which the administrative expense can be absorbed and net income can increase again".

So the question arises: Is the ideal size for a firm unit a group of 15 to 20 men?

And, if the firm grows larger, do you feel that it should be in multiples of this size?

P. Being myself in a smaller firm, we feel that you have to have 15 to 20 people; fifteen to twenty people in an office, to be effective. This number is large enough so that you can have some specialization in taxes and in management services, and you can handle a client of some considerable size. It does seem to us that a firm has to be somewhere in that area of size, in any one office.

P. Well, we have an office in Santa Ana, and one in San Diego, as well as in Los Angeles. Los Angeles is our major office. For the other branches, we can supply experts from our Los Angeles office, and we do not need such a big office to be maintained in the other two locations. This means a considerable savings in staff costs, when the specialists in the firm can serve several different branch offices. This is one way of spreading the overhead.

We have, of course, the problem of training people. They expect to be trained on firm time.

P. Do they all expect to be trained entirely on company time? Or can they be trained on their own time, or partly on their own time?

The question is: How little, or how much, of the firm's time has to go into the training of personnel?

P. Well, there may be a number of different ways of doing this. In our Tax Department, for instance, we have a meeting every two weeks, commencing at 5 p.m. and going on to about 7.30 p.m. Then we have cocktails and dinner. This works out very satisfactorily. It is an effective training program, and we can cover quite a lot of ground in the 2-1/2 hours of discussion. The cocktails and dinner that follow make the occasion attractive; but the people attending do not get paid for their time for attending the meeting.

P. Sometimes, in our office, we have meetings on Saturdays - especially if there is a major change in the tax law, or something of that sort.

P. It may depend upon the nature of the practice that you are trying to develop. Our offices in Phoenix, Arizona, and some other places, are rather small. We have 15 men in our San Jose office - but we do all the bookkeeping, etc., in San Francisco at the head office. So the other offices are not exactly fully self-supporting.

P. Possibly every one of us feels that, whatever our size, we should be somewhat larger! Just now, for example, in our office we have 17 people - yet we do not feel that we are as large as we need to be. I think you really need to have more than 15 people, in order to carry specialists - although a smaller office will often carry a tax specialist and keep him fully occupied.

P. In fact, I think it pretty much follows that, in an office where you install a tax specialist, you automatically get more tax work to do.

Sometimes an office with a much smaller auditing staff can effectively use a tax specialist; and then, it will often follow that people who come to you for the tax service will also become clients for other accounting services. Maybe the man who originally comes to you for his tax returns will later decide that he would like an audit made.

There are a lot of people, even among the business community, who think of CPA's primarily as tax preparers. When your tax client finds that you also perform auditing services, he may become an audit client also. I feel that a tax specialist is an excellent feature to have in a firm, in more ways than one.

P. The tax specialist contributes to the growth of the firm. Then you may come to the point in your growth where you have to have more formal controls for the staff - and this hurts. Yet, if you stop at that point, you cut off opportunity for your younger men. Then you come up against the very considerable problem which this absence of opportunity for advancement creates: As soon as you have a young accountant well trained and able to do a good job for you, he leaves - either to go to another larger firm, or else to open his own practice. When it becomes obvious to your young people that there is no opportunity for them to grow, they become restive and will almost certainly leave and go elsewhere, and this can be very disappointing. Besides, sometimes some of the clients go along with them! I have seen that happen.

P. After all the time and effort and money you have invested in training these young men, it is certainly disappointing to have them leave just when they are becoming fully competent as senior accountants.

Then you have to start in all over again, with somebody else, and train them to take the place of the person who is leaving. Perhaps it is better to consider expanding the firm to absorb them, rather than let them go as soon as they are fully trained.

P. Carey goes into the question of Optimum Size for a firm. I think we might ask the question: What is the "optimum minimum" for the staff of an accountant's office, so as to give efficient service to the public?

P. I think we may say that the "Optimum Minimum" would be affected and, in fact, dictated by the type of clients you have to serve, and the areas you need to cover; so it is very difficult to say exactly. If you are talking about a medium-sized practitioner, we feel that 20-25 should be the minimum. Then you can expect that you are going to grow still further. But I feel that this is the least that can render a really full service to clients of varied needs.

If you are serving a good many businesses of different kinds, and they are mostly of considerable size, they are going to require a number of special services. You cannot afford to have the specialists that will be required, unless you have a staff of 20-25. Besides, it will take that many to cover the ordinary accounting needs of your clients, in a practice of a good medium size.

P. For some practices, though, a three-man office, with a typist and a receptionist, may be perfectly adequate. And in some cases, perhaps even a smaller office will be sufficient. It depends on the requirements of your clientele. But you may find, after a while, that

your clients are growing, and their needs are growing, and you will have to enlarge your staff - or lose your clients! So the three-man office will become a five-man office; and a few years later, it may be a ten-man office, and pretty soon it will be a fifteen-man office, or a twenty-man office. And, somewhere along the way, it will have acquired, or developed, a specialist or two in the different branches of services that its growing clients require.

P. My recollection is that, at the time where a survey was made a few years ago as to distribution by size, an almost negligible number of offices had reached the "Optimum Minimum" size you mention.

P. But at that time - although it was only a few years ago - many of the firms had not recognized the problems confronting our profession in providing management services and recommendations in that field. Perhaps in the meantime they may have built themselves up much further, so that by this time their staff will have reached the "optimum minimum size".

If you talked to those same people now, you would almost certainly find that they have grown considerably since that time. I think it applies pretty generally that a firm either has to grow with the times, or get left behind.

P. Suppose that I were partners with these three men here - and you were partners with those three men over there. Our approach might develop quite a lot differently from yours. We might even be able to offer better services than you - with the same number of staff - because of the way we approach our work.

Suppose that in Oregon there were a branch of a firm with 20 men, they might be able to handle their practice very well. Yet the same firm; if it were in Los Angeles, would have to have more people to handle the same kind of practice efficiently. It can depend to quite a considerable degree on the kind of territory you have to work in, and the size of the businesses you have to deal with.

At the very least, however, an Audit man, a Tax man, and a Management Services man are necessary. When you have these specialties in your office, your expertise in those directions grows. You acquire a reputation of being very good in these fields, so you get more clients. Then, as the number of your clients grows, you will have to have more people on your staff to serve the needs of your greater number of clients.

Basically, however, to offer a complete service to your clientele, you have to have the three specialists I have mentioned above. This is the very least.

P. I think there is a need for practicing accountants to analyze their operations and determine what size they should attain in order to render these services for their clients. I think we should establish a number - say, 20 or 25 - as the ideal number, in the light of the experience we have in our practice in different geographical locations, and according to what we expect to do for our clients.

Perhaps there is no limit to growth - but this is one way to measure and decide how many you should have.

P. In the matter of training people to fill the needs of your clientele,

you have, of course, the problem of people who are customarily using firms as a stepping-stone to going into business for themselves. One puts a great deal of time and effort into training them -- and then, off they go. This entails a considerable waste and is expensive to the firm, particularly if it happens too frequently. A firm can be left in a very awkward situation, if several of its young men leave in quick succession, and they have to get in some new people who are unfamiliar with the clients and their particular needs. You can lose clients that way, too.

However, there is an inner drive in an aggressive young individual who wants to be a "boss", and this cannot be ignored. When a young accountant has acquired a good, thorough training, and has reached the stage where he feels competent to be a "boss", there must either be the opportunity for him to go ahead in the firm where he has received his preparatory training - or else, he will be inclined to go out and start his own business. How should the firm meet this problem?

If we are going to support the "firm concept", we must ask ourselves, What is tomorrow going to bring for the people who are now coming to that stage of competence?

P. Perhaps some of them can be developed into specialists. Some may be suited to become partners. Much depends on the particular qualities of the individual.

P. This brings us back to the very core of the questions before this conference: What are you going to do tomorrow, as a CPA?

P. Well, of course, I am at present only a very small practitioner. But my plans for "tomorrow" are that I am going to complete my organization along the lines that we have been discussing today. This will doubtless entail taking in some partners - at least, one partner.

Here, one immediately comes up against a difficult problem.

It is not easy to select your "business wife". You need to have someone whom you feel you can depend on to pull his own weight; and, at the same time, you want to have someone whose personality is congenial to you, so that you can work effectively together at the head of your organization. You must have someone who is liked by your clients and will get along well with them and preserve their good will; obviously, you cannot have someone who might antagonize some of your clients. You would like to have somebody who is outstanding in his work; but sometimes these people have certain personality faults or they may be so aggressive that you do not feel you could work with them as partners. You may know of someone suitable in another firm; but then you hesitate to persuade him to leave the firm he is already with. This is a very difficult matter indeed, to select just the right partner from the material available.

There is the alternative of merging with another firm, perhaps. But if you decide to do this, it may be difficult to find one that parallels your own in the type of work they do; or, on the other hand, one whose practice will fit in comfortably with your own established pattern. These factors can make the problem of expansion very difficult.

On the one hand, I have CPA's on my staff who, I know, would like to join me in partnership status. But I have to make up my mind

as to whether I want this person, or that person, as a partner. Perhaps they have certain minor personality problems or characteristics which I feel would not fit in well with mine, and this might make for a difficult situation in the future.

These are very difficult questions to answer, and one is very fortunate, I think, if one can find an easy solution to these problems.

P. In our firm, we are currently going through a tremendous reorganization problem. One of the things we have found out is that apparently the national firms have developed concepts of organization which provide opportunities for challenge and continuing growth within the organization.

If this concept can be modified to the needs of smaller firms, it would be extremely helpful in solving these problems, which we so often find ourselves faced with as our young men become trained up to the point where they are looking to their future, either in a business of their own, or as a partner in an established firm.

I feel that the big national firms have a great deal of sophistication and experience in dealing with this problem of trying to keep their qualified young men. They have given a great deal of thought in terms of their personnel and their goals as to staff required, and the developing of partnership material, etc.. I believe that, with certain modifications, their methods would probably be most helpful for the use of smaller firms as they find themselves faced with the problems of expanding.

I must confess that I try to steal some of their thoughts, and modify them to suit our organization.

For example, we have given a great deal of thought to the major

problem: How do you keep your good young people?

For our part, we try to provide challenging internal goals, and a program for developing each individual within the organization, so that the young people can see the internal goals and become interested in working toward them, rather than being attracted away from us by seeing only external goals.

We try to make it seem more attractive for our best young people to remain with our firm. Of course, you are going to lose some of them, anyway; but it should be possible to keep a good percentage of them by this means.

This is where you get into the area of the question: What is the optimum maximum for your staff? It may be that you cannot expand beyond a certain point -- or at least you feel that you would prefer not to become very much larger. This is a matter for decision by the individual firm, of course. But in the present business conditions, there is a constant pressure for expansion. Conditions may change, and one would not want to be over-expanded; therefore any expansion should be somewhat gradual and should be geared to meet present needs, not based on over-optimism.

P. The reasons why we feel that our firm is not yet big enough all fit in with the challenges that we need to have within the organization to keep the interest of young people. It is a certainty that if they don't see the possibility of growth within our organization, they will not plan to stay with us. We have young people who show promise. We want to keep them, and so we should plan for expansion - and let them know it.

The national firms obviously have opportunities for their younger men to advance, simply because of their size. So they attract many of the most promising younger people away from the smaller firms. Yet some people will find their best opportunities in a smaller firm, where the advancement is sometimes made more rapidly, if it is in a growing community.

If a study were made of Optimum Maximum and Optimum Minimum, I think it should be on a research basis, rather than just being a matter of tossing thoughts back and forth. You have to determine all the facts that are significant, in evaluating a problem of this nature. Research, and development of facts in relation to these situations, and then coming up with some valid recommendations, might be very helpful. You would need to consider all the different types of practice -- farming and country and urban types of practice, industrial and commercial types of practice, etc., in terms of the services provided to clients. That is the factor that really determines the desirable size of the firm.

P. You could probably set up a profile of the types of services, so that you could set up these assumptions -- and then set up an Organization Chart for providing an adequate service at that particular level, to show the approximate number of staff that should be best for those purposes. And I think that perhaps you would come up with somewhere in the neighborhood of 20 or so, with a few partners, as a fairly general ideal.

P. I think the other factors -- of including specialists, etc. -- are more important. When you get into the developing of reports for management, that is interesting information, It is significant information. In the profile, would the basic requirements be there for a complete service?

The question is whether to have more people, or less people -- but there would have to be a minimum framework. I think it is important to discover exactly what the minimum framework needs to be.

What should be the ratio of partners to staff? And how many partners should there be, to form an efficient organization?

P. In coping with the reorganization within your own firm, have you modified your ideas on the ratio of partners to staff members? This is an interesting point.

P. Our thought is this: We feel that this relationship will take care of itself. If an individual in our organization develops to the extent that we feel he would be of partnership caliber, then almost certainly he will have developed enough business himself that he will carry his own weight, through growth. This would be practically automatic.

P. Along those lines, then, the growth of a firm could be practically unlimited. You just keep on absorbing all of the younger men into partnership status, as they become developed to the point where they may be qualified for it - and they automatically bring with them a good proportion of increased business, each and every one.

So the firm has a larger business, and therefore needs a larger staff to handle it; and growth becomes a constant and continuing thing.

CHAIRMAN: Well, in connection with growth, we also have to consider the public acceptance of the services of CPA's, and the demand of the public for such services -- because, in the first place, the growth of

the firm must arise from an increasing demand for our services .

This will lead us to our next subject, and I will ask Webb Harrington to talk to us about what we should do to improve client and public understanding of our services , at present and as they may become in the future. This will be Topic No. 7 on our Agenda .

WEBB HARRINGTON:

WHAT, IF ANY, ADDITIONAL ACTION SHOULD BE TAKEN
TO IMPROVE CLIENT AND PUBLIC UNDERSTANDING OF
THE NATURE, SCOPE AND VALUE OF PRESENT AND FUTURE
SERVICES OF C.P.A.'s?

At the Spring Council Meeting, there was a meeting of the presidents and the presidents-elect of the State Societies, and about two hours were devoted to discussions of this aspect of our profession.

There were people in this group who had public relations counsel supporting their State Societies. California also has just hired a public relations counsel for the profession.

There are people in the East who have tried this, and say they are not getting any noticeable benefit from it. Some thought there was a benefit derived from it; but there is a good deal of difference of opinion.

From the public relations aspect, we must first define the problem before we can find a solution. Obviously, then, we have to ask ourselves: What are the problems we are experiencing? Then we can have the public relations specialist attempt to do something about overcoming them.

A number of years ago, the Institute made a survey, and some of the results of that survey had a bearing on the Long Range Planning

Committee's approach. They should also have a bearing here, when discussing the matter of improving our public relations.

The Institute surveyed different sections of the public, to see what they thought about CPA's. They questioned bankers, accountants, economists and financial analysts, as well as many other kinds of people - including businessmen both large and small. There are booklets which have been compiled, giving the results of these different areas of the survey. Recently I attended a meeting where they had eight or ten of these booklets. In them you will find some of the complaints which were raised by these different sections of the public.

It seems that our status in the eyes of the public is not as good as it should be. Actually, the public knows very little about us or the functions we perform. They certainly know very little about our usefulness in society - to return to the subject matter of the first topic in our Seminar.

One of the main troubles seems to be that the good things we do are never publicized -- whereas, the bad things that occasionally occur are widely published. Accordingly, to many people it seems that we are not performing a satisfactory function - because when our functions are satisfactorily performed, nobody ever says anything in praise of that. It is just taken for granted. Perhaps we could do something about that!

Among the complaints against our profession were these:

- By businessmen:
1. We lack initiative.
 2. We tend to confine our activity to audit and tax work, without making any recommendations for constructive improvement.
 3. We should be more positive and less equivocal.

These complaints may sometimes be deserved, although I think they are not always true. Evidently, however, businessmen

in general would like to receive more recommendations of a positive kind where we see opportunities for improvement of efficiency and systems of procedure.

- By Bankers:
1. Lack of self-confidence.
 2. We do not seize opportunities for constructive service.
 3. We ignore civic and political responsibilities.
 4. We are too technical.

Banks complain that we do not take opportunities for public service and acknowledge public service responsibilities. They respect our high professional standards, but are confused about the amount of responsibility we assume, or do not assume.

Small bankers complain that we do not initiate recommendations, offer consultation, or keep in close personal contact with the credit grantors.

Among small businessmen, it was found that in general they respect our integrity and high professional standards, but they are confused about the amount of responsibility which we assume. Most thought of CPA's solely in connection with audit and tax matters. They do not think of a CPA as offering services contributing to modern management decisions. Only about twenty-five percent of them thought that their CPA's had any real business imagination.

The general public tends to think of the CPA solely in regard to tax work. They have little conception of our work in regard to auditing and the preparation of financial statements and reports. Most people do not even know what that consists of; and many people think that an audit has no other purpose than to see if the accounts are being accurately kept. They have no idea of its uses for obtaining credit and for financial benefits,

nor of its importance to the stockholders of a corporation. It appears that the public, in general, has only the haziest notion of what a CPA does, and no appreciation whatsoever of the value or use of our services to the public as a whole.

Now, with more emphasis being placed on the importance of management services, perhaps we shall begin to combat some of these complaints that have been made against us by businessmen and banks.

At the time the survey was made, only a very few small business executives thought their CPA had any real business imagination. Management Services should provide a field in which we can effectively show the constructive business imagination which they formerly found lacking. This would also help with the complaint of small bankers that we did not initiate recommendations for their customers.

However, there seemed to be a rather general complaint among small bankers that they did not have sufficient personal contact with the CPA's who serviced their customers, and that we did not keep in close personal contact with the credit grantors. They would like to have a closer contact with the auditors and accountants.

Amongst lawyers and government agencies, the Internal Revenue Service and the State tax boards, it seems that respect for the CPA is increasing considerably. Certainly, respect for their work in the field of tax practice is increasing.

Economists seem to regard CPA's as mere technicians, engaged in a very narrow field -- and some educators share this attitude. Perhaps we should educate the educators!

Labor representatives have a tendency to identify CPA's as representing management interests. They are accordingly suspicious of us, if not openly hostile.

That will give you some idea of what we are today - as others see us! These are just some of the problems, in connection with our "public image". I don't think we can necessarily solve them merely by engaging public relations counsel. I think it is largely up to us, and what we do ourselves to "let our light shine".

In the long run, we have to overcome these criticisms by convincing the public that we are better and more useful than they now think we are. We will have to do this by "letting the light within us shine", so far as the public and the businessmen are concerned. The public will be convinced when they can see the benefits from the work that we do. They will then realize the importance of our services.

I agree that public relations is a very important matter -- but I do believe that it is principally up to us, ourselves, to present a better image of the profession to the public - and I think it is principally by our work and our activities in relation to the public good that this image can be improved. I don't think any hired public relations counsel can convince the public that we are any better than we are.

In many respects, we are limited as to what we can do in making our activities better known, by the fact that we are not permitted to seek any publicity as a matter of professional ethics. However, some of the things we could do, I believe without violating the code of professional ethics, are the following:

1. We can tell our clients, face to face, what services we are equipped to perform. We can also suggest what particular problems of the client we might be helpful in solving. From the results of the surveys, these are some of the most frequent complaints by our clients - that we do not come forward with these suggestions.
2. We can make speeches, where suitable, and we can testify at legislative hearings on subjects of general public interest. We should show that we are knowledgeable and concerned with the public welfare.
3. Our professional societies can take positions on issues, showing an understanding of complex problems and concern for public welfare. They could offer assistance to the legislative and executive branches of government.
4. Committees could be appointed to maintain close relationships with other groups - bankers, financial analysts, government agencies, the SEC., lawyers, etc.

I believe all of these would be effective in counteracting the rather negative opinion most people seem to have in regard to our profession. We need a positive approach to these problems.

The reports of these surveys were recently discussed in Oregon, and it was suggested that it might help to improve our image if articles were to be printed in the newspapers about our meetings. Here, however, you immediately run up against the problem that it doesn't really do any good to get articles in a newspaper about a meeting, unless you have some outstanding person coming from the East to give a talk - somebody with a "big name". Unless there is some "newsworthy personality" present that they can write about, you can get nowhere in the ordinary newspapers; so far as a meeting of the regular kind is concerned, or an election of officers in the regular way, the newspapers couldn't care less! If they print it at all, it will be at the bottom of the last column on the back page, where nobody will ever see it.

In order to receive any prominence at all, in a newspaper, you would have to have a headline proclaiming "Big Fight Over Election of Officers by CPA's" - and somebody would need to stage a fist-fight and call for the police!

As to giving any publicity to any of our regular meetings or elections, the newspapers don't even want to be bothered. They don't consider it the kind of news that will "sell a newspaper". It is not sensational; it doesn't make a headline - and only relatively few people would be interested in reading about it. That is their view.

Then, if you are really going to seek newspaper publicity for the work or activities of the profession, you need to be awfully careful. The printed word can do a lot of good - but it can also do a lot of harm. And sometimes things that you think will be beneficial will, in the hands of a journalist who twists things around a bit, turn out to be extremely harmful. Journalists have a tendency to twist things that you say, in an attempt to make it more "interesting" for general public consumption. They always try to make it seem more sensational.

This can be very bad for a profession such as ours, which wants to create an atmosphere of absolute integrity and dependability on the part of its members. It is very doubtful whether we want any titillating articles about CPA's and CPA firms, appearing in the public press.

At the same time, the press resists any attempts to oversee what is going to be printed in its columns. They do not want what they call "interference". The editors want to decide for themselves what shall appear in the columns of their newspapers. This comes under the heading

of what they call "the freedom of the press" -- but freedom sometimes takes strange and unexpected forms .

Some years ago, for example, the then-President of our State Board of Accountancy was interviewed by the well-known Oregon newspaper called "The Oregonian". You would think that the President of the State Board would know what it would be wise to say to the Press -- and what not to say. Unfortunately, nothing worse could have happened to us!

It so happened that this president had been appointed by the then Governor of the state. He was a man who had not been active in our State Society, and in fact was not as close to the profession as he should have been.

Well, he was interviewed by the Business Editor of the Oregonian. You know how these journalists like to get something "interesting" into their stories. When the article was printed, it said that whenever CPA's do tax work for a company, or for an individual, we would bend just as far over backward as possible for the benefit of the taxpayer, and to the detriment of the Internal Revenue Service, or other taxing organization - to the extent that, if they did not raise a question or propose a deficiency, you had not done a "job" for your client.

You can just imagine the effect this article had! As a result, everything we had tried to do for the IRS was torn out from under us. All tax papers filed by CPA's were investigated and reinvestigated, and everything had to be proven beyond any question. He was finally brought up on an ethics charge.

Now, this attempt at "favorable publicity" may have been well

intentioned enough; but this example would clearly indicate that you cannot always guarantee, in advance of its appearing in print, that what is said to a reported with the idea of obtaining publicity for the profession will come out to our best advantage. It may very easily go the other way!

A couple of years ago, I had a call from one of the papers. They wanted to send over a photographer and get a picture to illustrate an article showing the number of services performed and showing what is necessary to research a state tax problem, for some legislative digest. This reporter was writing an article on it. They said they wanted to talk with the president of our Society.

I said there would be two conditions: First, that the article would not indicate to the Tax Committee that we were criticizing their efforts; and second, that the name of the firm would not be mentioned. Everything came out fine on that occasion - but I must admit I was a bit worried, remembering what had happened only a few years earlier!

You do need to be extremely careful, where reporters are concerned, in regard to anything concerning the profession -- because so frequently things are not published the way you say them.

Our clients are the most important part of the public, so far as we are concerned. One of the main problems may be communications. We need to tell the client what are the services we can render, and what problems we can solve for him. We need to take steps to broaden the client's understanding of the functions we can perform - many of which he has perhaps never thought of in connection with the CPA. So many of our clients think of us simply as a sort of tax advisor, while some think of us mainly as a somewhat more advanced kind of bookkeeper.

I do think we should make ourselves available for speeches to groups, and for testimony at legislative hearings - especially, for testimony on projects of concern to us. I think we could do a great deal to improve our public "image" by such appearances as these. We should not just sit back on the side lines, and decline to make such public appearances.

For example, in Oregon just now there is being initiated a measure to limit property tax to 1% of the true value of the property. It appears that this could have a very profound effect on the welfare of the state, if the proposal should be enacted, so our State Society authorized our taxation committee to devote hundreds, and possibly thousands, of man-hours to a study of several counties, to discover just what effect this would have on our taxation program. I consider this is something that is going to be looked upon as a fine public service. Because of our independent status, we may initiate studies that will not be regarded as biased.

For a number of years, we have held ourselves available, both to the Legislature and to the Governor's Office, to analyze any tax measures that may be presented, and to find out the effects they might have on our tax picture. These have been merely factual reports. We do not make recommendations.

As far as the Legislature is concerned - and, I believe, the Governor's Office also - I do not know of anything that could have been done to present our profession in a better light in our State. I guess you might say that this was "letting our light shine".

When we speak of making ourselves available for things connected with the public interest, we certainly have to do things in connection with

major charities, like the United Crusade. Or, as it is called in Oregon, the United Good Neighbors.

In recent years, in Portland, Oregon, two out of four of the United Good Neighbors Campaign Chairmen have been Certified Public Accountants. We also have twenty members of our profession on the Board of Directors of the Rose Festival in Portland. We also have a CPA who is a member of the School Board.

In addition, we have a member studying the matter of participation in the Family Affairs program, in which you have a team consisting of a lawyer, or lawyers, bankers, CPA's, and many different areas of business interests represented, who all cooperate in this campaign.

I believe also it would be very helpful in Public Relations for CPA's to be active in connection with Service Clubs -- not only as treasurer, which seems to be the spot where people automatically think of putting us - but also (and even more important) in such roles as the President or Chairman of a Committee.

Our Rose Festival in Portland for many years suffered from financial difficulties - it was a great success, except financially! Then they started getting CPA's on the Board, to work on the budgeting. As a result of sound budgeting and effective control of purchasing orders, we got complete control over the board members ordering everything and charging it to the Rose Festival. Now, the Rose Festival is a financial success - and we know, ahead of time each year, that it is going to be a financial success. This achievement has brought a great deal of credit to our profession in Portland and throughout the State of Oregon.

CPA's should also make speeches to Service Clubs. This will show the public that you have an interest in public matters.

CPA's should assist in legislative and government matters. They should give assistance to public financial agencies such as the SEC, and so forth.

For a number of years, we have maintained good relations with the Association of Credit Managers, and with Robert Morris Associates. This is also effective in improving the "image" of our profession. In fact, a booklet from the Association of Credit Managers says: "Make a note to send copies to your banks, financial experts, etc." -- and, on the back, it says: "Utilize the services of an independent practicing CPA, so that your financial story may be properly told."

This is a positive step in the way of improving our professional image. It is, I believe, a very good thing when we have an organization like that recommending that its members make use of CPA services.

Quite a number of State Societies have put out a booklet like this one, entitled "The CPA - Who Is He, and What Does He Do?" In the booklet it states that the CPA can help you increase your profits; he can supply reliable financial statements and audits; he can make sure that your accounting system is adequate for your business; he can plan your personal affairs. His experience and skills are important in estate planning, etc.

It goes on to ask, "What does the unqualified opinion of a CPA mean?" etc., etc. This type of booklet, if adequately circulated, can do a lot to inform the public about our profession and what our functions comprise.

The Michigan State Society has also put out a similar booklet.

In some states, they have agreed with a bank that, if the bank would underwrite the costs of the preparation of such booklets, they (the CPA Society) would prepare them and assist in handing them out.

We, however, didn't want to have the costs paid by anyone else. We preferred to pay the cost ourselves; this preserves our independence. In any case, though, I do really think that booklets of this kind are fine public relations aids.

Aside from such publications, however, I think that the best way to do the public relations job is to communicate information, express opinions, give business advice, give lectures and speeches wherever possible, and in general appear concerned about public affairs, in matters that fall within the scope of the CPA's competence.

We should not go beyond the scope of that competence which we particularly have.

I really believe that the only thing we have to do is "Let the light within us shine" to its fullest extent. Let it shine brightly, and the public will surely come to recognize us for what we are, and for what we hope to be.

* * * * *

P. But you began by reading the views of people who have seen the "light within us" shine -- and they were not particularly favorable!

P. That is the whole trouble - we are not letting the light within us shine sufficiently. That is the very basis of their criticism of our profession.

These several groups all complained about our lack of initiative. They complained that we did not make constructive recommendations and that we do not initiate changes that may be desirable.

Of course, I realize that these surveys were made before the field of Management Services became important in our profession, and perhaps today the same criticisms would not be so generally made.

P. The public has to have some kind of feeling for what we do. They need to have some way of understanding and comprehending what our functions are. The public needs to realize that we are more than book-keepers - but it is rather hard to explain to the public why we are other than what they think we are.

As a matter of fact, it is not altogether easy to define just what we do and what we are, so that the public will be able to understand it. I would like to see someone come up with a good definition of what we do and what we are.

P. You have had an unfortunate experience in regard to the newspaper interview you described, with the President of your State Board some years ago. But have you ever appointed a public relations officer to handle such things?

P. No. And that particular interview took place a number of years ago, when people were less sophisticated. It probably would not happen today.

P. Actually, I was thinking about where you want some publicity in a particular area. In regard to this property tax, as proposed, for example.

And the public service on the part of the CPA's in connection with it.

Maybe we should get a public relations counsel, just in regard to this particular thing?

P. There will be about 20 people on our Committee, who will be working voluntarily for this job of investigating the probable effects of this taxation. Publicity about the contribution our profession is making in that regard would be good for all CPA's - and this may be an occasion where we really should hire a public relations expert to acquaint the public with what we are doing there for the public benefit.

The thing is, you have to have something that you can tell people so that they can see you in a proper light. And it has to be something current, something that is being done now - not something that was done ten years ago. There is no publicity value in things that are past. -- Regardless of how good they were at the time.

The question always comes up at our gatherings: Why are not CPA's more often invited to conferences on important matters? The answer is, of course, that the public in general does not sufficiently appreciate the valuable contribution that we are capable of making to the success - particularly, the financial success - of any enterprise or undertaking. Especially where it is of a public nature, they do not think of us. They immediately think of leaders in the business community; and they will frequently invite a lawyer, or a doctor, to participate - but they do not think of inviting a CPA. Obviously, they do not place any value on our advice - except perhaps, when it comes to the time to pay their taxes.

P. So we come back to the question, "How do we sell ourselves and our abilities, and our services, to the public in general?"

Actually, that question is answered right here, in this little booklet. The public needs to understand many things about us and our work. The public needs to understand that the best thing is an unqualified opinion of a CPA - that this is the most effective thing to protect the interests of investors and credit grantors and financiers, and of stockholders.

We ourselves are all brought up to think that an unqualified opinion is the greatest thing there is. But, to a member of the general public, this sounds rather confusing. In other words, they simply do not understand what a "qualified opinion" or an "unqualified opinion" signifies.

They need to be able to understand the particular terminology. This is something they cannot find out from a dictionary.

Our profession uses these terms, and many others, in a special sense. We understand exactly what we mean by them; but the public does not understand what we mean - and this is one of the reasons for the general lack of comprehension about what the CPA is and what he does.

The public does not have any understanding of what is meant by an "unqualified opinion", or why it is so great. A lot of people would tend to consider a qualified opinion superior to an unqualified opinion.

What is needed is to give the public in general a better understanding of our use of these words, and other accounting terms. This would also assist us in the matter of client relations.

P. We are going to have a joint meeting with the Oregon Association of Credit Managers and with the Robert Morris Associates, and at that

meeting we intend to hand out this little booklet. We will also make it available to such organizations as Chambers of Commerce, Service Clubs, and, in fact, anywhere that businessmen may pick up a copy and read it.

P. Have you ever mailed any of these booklets to your clients?

P. That is an idea. Often the client himself does not really know what the CPA is doing. They tend to think that all they need is a certified statement.

P. Suppose the opinion comes in qualified? The client says: "I thought you said I was going to get a certified statement."

Even if we agreed on a very narrow concept of what accounting services are right now, we still have not done a very good public relations job.

P. The best way of doing a public relations job with our clients is to do the very best possible job that we can do for our clients.

Where the security analysts and the bankers are concerned, the best way of doing a public relations job there is to get the Accounting Principles Board to move more quickly than it has done in the past, and get the Board to take positions as to methods of accounting, etc.

P. I will give credit to Leonard Spacek in this area. He is the outstanding person in coming up with accounting principles.

P. Another thing we should do toward improving public relations and creating more interest among the public in our profession: We should go

out into the high schools and give talks about our profession. Tell the children in the high schools about our profession and what it does and the many services we perform. Then they youngsters will go home and discuss it with their parents, and more of them may consider accounting as a future career. Some of the kids will do our public relations work for us, in this way. I think we should start the education of the public right in the high schools. For every youngster present in the group that is being addressed, the message conveyed will reach at least two other people - his parents. He is also likely to discuss it with his friends - who may or may not have been present at the lecture. He may even discuss it with friends who do not attend that particular school. So one person reached in the course of that one talk may convey all that has been said to six or a dozen people. In this way, one may talk to a group of twenty or twenty-five - and reach a hundred or two hundred. At least some of those are likely to be interested enough to consider accountancy as a possible career - and this is one of the chief problems we are considering at this Seminar - how to interest more young people in entering our profession as a career.

At the same time, we would be performing a valuable service in public relations, and would be making the general public better informed as to what we are and what we do for society.

P. It seems to me that it would be advisable to have public relations counsel, to advise us how best to go about educating the public as to the purposes of CPA's in our society. And, by the word "society", I mean society in general - not the CPA Societies.

Most of us are so busy with the day-to-day needs of our clients, we have very little time left over to devote to the thought that is necessary in planning for the education of the public as to our profession and its purposes.

P. Some of the difficulties in public relations, and in regard to interesting young people in our profession as a career, may lie in the area of probable income. By and large, certified public accountants are the least well recompensed of all the professions - except, perhaps, that of Religion, if you would include that among the professions.

Just within the last few weeks, statistics of professional income have been published - for physicians, lawyers, engineers, etc. Accountants, auditors and bookkeepers fell into a far lower bracket than the other professions - approximately, into the \$3,000 bracket.

Of course, we know that this gives rather a false picture, because it includes a lot of juniors and maybe some people who are just getting started in practice, and this brings the figures down. We know this kind of figure does not really portray the general financial rewards of our profession. But when a member of the general public reads a statement like that, it does not tend to make our profession seem at all attractive as a career for young people!

A sociologic study of classifications, which tried to rate occupations by prestige levels was made by the Government. It was agreed that CPA's are in Group One by prestige; but in various categories they were the sole occupants of the column entitled "Clerical and Kindred Occupations".

This is the government category for CPA's. I would say that we have a long way to go in the eyes of the Government!

P. There was an observation made to me by a very astute businessman who is very successful, in regard to using consultants, and I would regard this as applying to the public relations man -- that success is determined by choice of the individuals employed, and by knowing how to use them.

The secret of success in public relations is, first, in selecting your public relations representative -- and then, in knowing how to use him to the fullest advantage. This is how the public relations man can be of benefit to the Society.

P. The recommendation has been to use public relations counsel in spot situations only, rather than to have them employed on a continuing basis on a retainer. I think we need to consider which would be of more value for our purposes. And, if they are to be used in spot situations, then just what aspects should be emphasized.

P. I think that one very good proof of the value of our profession in training young people for future careers, is the very large number of people who have commenced their career as a public accountant, and have later risen very high in other fields. This is a concrete demonstration of the value of our profession, and the training and education that it affords to the ambitious young man - even if as a basis for success in other fields. I think this should be emphasized, in the matter of public relations and as a means of attracting young people into our profession. I think this would possibly prove more effective, in the matter of interesting young

people in our profession, than almost anything else you could mention -- because here is something that they really measure by.

Very many people who have risen to the top in the nation's largest corporations commenced their career as CPA's - or received their early training on the staff of a CPA firm. For example, at the head of three major automobile companies today, there are men who started out in public accounting; and the Chairman of the Board of Consolidated Edison commenced his career in public accounting. There are many, many others, in the field of big business. The same is true of men at the top of various Government departments, both state and federal. This is an excellent indication, not only of the talent that is represented by our profession, but also of the fine training that is obtained by joining the staff of a good CPA office. I believe it is just about the best preparation possible for a career in management, and particularly financial management. You will nearly always find that the Treasurer and the Controller of a large corporation have had CPA training in their background. Certainly, it is of advantage to them and to the corporation, if they have had such training.

I believe it would be a very good thing if the public could be made aware of these facts. In fact, I think this is what the public needs to know. They would then be able to recognize the advantage of being a CPA - because everybody knows what it means to be the chairman, or president, or treasurer or controller of a very large corporation, and this is something that they can respect without any preliminary instruction. The public would then have a much greater respect for our profession and what it can do in the way of providing talent and capabilities for service to the public and to business in general.

P. Unfortunately, this sort of thing is not easy to get into print. It is a sad fact that good news doesn't get into newspapers very much - because of the generally accepted principle, in newspaper circles, that Good News Doesn't Sell Newspapers.

It is a very strange fact that people will rush to buy a newspaper that flourishes bad news in its headlines - and they won't spend a dime to read something that might be classified as good news. So good news, if it gets printed at all, winds up in the most obscure spot, on a back page, and at the foot of a column. Especially if it is good news of really solid value, like this.

But bad news of any kind - and bad news that affects our profession, such as a financial scandal - hits the front-page headlines.

P. We have some active committees on a state level, in direct contact with the credit grantors, and so on. I think efforts should be made to acquaint the credit grantors with the scope of our work, and with the fact that we have an Ethics Committee. Also, with the meaning and value of an unqualified opinion by a CPA. If we are not conveying these things to the credit grantors, then we are not doing a good job in public relations.

We should try to impart to the credit grantors some knowledge of the efforts we make in our profession to keep it on a high ethical level, and the manner in which we deal with offenders. I believe this would have a positive value in improving their estimation of CPA's. They ought to be able to feel that they can place some reliance on statements that bear an opinion by a CPA, and they should know just what that opinion means.

P. Yes, I think that is certainly one area where public relations work should be done.

P. Then there is the question: How do we represent ourselves to our clientele? When our clients talk about us, do they regard us merely as a necessary evil? Or do they think of us as a useful adjunct to their business? Do they feel they couldn't get along without us? Or do they resent every dollar they spend for CPA services? I would suggest that, among businessmen around the country, you will find every one of these attitudes represented. And they have these different feelings about us in accordance with the experience they have had with CPA's in connection with their business. Some CPA's just do not do a good job of "selling themselves" to the client. The client often resents the fact that the CPA has to come in and audit the books, and looks upon the fee as a profitless expense.

That is because nobody has taken the trouble to explain to him how useful the audit can be to him in the management and guidance of his business. It is surprising how many businessmen do not understand this.

I believe the action, in this field, starts with us. Some public relations work might help, of course; but it is to a great extent an individual thing. The CPA should sit down with his client and explain the results of the audit, and how these results can be used by the businessman for the benefit of his business. Recommendations should be made to assist him, based on what we have found in the course of our examination. This is what the businessman would really appreciate.

Even our own representatives, our staff people, bring an image

bring an image of our profession to the public, and to the clients in whose offices they will have to go to do their work. Also, to the people on the staff of the client - some of whom tend to resent the appearance of the CPA in their offices from the outset. In this respect, the personality of the individual is extremely important.

The accountant, and even the junior, who goes into the offices and plant of a client to conduct an examination of the books and has to work among the employees of that client, should be a person of pleasant personality. He should be clean and well groomed. He should conduct himself in such a manner as to avoid giving offense to any of the people he is to work amongst. He should be able to smile pleasantly, and take part in a conversation if necessary. He should represent his profession well.

We should ask ourselves about people we send into clients' premises: How do they conduct themselves? How do they dress? Can they talk about other things than matters of accounting? - if he can't, he may seem very dull and uninteresting, and lacking in personality.

Do accountants seem like interesting, well-informed people? Do they know anything about the world, and are they interested in the world about them? Other people may judge us quite a bit by such things as these. And the impression they gain of accountants, as a profession, is often founded upon the impression they have formed of the individuals who have come into their offices when an audit has been made - because, in many cases, this is the only personal contact they have ever had with anyone in the accounting profession. The businessman at the head of of the company may meet with a partner in the CPA firm; but other people

in the organization have contact only with the accountant and auditor on the job. They will have a tendency to form their opinion of the entire profession according to their impression of the accountant on the job.

P. There was a survey made of business firms, in an effort to discover what they thought of accountants - how the profession is regarded by its clients.

Twenty-two percent of the firms interviewed looked upon accountants as a necessary evil. Ten percent of them were dissatisfied with their accountants. Sixty percent thought accountants' fees were too high. Forty percent thought the fees were reasonable.

That means, in reality, that sixty percent either felt that the work done by their accountants was not of much value to their business, or else they did not really understand what the scope of the accountant's services consists of. If they had considered the work done was of value, they would not have thought the fees too high.

This might easily have been due to the fact that the accountants concerned were not communicating adequately with their clients.

P. I can scarcely imagine that so many accountants had performed services that were unsatisfactory, because CPA's in general endeavor to observe high standards in the performance of their work. Therefore, I feel practically certain that, in most cases where the businessman was less than pleased, it may have been principally due to what we might describe as a "lack of effective communication" between the CPA and his client. In other words, the client was presented with a set of figures, but he did not understand how those figures could be of service to him in his business.

I think it is very important for us to see that our clients are fully informed as to the implications and uses of the financial data we compile. This is very largely up to the individual CPA, and whether he has developed this approach, or whether he tends to neglect it. Sometimes it is not very easy to explain these things so that they will be fully understood - but, with the more highly educated businessman we shall be encountering in the coming decade - such as we have heard mentioned in the course of an earlier discussion today, it should become much easier for us to make these things fully understood by the client. This may help to bring about a better relationship between CPA's and their clients, because the more sophisticated client will have a better understanding of what the CPA is doing, and what use he can make of the reports submitted.

P. I think one of the most effective methods of establishing communication with the public is through a Speakers' Bureau, which could be available to the public for all occasions that would be in the public interest, whether large or small. Such as Service Clubs, for instance. And for talks to high school and college students. Also, for addressing groups of businessmen, at certain gatherings.

For such a Speakers' Bureau, really good speakers should be selected as much as possible. We don't want to send out a speaker who would only succeed in boring his audience, or who would be too long-winded. We would want to send out speakers who would not only inform, but inspire their audience - people who would favorably represent our profession.

One of the chief troubles in regard to speeches by CPA's, at present, is that they are nearly always addressed to gatherings of our own

profession. We have gatherings of accountants, being addressed by other accountants on various aspects of our profession. This is all right, and I am not criticising the use of our speakers, the use of people of note in our profession, for addressing other members for their better information.

However, ninety-five percent of all speeches by CPA's are given for the benefit of other accountants! Only five percent of the engagements of CPA's as speakers are for the benefit of the general public. Obviously, this isn't getting our story across to the public!

In order to obtain engagements for CPA's to speak to other groups, we need to establish a Speakers' Bureau - and we need to make it known that we are available for giving talks to interested groups of the public in general. I think we should organize the smaller chapters to start such speakers' bureaus in different areas, and to stimulate interest in this project amongst their members.

P. Where a CPA speaks to a gathering, does it necessarily have to be about accounting matters?

There are many subjects where a talk by a CPA might be appropriate - aside from accounting per se. I myself have had requests from the Red Cross, and other organizations, to speak on a number of occasions in recent years, and my talks have not always been about accounting subjects.

I believe there is a certain advantage to talking on other subjects with, perhaps, an accent on the financing and budgeting. This seems to create a good and favorable impression on the public. They are always interested in the financing and budgeting and ways to achieve financial success in their projects. This is one of the quickest ways to their hearts!

P. I think that, in the matter of public relations, it is important for us not to say all the time to the clients what long hours we are working. You often hear CPA's say that they have not been able to do anything else because of the long hours they have had to spend at the office. I think this is rather a poor picture to give the public in regard to the CPA profession, especially if you want to attract promising young people into it. They may tend to shy away from it, particularly if they think the financial rewards are not so high as in other professions which may entail equal devotion.

P. Another thing which I think is important is this:

If members of the CPA profession are more interested in something that will enable them to do a tax return two minutes faster, and save a couple of bucks - and they are often more interested in this than in matters of modern information systems that may be of more interest to the client - then they are not doing a good job for improving the public impression of the profession.

I know of quite a few people who seem only to be interested in the mass production of tax returns at the least possible cost and in the least possible time. There is nothing wrong with this, in itself; but it is a rather self-serving approach, and the person who cultivates this attitude in his practice will tend to neglect the larger view of his profession. I think the public soon feels this narrowness of vision, and that is one of the reasons why we are largely looked upon as just a lot of tax-preparers, instead of as people whose services have a wide scope of usefulness to businessmen.

Nor does this only apply to tax specialists - I merely took this as an example. I think, as a whole, we are sometimes too much pre-occupied with the "tools", and we concentrate too much on the ways and

means, rather than on the larger picture. One of the problems is that the small man in the profession is much more interested in making a couple of bucks today, than in planning ahead for a future with wider horizons.

Of course, this is largely dictated by his immediate economic needs. He usually has a family to support and a house to pay for, and all the usual expenses of a growing family; and he has to meet his office overhead as it falls due - so he has an urgent need to consider the problem of "making a couple of bucks". At the same time, if he does not take the time to develop his talents and look ahead to an expanding field for the long run, he is liable to find himself bogged down in a morass of little things and he may never get around to the greater purposes of our profession.

The public sees a good many accountants who are in this type of situation, whose views have never been expanded beyond a very narrow field of daily endeavor -- and they tend to judge us all by these examples. This is why our profession is so often accused of being "without vision".

The correction of this situation appears to be a matter of education within the profession itself. If our own members develop wider views and lift their eyes to further horizons, the public will appreciate this and will automatically develop a higher regard for our profession, and they will look more to us for leadership.

P. Well, if there is going to be a considerable upgrading of the services offered by our profession to the public and to businessmen, this will entail a greater cost to the firm in training people for these better and more varied services. This will, of course, mean an upgrading of fees; because the more highly trained personnel will demand higher salaries, or they will move

away to some other field where they can gain higher rewards for their talents .

However, if we do not set our sights on increasing the scope of our services, and training our people to handle the new problems that are beginning to arise in business and industry, and the new situations that confront management, then our profits will go down - because we shall lose these opportunities to other people. There are great opportunities in this field, and we need to prepare ourselves and our staff members to meet them as they arise. We also need to make it known to our clients, and to the general public, that we are equipped to handle these matters; then people will know where to turn for assistance in such problems .

P. So far as rising costs of operation are concerned, and the need for paying higher salaries, Lou Penney had a story about a man who sold his business to an employee, and then went back to work for the employee!

P. Some of us may well feel inclined to sympathize with that, when we find ourselves faced with these problems!

P. The California Society of CPA's offered a course on Fees, to public accountants. This was well attended - and it still is well attended by CPA's, particularly by young men coming into the profession.

It is amazing to learn from these young fellows how little time they have taken to set back and plan what they want to be and where they should go. They haven't made any provision for themselves in terms of growth. They have only thought about how much money they want to make, and how many hours they will work .

Looked at from the money standpoint, the profession of a CPA

does not look so attractive as many other occupations. And I am not only talking about the other professions. Take a plumber, for example: If a plumber comes to your place to do any work, the minimum charge is about \$25.00 - just to put a new washer in your faucet! Then he charges \$11.00 or \$11.50 per hour, for any time put in on the job.

So what about a CPA? If a plumber gets that, what about a CPA, who has put in so many years of study and experience to enable him to do a good job for his client?

As a matter of fact, the plumber makes rather a useful sort of yardstick. We use that in our firm as a kind of conversation piece, if the question of fees comes up. When clients complain about \$10.00 per hour, we say, "Why, you can't even get a plumber for that!"

Actually, I believe it is very largely a question of how you sell yourself to your client.

If the client is convinced that your services are worth while, in terms of the benefits he derives from your work, he will gladly pay you a proper fee and he will not quibble about it. If he does not understand the benefits or advantages of having a CPA on the job, and is one of those who tend to look upon the CPA as an unfortunately necessary evil - then he will regard any fee whatever as too high.

I believe it is up to you to show your client how you are working for his best interests, and for his advantage in the operation of his business - then I do not think you will have any complaints about your fees.

P. I know of one CPA who felt that he was working too hard, and he

wanted to have more free time for his family and for advanced study, and for golf; so he decided he would raise his fees. By this means, he would automatically lose some of his clients, but would retain those who could afford to pay the higher rate.

He figured he would then be in a much better position, because he would have approximately the same earnings, but would not have to work such long hours to make the same income, so he would have more time for his own pursuits. At the same time, he would be in a position to give even better services to the clients he would still retain.

P. This is probably a very good idea, when you reach that stage of development in your practice where you feel you can afford to do it.

As a matter of fact, it may quite surprise you, how many of your clients you will retain. All of the clients who have come to depend on you, and who really value your services and your advice, and your understanding of their business problems, will be willing to pay the higher fees.

After all, the cost of everything else is constantly rising. All of the unions are constantly obtaining higher rates of pay for their members. It is quite understandable, even to the public, that accountants also should need a higher rate of compensation for their work.

P. I have formed the policy of discussing with my clients the type of services we are capable of giving, and have then tried to find out just what they want, and what they really should have - and what they want to pay.

They don't want us to lose money on their work. They want us to be properly compensated for what we do. Most businessmen are really very fair in their outlook.

The important thing is to be able to talk effectively, so that the client will perceive the value of the services to be performed. Naturally, he does not want to pay out a sizable fee for something that is of little use to him.

We find that the client will usually go along with us in the services we recommend; and, if he is pleased with the result, there is no trouble about the bill. This is particularly true in the area of Special Services. The client wants you to help him solve his problems. He will not complain about the rates charged, if you explain to him in advance what it will be likely to cost, and why the charges will have to be higher.

P. I think it is often a question of how you say it. There are many different ways of saying a thing, and some ways will be effective, while certain other ways may not.

In a matter that will involve a higher fee than the client has been accustomed to pay, it is certainly preferable to prepare his mind in advance so that he will accept the idea of a higher fee. If you just do the work, and then send in the bill, and it is a high one, then it comes as a shock. His natural reaction is to object - and to complain because it is so much bigger than he had ever imagined it would be.

I think this is largely the key to having your clients accept the idea of an appropriate fee. The client needs to be convinced of the advantage to him of the services you will perform -- and this convincing should be done in advance, so that his mind is prepared for the amount of the fee before he receives your bill. Otherwise, you may find yourself in some difficulty. And you may lose your client, if he is really much annoyed

by the size of the bill.

Nor do I think it is often a good idea to cut fees, in an effort to please a client. Sometimes it may be necessary, but I think on the whole it should be avoided. Word gets around, and if you cut a fee for one client, others will expect the same. It creates a progressive sort of situation. But if you prepare the client's mind, in advance, for the fee you expect to have to charge, and you do your work well and produce results that will be of real advantage to him in his business operation, I think you will have no real difficulty about fees.

P. It has been my experience that the client will not complain about fees, if he is fully convinced that he is getting value for his money.

CHAIRMAN: And on this happy note, let us adjourn for LUNCHEON!

* * * * *

The members of the group reconvened at 1 p.m., following luncheon adjournment.

CHAIRMAN: Well, we seem to have reached an acceptable solution to the problem of how we should educate our clients to accept the idea of a proper charge for the services we perform -- and this is important, that our clients should not have an idea that we are grossly overcharging for our work.

Now, we come to the question of Research and further studies to be conducted by the Institute. Bill Barieau will give us his views on this.

BILL BARIEAU:

WHAT RESEARCH PROGRAMS OR STUDIES SHOULD THE
INSTITUTE CONDUCT OR STIMULATE, IN ADDITION TO
RESEARCH ON GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES ?

By way of introduction to this subject, John Carey's book distinguishes between the kind of research which adds to human knowledge - this he calls Pure Research - and Applied Research, which is directed toward specific objectives. We are today concerned with Applied Research as it may be directed to the needs of our profession at present and as it may develop in the future.

Research may deal with ideas and opinions, as well as with facts. It involves not only the discovery of what was previously unknown; it also involves the accumulation of, arrangement of, and analysis of facts that are already known.

According to what the research is intended to reveal, it must be planned and controlled, and then coordinated. Our research should be designed to answer certain predetermined questions.

Carey outlines a few things that should be considered, in regard to conducting a research program. Who is most competent to carry it out? How can it be financed? How much is it likely to cost? What can be done with the results - how should they be used? -- and so on. However, we are today most concerned with the question, What is the research intended to reveal?

So, first of all, we must ask ourselves: What does the CPA need to know?

John Carey is actually the person directing the research into the question of what the CPA needs to know now, and will need to know for future development. He feels that CPA knowledge falls into four main categories which should be researched. These are:

1. Fundamental research designed to provide the intellectual foundations for the profession. Under this heading come:
 - a) Accounting principles ;
 - b) The arts of measuring and Communicating
 - c) Understanding of the needs of society which should be provided by the Accounting Profession. In other words, What does society want and need of a CPA?
2. Research into closely related disciplines, which might reveal some desirable innovations in Accounting -- this would be, for example, in Economics, Engineering, Statistics and Mathematics.
3. Research into the professional techniques, such as double entry, cost accounting, and auditing.
4. Research on the Profession itself - into such questions as Personnel, Motivation, Goals, Opportunities - and the question of What is our image in the minds of others?

This latter question, of course, we have already covered at some length today.

Proceeding to a discussion of these headings, and taking first the matter of fundamental research designed to discover the intellectual foundations for the profession:

We need not deal with research into Accounting Principles here -- that is being handled by the Accounting Principles Board. So we will proceed to No. 2 on the list - the art of Measuring and Communicating effectively. Just as some people prefer tennis to golf, one of my particular interests just happens to be Communications and, especially, the failing of communications.

As an example of how communication can go astray, let me tell you

a story of something that occurred recently near my home. I was outside, and saw a teen-age boy slide a wagon onto a little boy's leg. The youngster was considerably hurt, and, from my observation, this appeared to have been done with a wanton carelessness - almost purposeful. So, my blood started to boil, and I ran across and asked him why he had done that.

When he answered, I thought he said, "Go flip!"

This took me so much by surprise, I scarcely knew what to do.

I had an instinct to let fly at him, but recollected that this would make a situation that could be very bad for me. It would quite possibly mean that all the neighbors would be up in arms against me - and I might easily have ended up in the court, charged with assault! Fortunately, reasoning got the better of my heroic instincts, and I just turned on my heel and strode into the house. I was just boiling inside at what I thought was his insulting answer, as well as being concerned at what appeared to me to be his cruelty. In fact, I was so angry that I really didn't know how to cope with the situation.

However, it turned out that my indecision was really fortunate -- because later on I learned that when I had thought he said "Go flip!", he had actually said, "It slipped!"

So, in reality, he had been neither rude, nor intentionally careless.

This was, to me, a very clear example of failure of communications and it could have led to a very awkward situation for me. It could have led to a neighborhood ruckus, and I could have become very unpopular as a result.

In all probability, we will not have quite such a dramatic instance occur in connection with our practice as accountants - but it can very easily happen that our clients may not have a full understanding of what we say.

Quite apart from the fact that it is possible to mistake the actual words that a person says - as I did in that example - we are faced with the problem that many of our clients may not have a full understanding of what we are saying when we try to explain something that they need to understand. They may not understand the terms we use, many of which are used in our profession in a special sense.

We talk blithely about LIFO and FIFO, for example. We know precisely what each of these convenient terms means; but does our client understand the difference?

We use quite a lot of technical terms constantly in our conversation. These are part of our professional equipment and we pass over them often very quickly, from such familiarity; but the client may not know what they mean, in the sense in which we use them.

We should try to make certain that we are understood when we discuss our services with our clients. If they fail to understand what we say, our services are going to be very largely wasted - and, further, they will be more likely to resent our charges for our services. We must try to ensure that we make our meanings clear, and explain any terms that may be unfamiliar to the client; and we should take care to express ourselves clearly. I think there should be some research into this matter of how we may make ourselves better understood, especially by our clients; because I think this is very important to one's success. The CPA who has good relations with his clients will have a successful and pleasant practice. The man who is at odds with his clients will have a difficult time of it, until he can manage to learn the art of communicating better with them.

There was an article I wrote, entitled "The Use of Reproductive Equipment in an Accountant's Office". My partners chided me about the title, saying, "Is this something that a farmer might be interested in?"

It is partly a question of semantics, of course. We need to choose language that will be unmistakable in its meaning, so that we can communicate clearly with others and they will understand just what we want to convey.

Then there is the question of: What does society want us to communicate?

What do people need from us, in the way of understandable advice and guidance to assist them in their business and investments?

If our work is to be of any assistance to them, we have to be able to translate the results of our work into something they can understand.

The Journal for August, 1965, in an Editorial, talked about Accounting for a Free World; also, about economic development in relation to accountancy on a world-wide basis. The AICPA Committee on International Relations was quoted:

"In developing countries, however, financial statements for industry and commerce, for sectors of national productions and consumption, and for movement of goods and services, tend to be highly deficient. In the introduction of "Professional Accounting in 25 Countries" it is observed that ". . . in some countries the standards expressed through legal or professional channels represent more of a statement of goals than achievements, and the reader must consider whether practice conforms to precept. He should be aware that conformity does not always exist."

It seems important to develop an understanding of accountancy in the underdeveloped countries, because many of them have absolutely no idea of where they are going - and they cannot have, until we come in and help them.

Economic development of these countries will need accountancy to accompany it, and the two must go hand in hand. There will be an increasing need for competent accountants in the underdeveloped countries, and there we will need, even more than in this country, the ability to make ourselves clearly understood. This may be made even more difficult by reason of the fact that the native language probably would not contain any equivalent terms for the language of accounting.

Insofar as our own country is concerned, the tremendous growth in industry and business, and the rate of expansion in recent years, have brought with them a greatly increased need for accounting services and for guidance to management. We also need to research what are these developing needs and what Business wants of us, in connection with these new needs.

We also need to develop a means of communicating our findings clearly to our clients, so that they will not be confused by what we say. Misunderstanding of the accountant on the part of the client can lead to some very difficult situations. Research in this field should be directed toward finding out all the ways in which we can be helpful to the businessman, the industrialist, the manufacturer - and to society in general.

There should also be, as Carey suggests, some research into the related fields of economics, engineering, statistics and mathematics. We may learn from these related disciplines. It might also throw some light on possible future developments in the field of accountancy, because it will enlarge the picture into other areas, all of which are in some degree related to accountancy.

The legal and medical professions, I believe, have done quite a lot of research on all sorts of matters with a bearing on public relations,

relations with clients, and how to create the desired image of their profession, and many other subjects. I think it would be valuable to find out what they have done in the past by way of research into some of the problems that now confront our profession, and see if their experience can assist us.

Next, Carey suggests research into accounting techniques - cost accounting, double entry, and auditing, for instance. To this we might add research into the uses of computers and into the matter of management services and how best these may be carried out. Carey also recommends research into the matter of taxation, and, into a new field that is beginning to come to the fore at a time when so many of our established corporations are opening branches abroad, the field of international accounting practice.

His next heading is Research on the Profession Itself. In this connection, he suggests research into the quality of human input, and whether this profession is attracting its fair share of the most promising young people, and if not, where should they be found? He is also interested in discovering what kind of people make the most successful CPA's, and what are their personal characteristics and interests. The matter of income for CPA's, and how the income of successful men in our profession compares with the income opportunities available to people in other professions, is another question for research. What are the probable manpower requirements for the next decade, and what new areas of knowledge and skills can be opened up?

He mentions the research project to describe the common body of knowledge of CPA's, and states that this will have a marked result on the education for accountants, professional development programs, and the CPA examination itself in the future.

One of the pertinent questions is: What attracts desirable young

men and women into the profession? What is it that repels others who may be equally suitable? He would like to find out what these young people read, and how they spend their leisure time. Do they ever come across any reading material that might arouse an interest in becoming a CPA? Does any speaker ever come around to their high schools, or colleges, to tell them about our profession and the opportunities it offers for growth in financial understanding and for service to the community? (see page 367).

What we should really like to be able to decide is: Where should our research effort be concentrated?

Perhaps this is best expressed in the question, What does Society need of us, and how can we fill that need? When we have answered that question, we can decide where we want to concentrate our efforts, and what we should work on.

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P. Would it be helpful, first of all, to decide by means of research what our target is. This should include the kind of services we would be providing in the next ten or twenty years; because this might have quite a bearing on the other aspects of research.

P. Would it be a good idea to make a distinction between research on accounting as accounting, and research on accounting as a profession? Again the question of semantics enters into the picture. We have a tendency to use the word "Accounting" in two or three quite different meanings.

We use it to mean the actual performance of the techniques of accounting; and we use it to mean the techniques themselves. We also use it to mean the whole profession of Accountancy. It means very different things, in different contexts.

I think, if you want to talk about communicating to the public, these several different meanings which we often give to the one word tend to confuse members of the general public. They have a very hard time, trying to figure out just what we mean when we toss this around in such a familiar fashion - but the word itself does not always mean the same thing. In fact, it does not mean even nearly the same thing, from one minute to the next! We could use the word "accounting" three times in the same sentence, and with three very different meanings.

We ourselves have no difficulty in following the changes in meaning, but I certainly think the general public does. That is why I think it would be really helpful if we could somehow distinguish between the several meanings of this word, and make it clear to the listener what we mean when we use the word. I'm sure the general public cannot follow our changes of meaning. And that is only one example of words and terms we use, which confuse the public.

P. In regard to research into the question of Personnel, and Motivation, and concerning the matter of young people coming into our profession, I think we need to ask, What are the sources of good men, and how are we going to train them to the best effect?

I think, given time and money, we can find answers to these questions; whereas some of the other questions are of such a nature that we

would have great difficulty in coming up with any answer. It seems to me that accounting is basically an art - not a science. There are certain scientific overtones, but it is mainly an art. It is an extremely important and necessary thing - but it is not entirely a science.

Sciences are based on fundamental laws, laws which are constant and not subject to change. But really, when you come right down to it, is there anything in what we do which is done the way it is done because that is the fundamental nature of the thing?

I don't think we have anything quite like that in accounting. That is why I feel it is not really a science, but falls more into the field of art. It is the art of Measurement and the art of Communication of financial and economic data. And the art of Financial Management and Management Counseling.

I think we could get very useful results in the one area of exploring where we could get more young people interested in the study of accounting as a profession. I believe this is one of the great needs of our profession today - to gain the interest of the bright young people coming up through the high schools and colleges. I think research should be done into ways and means of attracting them into our profession, and in regard to the best ways to train them and educate them for the profession, once they have decided to become accountants.

P. Even in the California Society, they are trying to set up a foundation where we could make contributions for study in this area. We may not rely entirely on the Institute to do it for us. We may even be able to stimulate clients to make gifts to foundations for study in this area.

P. Do other states, at the present time, offer a client program or a research program connected with education, which will increase the public esteem of the accounting profession and will improve the image of our profession as seen by the public? Do we sponsor any such program?

P. I wish I could remember just how much was transferred from the budget this year. We would up with a good \$140,000, and that was going to be used for this purpose; but the funds became somewhat depleted.

P. A few years ago, a number of firms made contributions to a research fund and to the Accounting Principles Board for research into some of the subjects you mentioned. A suggestion was made that the Institute might get some results by providing some research funds.

P. Carey means that we should do the financing, I believe. He says none was received from business associations, and little from universities. Almost all has been financed by members' dues, or members' contributions, or both.

P. We might do a lot to improve our applications and techniques, even if we don't have this fundamental science underlying our profession. Engineering, basically, is the application of scientific knowledge to the solution of problems concerned with such things as products. It is basically an applied discipline. Much of the development in what engineers do has come to light first in solid state physics.

The modern computer first came out of physics. Then the engineers took it over, and now we have computers and computer science.

P. In our profession, we are really drawing on many very broad areas of knowledge, and bringing them to bear on a problem. This is the case in many different fields today. I call it Applied Logic. I find this very basic in teaching.

On the other hand, we also have established procedures, which do not have any particular reason to be done as they are done, except that once upon a time somebody started to do them that way, and so today this is how they are done. Why do we have debits on the left, and credits on the right, for example? Simply because, many years ago, somebody started to do it in this way, and others followed suit, and it became the established way of doing it. Now, it would be very confusing indeed if one were to do it differently.

One must do it in the accepted way, because to do it otherwise would mean a great deal of wasted time and would doubtless cause a great many errors in application. Yet there is actually no reason why it would not be just as correct to do it the opposite way around.

We could really find our needed information in any way we wanted to, if everybody agreed to it. There isn't only one way of doing our work. But it is necessary to make it uniform, everywhere, in order to avoid confusion.

By the very nature of the subject, however, although it sounds very scientific, it is a very highly refined and elaborate art. A very highly developed art.

In computers, however, we are getting back into a discipline of mathematics. This is not exactly accounting, but the accountant may use those tools to develop the information he needs for his work.

If you say to the natural scientist that we are going to do some research in accounting, we will see the matter from his own viewpoint. He does research by setting up an experimental situation, observing the results, and relating it back to the "control" situation - in the hope that he will find something either significantly different, or precisely the same. Either way, it may prove something - especially if other similar experiments are conducted along the same lines, and the results compared.

We are not in a position to do that, in most instances; and really that is not what we mean when we speak of research, in most instances. But so long as we understand what we are doing when we use the word "research", it is all right, amongst ourselves. But, if we talk to other people about "research", we may have to explain what we mean by the word.

P. There is also a basic question, Are we accountants, or CPA's? Is accounting just one of our tools? When we evaluate internal control, for instance, do we just use accounting - or do we use a broader concept?

In this book, we seem to keep on referring to ourselves as "accountants". Perhaps this is one of the reasons for the confusion that we seem to have about us? We are many things in addition - yet we are accountants.

Are we auditors and advisers? Yes, we are auditors and advisers, but auditors in a broad concept.

To draw a comparison, you have the term "lawyer". This relates specifically to the person who is qualified as a member of the legal profession - and they are all lawyers, or attorneys. But you also have the words "barrister", "Counselor", or "trial attorney" - they are all lawyers to

begin with, and they are the other things secondarily - although they are specialists in the particular type of legal services that these terms denote.

There are many different connotations to the word "lawyer", as seen in the various special fields of the practice of law - "Patent attorney", "Corporation attorney", "Divorce lawyer", etc. These have been developed by reason of the development of the profession, which has led to various kinds of specialization in that profession, with different terms to describe the specialists - but they are all lawyers, or attorneys, in the first place.

Could not the term "Auditor" also have been evolved as a result of developments within our profession? Similarly with the term "Management specialist", or "advisor to management". Or "Tax accountant".

I think that when members of the general public look at the word "accounting", they think of bookkeeping - because "accounting" is actually a keeping of records, a keeping of the accounts, a keeping of the books. So they tend to regard an accountant as a slightly glorified bookkeeper - but nothing more. Some people do think of an accountant as one who makes an accounting for the stockholders, but that is about as far as they ever go when it comes to differentiating us from bookkeepers.

P. Even the old dictionary said that an accountant is one skilled in the "interpretation of accounts." Also, one who keeps or examines books. Again, one who is skilled in the keeping or examining of accounts.

Accounting, as a profession, is the measurement, recording, interpretation, and presentation of accounting data, or economic or fiscal data, to those persons interested in receiving and using such data. So the presentation of the data should be included as a part of that definition.

P. This is still an extremely limited definition of the full scope that we visualize in the wider aspects of our profession - and especially as it is developing now. The practice of accounting, in its broadest possible sense, goes far beyond the meaning of accounting as a study, or as a practical art in the examining of accounts.

P. All the same, we are dealing with images; and our image of accounting may be one thing, but the image that the public associates with accounting may be something else again.

P. Well, how about auditing? Is that subject to so much misunderstanding?

P. I think the field of work described by the word "auditing" is much more restricted than that covered by the word "accounting". To compare again with other professions, do auditors have the broad concept in their work that doctors have, or lawyers, or ministers?

P. In relation to the definition of what Certified Public Accountants do, and the name to be given to their activities, that seems to be the No. 1 problem; and, if we can find out exactly what they do, and define it satisfactorily, then perhaps we can change the name to fit what they do.

We know pretty well what they do now; but, in seeking a definition we have to make it broad enough so that what we may be doing ten or twenty years from now can be covered, too.

P. There are some clients who want us to do a lot of things that do not ordinarily come to mind when thinking of an accountant simply as an

accountant. There are even some clients who want us to do their personnel recruiting. Actually, I believe it is quite usual for a large corporation to have all personnel for their record-keeping and accounting departments interviewed and "screened" by their CPA firm. They have an idea that perhaps the CPA will be better able to judge the applicant's capabilities in relation to the job to which he will be assigned if employed.

We have even talked about fingerprinting, as a means of checking on the background of applicants for positions, when recruiting personnel for clients. In that case, I suppose we should need to learn how to take a set of fingerprints, ourselves, which could be sent in for comparison with FBI records, or something of that sort, to see if the person applying had ever been a bank robber or had some other criminal record.

Perhaps we will wind up doing that sort of thing, twenty years from now, as a part of our ordinary professional duties.

P. If we ourselves cannot visualize what we shall be doing twenty years from now, then we should leave the definition open enough so that it can include all the things that we might be doing at that time. In that case, it should be pretty wide in its implications.

P. Perhaps the term "Advisors to Management" might be suitable to include the wider scope of our services. Possibly something like that might prove to be an acceptable term to describe our profession in its higher aspects. Just as the legal profession has the terms "counselor" and "trial attorney" - whereas they all start off by being lawyers - perhaps we might all start off by being accountants, and might later rise to "Advisors to Management", or something of that sort.

P. "Economics" is sometimes described as "what economists do". So maybe "Accounting" can be defined as "What CPA's Do" -- but still that doesn't get us very far, because it does not really give any information to anybody who wants to know what Accounting is, as a profession.

P. The definition of Accounting, ten years ago, did not encompass any of the management services as they are presently being practiced. Because ten years ago these management services scarcely existed - yet today, they are a growing part of the practice of a CPA firm. They are, however, really a development of just this last decade. So, if we had been stuck with a definition of an accountant, which was sought to be introduced into the legislature only ten years ago, we would find ourselves extremely limited now.

P. It would be like being "fenced in", if it restricted us from moving out into these other branches of our work that are now opening up. This is the danger of defining a profession in the legislature, and making that precise definition a matter of legal limitation - you may find, a few years later, that it does not permit you to carry out work which your clients would want you to do, and which you would be otherwise qualified to do. For this reason, I think any definition of What an Accountant Does, or what the profession of Accountancy covers, should be kept very broad in its scope - especially if it is a matter of legislation.

P. John Carey says on page 116, "The specific purpose of the profession is to supply economic services". In this, he is referring to some writing by Peter F. Drucker on the theory of business management; but he says Drucker's remarks are also applicable to the accounting profession.

To supply economic services - that is indeed a broad definition. One may say that it is quite true; yet, again, it does not really tell the reader anything much about the things that accountants actually do.

Further in the same chapter, on page 117, he discusses the function of accountants in the following terms: "The accounting function embraces the measurement and communication of all financial and economic data". He goes on to say that an accountant, a CPA, measures and communicates such data largely for control and information purposes, and most frequently for a total economic entity - a business, a governmental unit, or a nonprofit organization. This is to distinguish the CPA from other experts, such as economists, statisticians, and investment analysts, who also measure and weigh financial and economic data - but for other, specialized purposes.

It seems to me that this definition of the accounting function as "the measurement and communication of all financial and economic data" is really a pretty good one; but it still does not include management services.

He goes on to say that CPA's measure and communicate financial and economic data "both for purposes of external reporting and internal planning, for control and decision-making". This is taking it a step further and is, I believe, a better definition which is still along broad lines.

He also says that "a CPA will not be able to make a satisfactory audit . . . unless he understands the methods by which internal information is generated and communicated, and the basis on which decisions are made. In other words, he must understand the organization and the whole information system even to discharge his function as auditor. He should put this knowledge at the disposal of management for internal purposes as well as for external reporting."

On page 118, he says: "Accounting can and does deal with data, not only in terms of money symbols, but also in terms of material, labor, time, index numbers, and other valid units of measurement."

He emphasizes that Accounting is not only confined to financial data. Yet most CPA's and most of the public have always "equated the term accounting with double-entry bookkeeping, balance sheets, income statements and tax returns, plus a few incidental and supplementary services." However, he remarks that "The concept that accounting properly includes the classification, analysis and interpretation of any data which can be expressed in numbers or other quantitative symbols opens up vast new areas .

On page 119, he goes on to discuss the Attest function and the possibilities of its extension. He says that there is no reason why a CPA should not express an opinion in suitable terms,"and with whatever reservations may be necessary, on the credibility of statements of cost, the reasonableness of estimates of productivity per man hour of labor, or any other quantitative statement which can be supported by satisfactory evidence." This goes quite a long way beyond the Attest function as it is customarily exercised by most CPA's at the present time; but what he says is perfectly logical, and it is quite possible that some of us, on particular occasions, may be called upon to look into matters such as these and give an opinion as to them.

On page 118, he emphasizes that the services which the profession performs "must be needed and wanted". This, of course, is obvious and basic enough; but he goes on to say that since the economy is always changing - and at the present time, very rapidly - "the profession can

survive only if it adapts its present services and inaugurates new services to meet the changing wants of the economy". This, again, is very true -- and it serves as a warning that we should not attempt to reach any definition of our services which would be too narrow or limiting, since we must allow for the probability of changes taking place in the scope of our work.

P. Elsewhere, Carey says that:

"The first official effort I remember to describe accounting practice was published in 1927. It was an effort of the Institute's Committee on Education to classify professional accounting services as a basis for an educational program. This classification includes fourteen items, six of which were different kinds of audits -- general audits, balance sheet audits, cash audits, general examinations, limited examinations, and investigations. The seventh item was preparation of statements from books or records without verification. The remaining items were tax engagements, general accounting systems, cost systems, budgets, bookkeeping and accounting engagements, opinions on financial matters, and miscellaneous. No effort was made to relate the 14 items to any common conceptual foundation -- or even to each other."

Within the scope of the definition, this would give the public the proper image of us as a profession, if you are trying to determine what is the practice of accounting; but still it does not mention management services - because this classification was made previous to the time when management services began to be a part of the accountant's work.

P. Why not try to concentrate on the type of services we render -- and then the public will recognize us by our work. "By your works, they shall know you" is what the Bible says -- and I think it has some application to the profession of accounting! Combine that with Webb's favorite quotation, "Let the light within us shine!" and it seems that even accountants can find guidance in the Bible. I think that the excellence of services is very important. Whatever a CPA does should be very well done.

P. I think we are not making the best of our opportunities to inform the public as to the value of our services. I don't think the public is going to be so concerned with the technical aspects of our services, as with what type of services a CPA renders, and of what quality? In other words, what can be expected of a CPA? Maybe that would be a good approach, rather than try to get into fine-line definitions.

If we try to enlighten our clients concerning the fact that our services include management services, they will immediately ask, "What are those management services?" We will need to be able to define them, and in clear terms.

Apparently, in many cases we do manage to convince clients that management services are of value - because we have some people around this very table who are engaged in just this field. Perhaps, if the idea of Management Services were more publicized, it would not only bring more clients, but would help to attract the right kind of personnel. I personally believe that any profession which attracts the right kind of personnel is bound to go ahead and will automatically obtain the right kind of image.

CHAIRMAN: Well, it seems that we are returning to George Oh's original topic, No. 1 on our Agenda. In the light of all the subsequent discussions, let us see if we have developed any definite ideas. We always seem to be coming back to this subject, one way or another. Let's see if we have acquired some definite thoughts.

Apparently, there is a pretty general feeling that we need a new and better definition to describe the services rendered by the profession of certified public accountants; and it is felt that such a definition should not be confined

merely to the techniques which are used in order to obtain our results, because none of the techniques suffices to describe the boarder aspects of the services rendered by the profession as a whole.

It is felt, apparently, that the profession is moving forward into an era where the rendering of service to management and advice to management will be some of the major fields of our endeavor - as well as providing information for the guidance of investors and stockholders and credit grantors.

It has been suggested that possibly the term "Advisors to Management" might be acceptable as a broader indication of the scope of our services, as they are developing in the current decade. Nobody has protested this suggestion. Of all the definitions that have been considered, it does seem to cover everything better than any other.

It seems to be pretty generally felt that the word "Accountant" no longer is sufficient to convey to the public at large the full scope of the many services we render. It begins to look as though we need to change our description of ourselves, from "Accountants" to something more like "Advisors to Management".

From there, we may go on to our next topic, dealing with the professions's objectives should be delineated, and then implemented.

After a break for coffee, I will ask Dana Johnson to talk to us on that subject, our ninth and final topic.

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The meeting adjourned for a ten-minute coffee break.

DANA JOHNSON:

WHAT SHOULD BE THE ROLE OF THE INSTITUTE, OF
STATE SOCIETIES, STATE BOARDS, C.P.A. FIRMS,
AND OF INDIVIDUAL MEMBERS, IN DELINEATING
AND IMPLEMENTING THE OBJECTIVES OF THE PROFESSION?

I think, in regard to this question, we might ask ourselves
"What can be done?" -- as well as "What should be done?"

We may find that, while perhaps a certain thing should be done,
for one reason or another it cannot be done at the present time; and, by way
of making adjustments here and there, we might be able to accomplish more
than ever we could achieve by making the separate distinction and consider-
ing only what we would like to see done if it were possible.

Before we can set about implementing the objectives of the pro-
fession, naturally we have to decide just what those objectives may be.
So the first question is, of course, "How do we delineate our objectives?"

Actually, that is exactly why we are here today. This is one of
the principal things we have been trying to do; but it is very difficult to
try and look into the future, and state exactly what we are moving toward;
because our objectives will need to be adapted to future developments in
government, business and industry. We are principally looking to the
Institute for delineation - for the profession as a whole. I may know, to
some extent, what my own objectives are likely to be for the next five or
ten years -- but I cannot speak for the whole profession; I think only the
Institute can do that, because the Institute can get the overall picture and
I cannot.

Actually, as we have seen in the course of our discussions at this

very meeting, there may be some considerable argument about the delineation of the Profession's objectives, and when you have ten people gathered together, you are likely to find you have ten different delineations; because each tends to see it from his own point of view. So I will drop the question of actual delineation at this point, and go into the matter of implementation of the profession's objectives.

This brings us to the question: What do we look for, from the American Institute of CPA's and the State CPA Societies?

Basically, these are organizations which serve us. These societies and the Institute have been formed to serve the whole profession, as may be needed. What should be done by the State Societies, and by the AICPA - this can be ironed out at a later date.

Assuming that we have clearly defined our objectives, we then need a Plan. The question is: Who should provide this? Who should decide on the Plan? This would seem to be an Institute problem; and that is why we are here today, in connection with the Long Range Planning Committee of the Institute.

There are some problems in accomplishing the objectives of a Long Range Plan. This is not like a commercial objective, a situation where you have a certain definite object - such as selling two thousand units of a product - and one certain man is made responsible for accomplishing this definite objective. Our case is very different. Our objectives are really very vague, at this point. And, in accomplishing our objectives, one of the main things we have to do is to discover, in the minds of our own members, what they think the objectives may be, or should be. It would seem to me that possibly this might be accomplished by some kind of a poll or questionnaire.

When you have arrived at some idea of what your objectives are going to be - by means of questioning and deliberation - and then some sort of decisions have been arrived at, so that we know what we are trying to accomplish, then you can institute a Long Range Plan designed to implement those objectives. Certain priorities should be established.

It may be necessary then to change the minds of some of our members so that they will accept the newly defined objectives, and you will have to "sell them" on these changes - and still retain their good will. This is one of the important things in a Long Range Plan. The State Society should inform the membership as to what the alternatives are.

What are our problems in this connection?

The objectives of the profession should state that there are certain fundamental questions which will be answered by a certain time. To do that, you must inform the membership as to what are the alternatives, and you must develop an interest in the subject, so that the questions can be referred for debate on schedule. Perhaps that is an ideal situation, and there will commonly be arguments along the way that can be accomplished on a time schedule. Adequate opportunity should be afforded for discussions and comments before any finite decisions are made. Any critical problems should be resolved through proper action of the existing bodies. Educational facilities should be developed, to inform the membership and enable them to adjust to the changes from their previous thinking, as may be necessary. This comes under the heading of Implementation.

How is the membership to be informed of the objectives? It is certainly important to try to resolve major questions on some kind of a time schedule, and on some sort of a priority basis. Then, when you have

decided on a certain course of action, you must have some sort of mechanism for allowing your membership to adjust to the changes that will be occurring in the profession. This is largely a matter of allowing sufficient time for the adjustment, including education of the membership. This cannot be accomplished overnight - it takes considerable time, as we all know.

One of the main things for which we look to the Institute and the State Societies is to inform our members about what is happening in our profession and the new developments that are coming about. I think we really need to improve our publications in order to do the job as we feel it should be done.

The Institute and the State Societies provide leadership for our profession. We rely on their leadership to bring these changes to us. The leadership has to come down to the membership, by one means or another - and perhaps by various means. It is essential that we concentrate on bringing the leaders of our profession to talk with groups of other members - to talk as leaders. They should give informative talks on the latest developments in the profession and perhaps these should be given somewhat in advance of any actual decisions.

Since ours is a democratically organized profession, we have to communicate with the membership when we are faced with making a decision on a given topic. So you have to generate the type of interest that will allow you to develop the problem and get the views of the members. This is done by means of grants and by published articles, in addition to talks and discussions, and seminars such as this one. When certain objectives have been decided upon for implementation, I think it is very important to distinguish the actual objectives (which should not be compromised) from the method of implementation, which is flexible. In practice, procedures need to be flexible.

The publication of the Accounting Principles Board is a good example.

It generates a lot of interest in the Board's deliberations. I think this type of interest must be aroused in all the major questions with which we shall be faced in connection with the Long Range Planning. Because here, again, we look to the leadership of the profession, and we depend upon their ability to communicate with the membership.

We must also look to our communications with other interested groups. In regard to this Accounting Principles thing, the AICPA tossed the ball to some of our executives and said, "What do you think?" That is, they are taking it right to the people concerned with those areas in their practice, and they are generating discussion about it; and they hope to then reach some kind of a conclusion with people who would actually be handling these things in their work.

There should be an organized, functional approach, in keeping with overall definition of public accounting and of the individual specialties. There should also be a study of, and adoption of, the most modern and efficient teaching methods, to disseminate the results through the profession.

Someone has to be responsible for seeing that the ball is kept rolling. Then, before too long, we would hopefully be in a position where we could make a decision.

When are we hopeful that we can get some action? It is perhaps a dream that we can adhere to an actual time schedule. But, in a general way, we know what kind of controversy there will be, and what kind of problems will result from a particular question. I think we can generate enough discussion over a period of time, where we can reach the point that we can resolve the problem.

Talking about the Accounting Principles Board, one of the difficulties

they are struggling with is that they cannot put things into effect because of practical problems. This does not make their conclusions any less valid. But they are unable to get the thing rolling in accordance with the time schedule, because of the mechanics of the operation built into the APB.

One of the most critical problems is Education - the education of our membership to new concepts. I hate to put this in terms of merchandising, but courses have to be organized and planned in such a way that they will sell themselves to the membership. One has to motivate the body of the Profession to adopt these new concepts.

A CPA has a feeling that in his particular specialty he must educate himself on a continuing basis. In Management Services, or in Auditing, he takes the courses that are being offered, and by this means he will continuously educate himself. This also touches upon the problems of recognition, of specialties, and on the Academy approach. We look to our Society and to the Institute for this type of guidance, and we will advance according to the way we go about educating our people.

For example, the last Professional Development Council had a demonstration in the advanced techniques of programmed instruction and all that sort of thing. I think these aspects of the development of teaching are essential. We must use our time for learning as efficiently as possible - just as efficiently as we use it in doing clients' work. I think here the State Societies have an obligation to the individual members, to give them courses that can be taught effectively with the least possible loss of time.

I am largely summarizing what has gone before. I think our Long Range Planning should be continually looked at, and revised and updated as the times demand. I think there should be a Permanent Committee

that reviews this problem. They should be available to the younger and more dynamic members of the profession for expression of their views -- and the Permanent Committee should actually encourage them to speak up, because some of them may be a little diffident about making their ideas heard.

There is one thing that I particularly like about this meeting today: It has been set up in such a way as to hear from some of the younger members of the profession here in California. I think this is a very good thing. We need to have the thoughts of the younger men, because often they have a fresh outlook which can be very beneficial. They have grown up in today's world, and are not bound by past traditions. They have come up through today's schools, and are oriented toward the conditions of the world as it is today, and as it is coming to be, and as it will be tomorrow.

At the same time, of course, we have some of the most distinguished senior members of our profession, and their views will act as a good balance if the enthusiasm of the younger members tends to run away with them. They are men of very wide experience and knowledge that has been tested, but men who are in active practice and are true leaders in the development of our profession. Their views are of the utmost value to all of us.

Certainly, as far as I myself am concerned, I am on the lower end of it. But all of our discussions here will eventually seep through to the top - and a rash statement on the part of a younger member such as myself will be checked somewhere along the way to the top - and this is a very good thing. This gives people a chance to say what they have in mind, and for their suggestions to be reviewed by people who have possess more experience and judgment from the long-range viewpoint.

It also gives the younger people like me the opportunity to develop a broad overall perspective, and it gives us some understanding of what we are faced with. This is tremendously beneficial and broadening for the younger members of the profession. Personally, I feel that I am very fortunate.

We have just talked about some of the research responsibilities. Primarily, of course, we look to the Institute for research as to what faces the profession. Another thing, for which we look to the Institute and the Societies, is that when we find out what we are, and what we are going to be, and what we should try to be, the membership needs to be told what we have decided they are. Principally, we look to the Institute for that, and secondly to the State Societies, to educate their membership.

We have talked about public relations. Here, again, one of the main vehicles for improving our public image is through the Institute and its work - even if it should say to the members, "You must improve your own image by your work".

Then there is the question of implementation by legislative boards. Legislative boards have the responsibility of acting in the best public interest. There should be a continual review of what minimum standards must be maintained in order to protect the public interest adequately.

We may ask, What role should the legislative boards play in the achievement of our objectives? They are supposed to act in the best interests of the public; and, once they have accomplished that, they have pretty well done their job. Where they are unable to bring up the standards to what they feel is desirable for the public interest, they should institute legislation that will accomplish these goals.

One of the shortcomings of the legislative boards is that they are not always provided with the tools which will enable them to regulate the accounting profession. I think they should be provided with more enforcement tools.

Of course, we should upgrade our own rules and standards of performance and, where necessary, push for legislation to meet the goals of minimum standards of competence that must be maintained in our profession.

Looking to the firms, I think each and every firm has an obligation to define its own goals. They should ask, Where are we going, as a firm? - And as a part of the whole profession? And how do we propose to get there? What should we do to improve and upgrade ourselves?

Firms, of course, should maintain high standards of ethics. The firm also has an obligation to develop a quality control over the product they put out. I think one of the things of major importance that the national firms do is that they send their top men around to other offices, to review the reports made by men in the branch offices, to see to it that they meet the firm's standards of performance. Each of the national firms has a system for overseeing the work done by their smaller branch offices, thus keeping up the standards of all of their employees. Perhaps this could be done, somehow, by smaller firms. Perhaps they could band together more to do this, in order to get some constructive criticism and comments on their work by others. I think this could be very constructive.

If you know somebody is going to oversee and audit your work, there is a tendency to be much more careful in the way you perform it. You are more careful about the way you finish it. You will tend to "sand down" the finish a bit more carefully.

I think there are certain things in which the smaller firms could band together to do a better job. In staff training programs, this could well be developed as a method of procedure, by having several smaller firms work together on the project. This might present quite an economy, and you would have the advantage of a larger group for discussion and the production of ideas and suggestions.

Improving of personnel management could be handled in this way, and the recruiting of personnel would be applicable to this type of cooperative effort. For instance, if your firm goes to recruit at the University of Southern California (USC), you could at the same time recruit for some of the other firms in your area. It would save them a great deal of time; and this same amount of time would have to be expended by each one of the other firms, so that becomes much multiplied, and it amounts to a very considerable loss of time for all of the firms together.

A great saving could be made if one firm were to do the recruiting for several. This service could be rotated, so that the burden would be spread equally over a period of time. I think this sort of inter-firm cooperation could well be extended into other areas, also, with very beneficial results.

Internal education programs are a subject on which much work needs to be done. We have to face up to the changes that are coming into our profession and prepare ourselves to meet this challenge - the challenge of change. This will have to be done very largely by internal education. The partners will attend meetings where they will be informed of the latest decisions, and these must be conveyed to the members of the staff. It might be a good idea if several smaller firms could band together for this

purpose also - for the internal education of staff members - and it would save a lot of time in the aggregate.

Support of outside activities, and support of the professional development programs, are essential if a firm is to hold up its standards. There has to be a feeling and a sense of serving the public. There has to be an active participation by the members of the firm, in community affairs. Service in community affairs is one of the most effective ways of presenting a favorable image of our profession before the general public. CPA's should try to get out of their offices - or out of their clients' offices - as much as possible and as much as time will permit, to take part in community affairs. Their counsel would be much valued by the public. I think this would be one of the most effective ways of making our profession more highly regarded.

We also have to "sell" our broader objectives, to our staffs and to our clients, and to the public at large. In order to meet our goals, the firms have to have a very deep understanding of the standards of work and competence required. The senior members of a firm have to motive their own staff and other practitioners to aspire to a higher standard of work.

We have to budget both our time and our money for professional affairs, too. We should sit down and say: "Just how much time do I owe my profession? How much time should I give to them?"

You may have to raise your fees, to allow for giving some of your time for the benefit of the profession, but you will gain a lot from this, and it will make you a more valuable member of your profession. You will then actually be worth the higher fees.

Next, we come to the question: "What should an individual do?"

I believe the most important thing for an individual is to recognize the ethical standards of the profession in all of his practice and his relationships. If he gives thought to the matter of ethics, and fully realizes all that this implies, he cannot go far wrong. He should do well everything that he undertakes to do, and maintain a high standard of integrity in his work and in his personal and professional relationships.

We have a law which is administered by the State Board of Accountancy, and that law is basically a set of ethics. And the State Societies have imposed on their members a set of ethics; theirs is one step higher and is perhaps more detailed. These standards should be carefully observed by each individual CPA.

Most importantly, the individual must also impose upon himself a set of ethics. This must be - at least as a minimum - the standard that is set by the large group; but it should include still further personal details. The individual should remember that it is up to him to convey the image of a professional man. He should always appear well groomed and well dressed. He should convey the impression of personal cleanliness. He should be neat and careful in his work, and particularly when working in the clients' premises.

To a great extent, the public impression of our profession is created by the individual accountant or auditor who goes into the clients' places of business. If the people amongst whom he has to work do not gain a favorable impression of the individual, this may tend to prejudice them against the particular firm which the individual represents, so that the firm might lose a valuable client. And it may even prejudice them against the whole profession.

The individual should seek to improve his education and his general competence; he should be always striving to improve himself and his performance. If at the same time he observes the highest standards of ethics, and assists in the education and training of younger accountants, and gives a certain amount of his time to the interests of the profession as a whole, then I think the individual has done everything he possibly can to uphold the reputation of the profession.

One of the most important problems with which we are constantly faced is that of encouraging bright young people into our profession. For continuing growth, one has a duty to encourage promising young men and women to enter the profession. Much thought should be given to this, and we have to devote a certain amount of our time to it.

Attracting young people toward our profession may involve visiting schools and colleges to give talks to the students, as well as ensuring that the young people on your staff are encouraged to continue their education.

There cannot be growth without continuing education, and this must be largely accomplished by the senior members of the firm, in the form of internal education. In addition, the staff people should attend courses available at colleges, and those given by the Institute or by the State Societies.

The encouragement of further and continuing education should be stressed by all firms, so that their young men will develop fully to meet the new problems and challenges of the decade that lies ahead.

CHAIRMAN: Do we have any questions, or comments?

P. Well, I think that you have covered the question pretty completely. I don't think anyone needs to take issue with what you have said.

P. There is one question that I can think of. Do different elements in the profession have different objectives? Or is there one common body of objectives?

P. I think there are different objectives. But I think that perhaps, in order to meet our problems effectively, we should look for cooperation between firms which are in a like position.

For instance, when it comes to education, perhaps the education of people in a firm like ours will be different from the education needed for persons in a firm like yours. Perhaps our people could not even use the education that is needed for people in a firm like yours; because our objectives are somewhat different; but perhaps there may be another firm whose objectives are similar to your objectives - and then possibly the education of your people could be combined with that of their people. For a combination project of education, like that, you would have to have firms whose objectives are similar, or it would not be effective.

I rather hope that, through discussions such as these, we may be able to get to a pinnacle at the top, where we can have the same objectives.

CHAIRMAN: Well, I don't think we could very well expect to get a complete definition from the group today. That is one of the nice things about this type of meeting. We don't have to come up with any actual and definite conclusions. We can just kick a problem around, and consider it from all of our different viewpoints, without having to make any actual decision.

The important thing is that we do express our views, and these are set down, and later they will be catalogued. So the thoughts

of these people here today, when catalogued along with the thoughts of other groups elsewhere in the country, may indicate a pattern - and this pattern may serve as a guide for the development of the profession as a whole during the next ten or twenty years.

That, at least, is what is hoped for. That is what we are trying to accomplish by this series of meetings.

I think we are getting some material here that will be helpful in the project - particularly the viewpoint of younger members who are going to be involved in the profession for the next fifteen or twenty years. I can't pinpoint any one thing, but I think, as a composite, we have developed much that will be helpful.

Does anyone have any further ideas to put forward?

P. I think we should add to the titles already discussed: Auditors, Advisors, and Accountants - the three A's.

You remember when they changed the name from American Institute of Accountants, to the American Institute of Certified Public Accountants? This was a needed change, because the earlier name was not sufficiently descriptive of our membership, since there were other people who called themselves accountants but were not qualified as certified public accountants; and it was necessary to distinguish between our membership, who are all qualified CPA's, from others who were not so qualified.

It seems that now, due to the continuing development of the profession and the expansion of its functions, we need still another word - or a series of words - to describe us properly.

Somebody has suggested "Advisors to Management". I think

this has possibilities. However, it may not be specific enough, because there are also certain other people, such as the efficiency specialists, who may be described as Advisors to Management. Of course, CPA's do sometimes perform the function of efficiency specialists, also. And they do advise management as to better, more efficient ways of performing some phases of their business. But they don't ordinarily go down a production line with a stop-watch, studying how a certain bolt may be more speedily inserted into a certain hole, and the nut screwed on it - which is one of the things an efficiency specialist would do.

P. I was going to suggest looking back over the various kinds of services I have provided, myself, in the course of my work experience as a CPA. As I look back, it seems to me that first there has been the need for some certain service, and then we have provided the capability to meet that need.

First there is the need; then you provide the abilities to meet it. And the needs may be many and various. In these days, they are multiplying very fast, and new ones are coming up all the time. So it becomes rather difficult to sum up all of these services in one term. We are many things - and we are often different things to different clients; it depends on what the particular client needs.

It says in Carey's book: "Professional accounting services can be concerned with the measurement and communication of financial and economic data." However, that does not cover all the services we perform, although this is a basic statement.

P. I think George here would object to "financial and economic" as

being too limiting. I think George feels that the services of a CPA often go far beyond that.

P. Actually, it is the other two words, "measurement" and "communication", or interpretation, that I would object to because they are too limiting.

P. The thing that makes a true profession - a real profession - is, I believe, its social significance; and this is based on the service that profession performs for society. Ideally, that is what the title should imply. I believe that the social significance of our profession should be stressed, in regard to choosing a definition. If we could only find a title that would express the significance of our profession in relation to the good of society, this would immediately create a higher respect for our profession. At least, that is my feeling.

I think we should ask: Do we reflect an area of social significance? An area where our profession has a direct bearing on the good of society - and an area in which we can take leadership? This is the crucial question.

If we can just find a definition that will express the answer to that question, then I think we will have found what we are looking for.

The trouble with the present definitions of our activities and of our profession is that they are merely technical - not social. Until we can produce a social definition, we will not be rated as a true profession. I feel rather sure about that.

P. Well, another term that has been suggested is: "Independent Professional Business Consultant". How do you like that?

P. Well, it may be along the right lines. It is a little lengthy, though. One has to try to condense the idea, so that it may cover all the areas of our services, but with brevity. Perhaps "Professional Business Consultants" would be better.

P. In Management Services, we do a lot of things other than strictly with data and information derived from figures. We deal with organizational matters, in addition to other things.

For example, you often start with human relationships, and attitudes on the part of the personnel in a business. Then you go on to policies and procedures. Those are the things that are most important in the success or failure of an organization, whether it be a business, a governmental body, or whatever.

I don't feel that the reporting or accounting aspect is the most important thing - not any more. Once upon a time, it was; but now other things are becoming more important. You have to get beyond the reporting or accounting aspect, and find out what are the policies that created this and that situation? You may find that a matter of human or organizational relations and attitudes is making all the difference between a failure, or a successful business operation.

Without the understanding of these aspects, I don't think you can make a meaningful interpretation of the financial statements. You can get two financial statements, side by side, and they could look exactly alike; yet, if you could get behind them, and look into the facts that exist behind them, the two statements may have very different meanings. One company may have a very efficient and enthusiastic staff of personnel, and their

fullest energies are being devoted effectively to making the business a success. Their prospects for the future are excellent.

The other company may have all manner of staff problems, and inefficient ways of getting things done; and it may be on the downgrade unless these problems can be solved.

Again, if one company has a man at the head who is not in good health, and cannot put forth his best efforts and may very soon die, that company does not have good prospects for the future, even though it has in the past operated successfully. When the man presently at the head of its affairs retires, or passes away, the person who takes his place may, or may not, manage the business efficiently. So, although the financial statements may look quite good, the future of the company is considerably in doubt because of its personnel and management situation.

On the other hand, if another company in the same line of business has a young, aggressive, ambitious man at its head - one who is bent on making the business highly successful - the future of this company will be very bright. So the two companies may have a very different value, although their financial statements, at the moment, may appear identical.

We have had cases where a business has simply "exploded", due to one of these human factors - or perhaps due to a psychological factor, where top management personnel went "haywire" - although financially the situation had looked to be solid enough. The quality of the management, and the capabilities of the management, and the excellence of their staff, are really the deciding factors in the success of a business. This is what one should look for, behind the financial statements. One also has to

evaluate financial statements which show a rising trend, in terms of the state of the business at the present time, and its internal conditions; otherwise, the financial statements may be quite misleading.

P. Would the illustration of that be the Yale Express case?

P. Yes, I believe so. Apparently, although the business had had a good record in the past, the management was quite unable to cope with the changing situation.

The financial statements looked very good - but the capabilities and attitudes of the management apparently were not sufficient for the needs of the time. They did not understand the new business situation in which they found themselves.

This goes to prove that it is not only accountants who need to continue their education to meet the needs of modern business. Management, also, must keep abreast of the flowing tide of change, or go under. We see many examples of this.

Actually, I am trying to develop the thought that there is much more than just the data situation to be considered. Figures do not tell everything, and, while they are very important, sometimes they are not the most important factor. Sometimes it is the human factor that is most important - and particularly, the nature and ability of top management.

P. In the Yale Lock situation, ordinary auditing procedures did not stand up. Not in the circumstances of that particular case. This is a very good example of the point you are trying to make.

P. In business and industry, as they are going to become in the next ten years, we are going to be dealing with many people who will have a far broader concept of management than has been the case in the past. The question is, as we also broaden our concepts of our profession - to meet the new demands that this new type of management will make upon us - how shall we now develop a definition, or a title, that will cover these changing concepts and relationships - which are going to occur, because of the change in the kind of people we are going to be working with, and because of their changing requirements?

We shall have to relate ourselves and our profession to all of these things. The economic or financial facts will be only a part of our services in the future, and other services may become more important - although the economic and financial aspect will still remain as a basic function.

I think we have to try and come up with a definition that will really incorporate the full scope of our services - in terms of our future relationship to society.

P. It says in this book (Carey's book) that the practice of law has never been fully defined. Yet we all have a pretty clear idea of what the practice of law consists of. Even the general public seems to know quite well what a lawyer does in the course of his practice; they are somehow much more familiar with lawyers than they are with accountants.

P. Well, the lawyers have been in business, or in practice, for a long time. Ours is a comparatively young profession, as compared with law, medicine, or teaching or religion. Perhaps, as time goes on, it will come to be generally understood what functions it comprises - just as the public

has a good general understanding of what a lawyer does, and of what a doctor does. As the scale of business in general changes from small business to bigger business, and then to very large business, our profession will assume a growing importance in the scheme of things. This will also bring the importance of our work more to the attention of more people, so that in the course of time the public will become more familiar with our particular functions. As these processes take place, I think our profession will gain very considerably in public recognition.

P. So far as a definition is concerned, I think the main thing we are trying to define is: What people outside our profession shall understand in regard to what CPA's are, and what functions they perform, what they do.

Just as people outside the professions of law and medicine understand what a lawyer does, and what a doctor does, and what a surgeon does, we would like them to understand and know what a CPA does. There is no confusion in the public mind as to the other professions, but there is a great deal of confusion in the public mind as to the functions of our profession.

However, we seem to have some difficulty ourselves in deciding just exactly what our services are, and what they are going to be in the future. If we ourselves have difficulty in defining them and deciding what they do consist of, then it is quite understandable that the general public would be somewhat confused, to say the least!

Wouldn't the general public be expected to have even more difficulty than we have ourselves, when it comes to defining us and what we are doing?

P. In actuality, as we have seen today, we are doing a lot of things that we did not do only a few years ago. We are doing things that were not even included in the CPA examination of 1925, when I took that examination. And it would not be easy to predict, perhaps, some of the things that may need to be covered in the CPA examination of 1975 !

P. That is good. Everybody is changing! This is an indication of flexibility - of the flexibility of our profession in response to the needs of changing times and changing requirements. In my estimation, this is a very good sign. If we can maintain that flexibility, then our profession has a bright future.

So, if we know that we are going to enter into management services, why shouldn't we adapt to it? Why shouldn't we provide for it in the definition of our profession, and make it generally known that this is one of our major functions?

P. People entering the profession would then be well advised as to what they would have to do in the profession as it exists today. This would be a distinct advantage for them. More important still, I think it would be very helpful in attracting some of the more desirable young people into the profession, because they would see greater possibilities for the exercise of their ambitions and skills. Management sounds much more attractive than auditing columns of figures! Columns of figures deal with things past; but management looks forward to the future - and it is the future that really interests the young people of bright intelligence. They do not feel that things past offer them any challenge.

P. Should we not try to provide a reasonable picture of the type of services we can provide, without making it too limiting? We most particularly do not want to limit ourselves, because we have no way of telling just what tomorrow's needs may be for our profession. As was just remarked, the CPA examination of 1925 did not cover a great many of the things that every CPA needs to be able to do, at the present time; and a similar change and expansion of our functions may occur within the next ten years - but we don't know what those changes will be. So we have to be very careful not to limit ourselves.

The practice of attorneys has been changing quite a bit, also. They have a very broad definition as to the services they may perform, and this permits them to expand their practice as the needs arise. The same should be true for our profession.

But we do need to have something that, for example, you could tell your child - to describe what we do in our profession. This would help to attract the proper type of young people into the profession.

P. We want people to rate us as doing more than just giving a qualified or unqualified opinion on a financial statement. I do not mean to diminish the importance of that function, of course. But, while we all have a tendency to consider the Attest function a most important function of the CPA, it is not our only important function. And, as was just pointed out in regard to the Yale Lock case, there are circumstances in which it may not be the most important function; and in the modern aspects of business, other functions may come to be a good deal more important. In some cases, the advisory functions in human relations and management may prove to be a lot more important.

So the most important thing in regard to arriving at a definition of ourselves is that we do not want to limit our possibilities for development and expansion of our functions .

P. We do not know at this time what we shall be faced with doing in the future - or even in the next two years . Business is developing that fast . Had any of you heard about a recent seminar, in which alarm was expressed over the idea that CPA's may be practicing law in the future?

P. Some will say that, in their offices today, they are just as competent as lawyers, in matters of law as it affects business . It has been said that in their offices they "sneak up on the lawyers as much as possible" .

There are some CPA's who have also qualified as lawyers , because they have found that they had a need for knowledge of the law in connection with their practice as CPA's . There are also people in CPA offices who originally took their training as lawyers - but then, they found that they had such an interest in the financial side of business that they preferred to practice in a CPA office; such people often become tax specialists , and it is not at all unusual to find that a tax man in a CPA office has a law degree and is equally qualified to practice law .

P. Getting back to the question of leadership, I think we cannot exhibit leadership which is necessary in a true profession, until we have delineated our social significance - our particular significance to society . When you have done that, then you can develop real leadership .

In the profession of law, you have a strong social and moral

concept - which is: Justice. Justice is one of the basic foundations of a democratic society. Justice is the principle of rule by law and order, and the practice of human rights, and the respect for such rights. Lawyers take very strong positions in these matters. Individuals in the profession of law will take very strong positions in terms of defending their clients - not merely on the technicalities, but because they believe that a man is innocent until he is proved guilty. The preservation of these human liberties and the rights of the individual not to be oppressed, is extremely important to our society as a whole. This gives a tremendous social significance to the profession of law.

In law, there are these basic concepts, which are considered more important than the mere matter of convicting a man - even when it is known that he is guilty. Lawyers also provide means for claiming what may be due you from someone else, if you have suffered any injuries or damages from whatever cause, or of obtaining redress when you have been defrauded. These functions of the lawyer are well known and are recognized by the public as being very useful and valuable services.

I think the medical profession also has an important moral responsibility to the public; that is, healing. They have the responsibility to use their skills for the purpose of healing, and if they do not fully meet this responsibility to the general public, you get something like Medicare, which came into being because the medical profession did not meet their responsibilities to the older and less affluent members of society.

Similarly, it must be recognized that our profession performs functions that are valuable for the general welfare of society and not only for the few who are more immediately concerned with what we do. Unless

we can succeed in making this clear to the general public, we shall remain something less than a true profession - not necessarily because we are in any way less useful than, shall we say, lawyers or doctors - but simply because the public does not recognize our value and does not place our profession side by side with the others in terms of appreciation of the services that are performed.

This is why it is important to come up with a really good definition of what we are and what we do. "Certified public accountants" does not seem to describe us in such a way that this primary objective would necessitate. "Certified public accountant" only seems to convey the impression of a superior sort of bookkeeper, as the general public understands the term. We have to find a definition that will be more inspiring, something that will convey a broader picture of the services we perform.

P. I think the descriptions of us as "Advisors to Management", or "Professional Business Consultants" may be on the right track. These are much broader definitions. Unfortunately, the term "Management Consultants" seems to have been already pre-empted by some of the efficiency specialists. But I think we might be able to come up with something of this sort which would be acceptable. There is a great deal of public relations value in a description - in a descriptive title. Some of the public relations specialists are very adept at this sort of thing - at dreaming up a descriptive title which will give the desired image to the general public. There have been instances where the success and fame of an individual, or of a product, or of a business, have been very greatly influenced by just the right descriptive title. It can change the whole aspect of a business.

Perhaps it could also change the whole aspect of our profession in the eyes of the public.

If this could be done, I think we would find that there would be no scarcity of bright young people eager to enter into this profession. I believe one of the principal reasons for the difficulties we now experience in attracting promising young talent is that, by its very description of itself, our profession sounds rather dull and uninspiring.

We know that the practice of our profession is not at all dull, and it can be, and often is, very inspiring - to anyone who has the capacity for this type of work. The important thing, if we are going to change the descriptive title by which we are known, is to find an alternative title which will convey the more inspiring idea of management consultants, services to management, advisory skills, and so forth. We should not have a title which has a connotation of dullness. We should emphasize the greater picture.

P. I think, in connection with the problem of young people to enter the profession, we should try to provide more universities and colleges where young people may study for the accounting profession, with an adequate faculty -- because this is the source of the future. The universities and colleges are our storehouse for the future. Courses in accountancy and allied subjects should be made more generally available, and they should be geared to open the eyes of the students to the possibilities of our profession, and should emphasize the importance of the services we perform.

For my part, I am happy to be able to pay my property taxes, because I recognize that a great part of those taxes is going to pay for the

educational system - and I think that in this country we have a very wonderful educational system, which I am most happy to support.

When it comes to attracting the brighter kind of young people, and trying to find a suitable descriptive title for ourselves as professional people which will convey a better and more inspiring "image" of our profession, I think we should examine ourselves and ask the question:

What is there about our profession that has such magnetism that it will attract the public to the idea? We should also ask, What is there about our profession that serves to provide leadership for society?

These are things we should really try to decide. It is all very well to talk about "glamor" as though it were something that only applies to movie stars - but the fact is that glamor is associated with magnetism, and there has to be a certain "glamor", or magnetism, about a profession in order to attract people toward it.

There is no question as to the magnetism of the professions of religion, engineering, medicine, and law. Unfortunately, our profession does not seem to possess that magnetism to the same degree. So we should seek to "glamorize" our profession - or at least to emphasize its advantages to society, so that people will appreciate its true value. We should play up its magnetism, so as to attract the right kind of young people into it. "Leadership in the financial field" could well be one of the magnetic factors. "Credibility" is perhaps another - the fact that by the exercise of our skills and judgment, we give credibility to financial statements and reports. This is a very important function, and it is a field which is peculiarly our own. No other group is qualified or permitted to give opinions as to the proper presentation of financial statements.

We provide credibility to financial statements, and to other economic data as required. Because of our fidelity in the performance of our work, and because of our high standards of integrity as professional people, our certification has meaning. Our opinion really stands for something.

Because of our ethical self-discipline within our community, we feel that we can render credibility as no others can. I think this is a very socially significant function in our extremely complex society. Consequently, it seems to me that any definition of our profession should include some mention or indication of this function of giving credibility to financial reports and other data -- because the whole financial structure of our society is, in reality, dependent upon this. Without it, the whole complicated structure would collapse. If this were made clear to the general public, they would at once understand and appreciate our value in society. The trouble at present is that almost nobody - outside our profession - seems to realize this!

In fact, the more I think of it and reflect upon it, the more it seems to me that this is the most important function of all that we perform. Therefore, I really think it should be emphasized more than anything else when it comes to a presentation of our image to the public - the uninformed public. They should be informed not only that we perform this important function of giving credibility to financial and economic data; they should also be told something about the chaos that could result, if this important function were not properly exercised, or if it were exercised by people not properly qualified for this purpose. At the present time, the public is pretty generally in a state of varying degrees of ignorance as to this.

Ours is a society that has exploded in size and activities very greatly in the last ten years. It is a society that has been changing in all sorts of ways.

This exploding society has an urgent need for a profession such as ours, to give it some stability and meaning - to give its financial structure something that society can depend on.

Such an expanding society needs the strength of the credibility that our profession can lend to its economy and its finances - this moral strength in business, this power of evaluation, this ability to measure accurately the data upon which its decisions are based - whatever you want to term the services we perform in this function of lending credibility.

Society must have this assurance available to it. The quality of truth in business and in government is an extremely important factor. Trust depends on truth - and our whole society is founded upon trust; therefore it must be supported by truth which can be vouched for. Where you have truth and credibility, you can place your trust; but without this trust, and without the strength of the truth that we can lend in the fields of business and industry and government, the whole fabric of our society would collapse.

If I handed you a check, and you did not know whether it was real or not, and it would bounce - and if this experience were repeated on all sides - this would destroy our society.

The whole of our social fabric is based upon trust. That is to say, it is based upon truth. We say, "This financial statement is true, according to accepted accounting principles." Without that statement on our part, who is to know whether it is true, or not?

People have to be able to depend upon our integrity in making that

statement. That is the really important thing. They have to know that, in making that statement, we have done all the necessary investigative work that will enable us to judge whether that statement is justified, and that the auditing has been carried out in accordance with recognized and accepted accounting principles.

The whole structure of business today is based upon that reliance. The whole financial structure of our economy is based upon it. Upon our word, as given in our Opinion at the conclusion of a financial statement. Surely, by this measurement, the function of giving credibility to financial and economic data and reports would appear to be the most important of all the things that we do.

Turning to our tax system, the success of our tax system is an indication of trust, although the integrity in this instance is largely created by a law which will punish you if you falsify your taxes. But that is something like a padlock on a door - it will only keep out the honest people, because a criminal will get in, anyway, if he wants to! But by the preparation of tax returns on a proper basis for our clients, and by attaching our names to those returns, we perform an important function which is also allied with the credibility aspect of our services. The taxing authorities have developed a considerable respect for CPA's in the matter of tax statements, and I am certain that the overwhelming majority of the members of our profession are careful to exercise a high standard of integrity in the matter of preparing tax returns for clients. Here, again, fidelity and credibility are the important items. Trust and truth! That is the very core of our importance to society! So I think we might say that this

area of creating fidelity and credibility - or, to put it more briefly, the creation of TRUST and TRUTH - this is what we should exploit and publicize, in order to make the value of our profession known to the public and recognized by people outside the profession.

The second advantage derived from this function is that we develop skills which will enable us to make the proper investigations upon which we may base our statement that the financial reports are true and correct. We have the moral responsibility to provide these skills and to exercise them faithfully.

We cannot let those skills go to waste; that is morally reprehensible. We have to use those skills for their proper purpose - to improve society and to improve the financial and economic structure upon which the whole of our society is based.

We also have to develop a high level of competence in the areas of our professional skills, because they are only as good as the standards of competence observed in their performance. And in order to develop the highest possible degree of competence, we need a better educational program and more research programs.

We also need a higher degree of professional self-discipline. We already pride ourselves that we have a very high standard in this, and in professional ethics; but these are things that have to be constantly watched and guarded, and reconsidered in the light of new developments, and continually improved.

I think we do have something in our profession which is of great value to society. The difficulty in the past has been that, in the eyes

of the public, the services we perform, and the value of those services to the public as a whole, have seemed rather nebulous, rather intangible -- so the public has had some difficulty in recognizing our value. In fact, they have had difficulty in recognizing even what functions we perform, so they have had nothing on which to base an appreciation of our worth to society.

P. I think we have to make a real effort to overcome this feeling of "something that you can't quite put your finger on" in respect to the services which are performed by our profession. "Management Services" is a term that gives an indication of something concrete, something the public can recognize easily as being of value; so I think perhaps "Management Counselors", or "Management Advisors", might be a good descriptive title for our profession.

"Management Consultants" and "Business Consultants" seem to have been already taken over by others; but something of the same idea might be applicable to our profession, especially now that management services are becoming a larger part of our work. But if we could find some description that would convey the idea of the integrity or credibility that is given in the Attest function, then I believe that would be the best possible description for us.

"Certified Public Attestors" was proposed yesterday as a possibility. However, it is not an easy idea to express just in a word or two. It would probably require a great deal of thought to develop something that would fully express the idea of fidelity and credibility in connection with financial data. If anybody has any bright ideas, I think they should be put forth for considering.

P. We do need to emphasize the positive aspect of the things we do, the services we perform. We need to stress the advantages and benefits to society that are inherent in our work, so that people will be able to recognize those benefits. While society feels that our functions are rather negative and

intangible, society will never give us the respect and the high regard which we feel we deserve and which we would certainly like to have.

P. Might we say that the function of our profession is, broadly speaking, to protect and guard the financial stability, credibility and integrity of our economy, or of our society? That is truly a function of major social significance.

 It seems to me that this is a tremendously important function. It is one which, if generally recognized, would certainly place us in the forefront of the professions. It would automatically gain for us a large measure of public esteem, if people outside the profession were to understand that this is our principal purpose in carrying out our work as auditors and accountants in our independent capacity.

 We actually protect and preserve the integrity and financial stability of the entire society in which we live - of the whole nation, if you want to look at it from the widest point of view. We do this not only in respect of our own clients, and not only in respect of the particular community in which you or I operate. It is the fact that all over the nation, qualified CPA's are auditing the books and accounts of companies which are important in our economy, which serves to protect the financial integrity of our country.

 It is up to you, and to me, to carry out those functions faithfully and dependably in the towns where we personally operate; and it is up to the whole profession to perform those functions equally well in every town, farming center, or city, in our whole great country. This forms a certain guaranty of the honesty and truthfulness of the financial statements on which investors and credit grantors can make their decisions.

This, it appears to me, is the real strength of our profession. It is getting down to the very foundation of all that we do. And I believe this is what we really need to tell the public, when we are trying to inform them better as to what we do, and what we intend to do for the future.

These functions - of assuring credibility and integrity - encompass the entire moral fiber of our society in its business relationships, and the financial structure of the country is based upon this. We may say that these functions are of paramount importance to the whole nation - because, without this financial integrity, our whole economic and financial structure would collapse.

I think we should make this known to the people outside the profession - to the general public.

P. Well, I don't think we should try to pretend we are God, or to present ourselves on any comparable plane. We are not infallible, although all conscientious CPA's try to be as nearly so as possible.

I think we have to be pretty careful how we state these ideas. They are good, and they are true in their way, of course - but I don't think we should make any too-sweeping statement. Many people in the past have tried to come up with an acceptable definition of our functions - but nothing yet has been very close to becoming acceptable.

P. In an article in the Journal of Accountancy for August, Enthoven points out the significance of the social implications of this financial stability which you mention, in regard to underdeveloped countries. Enthoven received his Ph.D. in Economics from the Netherlands School of Economics

and is now associated with the World Bank. He feels that one of the greatest needs of the underdeveloped countries is for trained accountants, because without skilled accountants financial stability will be almost impossible for them to achieve. And, without financial stability, they will not be able to become developed to the extent that they can take their place in the modern economy.

So I guess we could agree that our function in providing the integrity in financial statements, which is so important in establishing financial stability in a community, should properly be ranked as our most important function. Enthoven may be considered as an independent appraiser of our value in this matter, because he is an economist, not a CPA., so he is estimating the value of our services from the viewpoint of an expert who is outside our profession, and he evidently places this function of providing credibility to financial statements as one of the most essential factors in the success of a nation in the modern world.

CHAIRMAN: Well, it is now 3.30 p.m., and several of our company have planes to catch shortly after 4.30 p.m. so that they may return to their home base without delay - so I think it is time we were winding up our conference here.

I want to thank all of you for having come to attend this Seminar, and I trust that you have found it of some value, both as a sounding-board for your own views, and as an opportunity to hear what others of your profession are thinking, and as a forum for discussion.

There is no doubt in my mind that the CPA Certificate today has far more significance than in 1940, when several of us took the

examination. Also, I believe the public thinks a lot more of us today than it did in 1940.

Additionally, we perform functions today that are much more varied than in 1940. So I think we may say our profession has come a long way in the past twenty-five years, and I believe we can expect that it will again expand - and even more - during the next ten years.

I think the young men coming into the profession today will be a lot better off, because of what our predecessors have done; and it is now time for us to take up our fair share of the burden, in developing our profession for the next generation to inherit.

I don't know whether all of you would wish to have copies of the transcript of this conference, but you might let me know about that. I would certainly like it if you would mull over the subjects discussed here, after you get back to your offices, and write down any more ideas and suggestions that may come to you as a result of our discussions today. Sometimes the best inspirations come later, when one has had time to consider the matter further. If you have any of these later on, do not feel that the opportunity to have them heard is entirely past, but let me have them in the form of a memorandum.

I particularly want to thank all of you who have been our lead-off speakers for the work you have done in preparing your notes beforehand, for the careful thought you have given to the subjects assigned you -- and, even more, for the splendid manner in which you have led the discussions on those subjects.

Each of you, I know, put a lot of effort into preparing for these

talks, and the ideas presented have been both stimulating and effectively presented. The talks, one and all, have contained a great deal of provocative material and produced much enthusiastic discussion to follow them.

I believe that much of the material we have considered and the ideas suggested may prove useful for the future.

And now, I know some of you have to rush to catch your planes, and I wish you all a safe journey home.

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The meeting adjourned at 3.45 p.m.