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**Performance, Principles and People: The AICPA's Commitment to
Its Members and the Public, American Institute of CPAs 1993 Fall
Meeting of Council/Annual Members' Meeting, September 20-21,
1993, New Orleans, Louisiana**

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PERFORMANCE, PRINCIPLES AND PEOPLE

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AND THE PUBLIC

American Institute of CPAs

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Dominic A. Tarantino

Chairman

In The Rise of the Accounting Profession, John Carey described members of the profession as "possessed of amazing vitality, an extraordinary capacity for self-criticism, an ability to act effectively on many broad fronts, and a determination to render constructive service to the society of which they are a part."

I've been part of the profession for 36 years and involved with the AICPA for 25 years or so. What John Carey says is absolutely true. If I could capsule his description in one word, that word would be "Commitment" -- and I would further characterize this commitment as an uncompromising commitment to performance, principles, and people. The profession and the Institute have demonstrated this commitment time and time again throughout a history filled with crisis, challenge, and change.

The accounting profession was born in the economic tumult of the Industrial Revolution. Its history has been no less tumultuous. In little more than a century, the U.S. profession has had to develop a body of technical knowledge and standards; a system of education and training; requirements for certification; commonly accepted guidance for reporting and auditing financial information; and standards of independence and ethical conduct.

The profession and the Institute have kept that infrastructure in tune with the passing times, demonstrating our vitality, our capacity for self-criticism, our ability to act on many fronts, and a determination to serve society -- in a word, our commitment. We have repeatedly overhauled the auditing and accounting standard-setting process, to produce today's Auditing Standards Board and Financial Accounting Standards Board. When Senator Lee Metcalf criticized the profession's performance and conduct, the AICPA established the Division of Firms. The Cohen and Treadway Commissions, both created by the Institute, told auditors there was an "expectations gap." The profession developed new auditing standards to fill that gap. The Anderson Committee proposed major changes in professional standards, including mandatory quality reviews for all members in public practice, required CPE and additional education for entry into the profession. The proposals were overwhelmingly approved. Following that, the Governance and Structure Committee made uniformity a top priority. The Institute joined with NASBA to develop the Uniform Accountancy Act, and is aggressively pursuing its enactment.

I have no doubt that we will bring the same commitment to meeting the challenges that face us today.

The first major challenge -- keeping financial reporting in tune with the times -- is not a new one. But technology, global expansion, the increased complexity of business organizations and financial transactions, and user demands for new types of information are making this challenge ever more difficult to meet. Ed Jenkins gave us some clear

insights into what users are saying and we will now await the conclusions of the Special Committee on Financial Reporting with great interest. But our work will have just begun with the release of their report.

The second major challenge -- We're going to have to learn to live with the "expectations gap." Critics may accuse independent auditors of being their clients' lapdogs rather than the public's watchdogs. But every time someone asks where the auditors were, someone else asks where they should be and what they should do next. Shouldn't auditors prevent and detect fraud? Shouldn't they evaluate compliance? Shouldn't they become associated with a broader range of financial and non-financial information? Even if the profession answers all these questions in the affirmative, new questions will arise to take their place.

The third major challenge is one the profession cannot live with -- the litigation explosion. The dramatic rise in audit-driven litigation has been well-publicized. But you may have seen a recent article in Accounting Today about the equally dramatic rise in tax suits against accountants. Or perhaps you didn't need to see it. You've lived through the experience. One comment in that article really struck home -- "The client wants to turn you into an insurance company." The pervasive use of litigation as a risk transfer mechanism is alive and well. As a result, many practitioners are at risk. And our members in industry take indirect hits every time their companies are targeted by abusive securities fraud suits, state and federal RICO suits, product liability suits, suits under the many federal and state environmental laws that encourage legal action by private "attorneys general" -- I could go on extensively about this subject.

Just as the AICPA has taken on challenges in the past, we must again set the pace for needed change now. The reform agenda described in the Board's June 1993 policy statement, Meeting the Financial Reporting Needs of the Future, addresses all the challenges I just mentioned. And it clearly represents a commitment to performance, principles and people.

This program is "Job One" during the next year. Jake has started the wheels in motion, but he graciously left something for me to do. As challenges go, this is one of the greatest the Institute has ever faced. We can directly implement one-third of the recommendations. But the remainder require action and support from CPA firms, business, the FASB, Congress, and the SEC -- to name just a few. And even though we regard the reform agenda as a comprehensive package for improving financial reporting, others regard it as a quid pro quo for progress in the liability areas.

I see two ways of meeting this challenge. First, we must seize the initiative. We must act promptly to implement the recommendations the Institute can implement, get to work

on others where we need outside help, such as the disciplinary program, and use our example to put pressure on the others.

Second, we must aggressively and effectively "market" this agenda. I believe we can do this by utilizing the theme of "commitment to performance, commitment to principles and commitment to people", but in a manner that all our constituencies and all those who must help us implement the agenda can relate to. We should make it clear that our commitment to performance, principles and people reaches far beyond the accounting profession.

Our commitment to **performance** is not just a commitment to the profession's performance. It's a commitment to the performance of government, business, the capital market system, and the economy.

Our commitment to **principles** is not just a commitment to the profession's principles of independence, objectivity and integrity. It's a commitment to all the ethical principles governing private enterprise and public service.

Our commitment to **people** is not just a commitment to the profession's people. It's a commitment to all people who are responsible for, and affected by, the performance of business and the public sector, and the principles that guide that performance.

The Institute has always had this broad vision, but I feel a need to articulate it and to gauge our programs against these yardsticks. The reform agenda is a good place to start. Every recommendation meets one or more of these commitments.

A renewed focus on the prevention and detection of fraud and an enhanced and more forceful self-disciplinary system demonstrate the profession's commitments to strive for "zero defects" in audit performance and in adherence to the **principles** which govern professional conduct.

In recommending independent audit committees with expanded responsibilities to oversee the audit function, we are demonstrating our commitment to the **principle** of independence and calling for a similar commitment from business. Independent audit committees will also enhance the independence and **performance** of internal auditors. Auditor evaluation and reporting on internal controls will help ensure businesses that they have reliable financial information for managing and assessing **performance**. It will give **people** -- investors, depositors, creditors, and taxpayers -- greater assurance that they will not suffer financial loss from undetected fraud.

We must particularly emphasize that the liability reforms are an integral part of our comprehensive program to improve the performance of the financial reporting system, business, the capital markets, and the economy. The liability reforms will relieve a burden that is undermining the ability of accounting firms to effectively meet current or expanded responsibilities. The reforms will stop a drain on productive resources that could otherwise be used to develop innovative new services, technology and skills. And the reforms will remove a barrier to the profession's ability to attract and retain qualified individuals.

The liability reforms are a commitment to the principles of fairness and equity, which dictate that defendants should pay only for the damage they cause, not for the misdeeds of others, that CPA firms should have access to the same liability-limiting forms of organization as other businesses and professions, and that speculative investors not be able to use the liability system to hedge their risks.

The liability reforms are a commitment to all the people who are hurt by a system that encourages abusive litigation and quick settlements. This includes people in CPA firms who have fears about the impact of liability on their career opportunities and even their livelihoods. It includes stakeholders in companies targeted by abusive securities fraud suits -- from long-term shareholders, to managements, to employees. And it includes true victims of financial fraud who are prevented from obtaining adequate compensation for their losses.

I've said that the reform agenda is "Job One." But as important as the agenda is, the Institute must also pay close attention to the other jobs we do that serve our members, the profession and society. I believe we can do these jobs more effectively if we view them in the context of the broad commitment to performance, principles and people I have outlined.

The Institute must recognize that most of the challenges the accounting profession faces are shared by those the profession serves and ultimately affect the public interest. And we must join with business, government, academia and others to meet these common challenges. The Institute already does this to some extent -- for example, on government financial management and on tax issues. But we must identify and act on such challenges in an even more systematic manner, and not confine our attention only to the accounting-related aspects. After all, CPA firms are businesses. The Institute also has members in industry, government and academia. Our concerns and contributions can start with our professional orientation and expertise, but they shouldn't end there.

To quote the Institute's Communications Strategy and Plan, "The AICPA must step forward and fill the role of strong advocate for the CPA profession and the public interest -- demonstrating to key business audiences, the media, and the general public the profession's value to American society in the 1990s and beyond."

Action and outreach on a broad range of issues will help the Institute achieve several objectives that really amount to one objective -- better serving our members and the public interest. We will gain insights and input on difficult problems from others with different perspectives. Our members will be justly recognized as creative and multitalented problem-solvers with an historic commitment to public service. The Institute will increase its effectiveness as the profession's chief advocate because, first, we will form alliances with other groups, and second, we will be more credible when we talk about the profession's dedication to the public interest. Whether the problem is practitioners' workload compression because of tax reporting constraints on many business entities, or the obstacles to flexible schedules for today's increasingly diverse work force, the profession will be more effective if we work with other interested parties to find solutions.

I believe my broadly defined commitments to **performance, principles and people** can serve as a framework for this expanded and proactive vision of the Institute's role, I'm biased, of course. But if you look at our many initiatives in terms of performance, principles and people, the relationships between them become clearer, and the challenges we share with others become easier to identify. Let me give you some examples of what I mean.

The Institute has a strategic thrust to "Develop a Major Focus on the Impact of Technology on the Profession." Its objective is to assist our members in coping with and taking advantage of technology in serving clients. But the Institute should also focus on the impact of technological change on accounting firms, on business generally, and the implications for the public. One of the most important impacts is the extent to which technology has increased the potential for financial fraud and the difficulty in detecting such fraud. Clearly this challenges the profession's ability to develop standards and procedures for fraud prevention and detection, but more is involved than the technical aspects.

Studies have shown that, to quote, "opportunity makes the thief." Under the right circumstances, almost anyone will be tempted to engage in fraudulent or unethical conduct. The proliferation of databanks in the name of efficiency, customer service and marketing, and the ease of access to such databanks are tempting opportunities. The flip side of the coin is the disturbing question of how many people are ethically equipped to resist these opportunities. I'm sure you've read about the IRS agents who browsed

through tax returns and altered information to give themselves refunds. Its a frightening thought that as many as 300 IRS agents may have been devoid of ethical principles?

Equally important -- rapid technological change is taking place in the midst of work place and work force changes that are undermining the ability of companies to foster adherence to ethical principles. Such changes include the enormous pressure to perform in a highly competitive global environment, the increased use of performance-linked compensation and continued layoffs due to restructuring. Some employees may be willing to do anything to boost their compensation or keep their jobs, including commit fraud. And a new survey by the Families and Work Institute indicates that layoffs have undermined the sense of loyalty employees feel for their employers. In addition, many employees are changing jobs frequently in order to advance, and the use of temporaries and contractors has skyrocketed. Thus, much of a company's work force at any one time may be "just passing through."

The cumulative effects of these developments are reflected in a recent survey by KPMG Peat Marwick. Seventy-five percent of the companies responding experienced some form of fraud in the previous year. More than two-thirds expect the situation to get worse. About 80 percent believe harsh economic pressures will produce more fraud. And about 75 percent say weakening values in society contribute to fraud.

Not surprisingly, the Institute strongly emphasizes members' adherence to the ethical standards of integrity and objectivity. But I believe we have an obligation to publicly and strongly speak out on ethical challenges generally -- be they technological, environmental, or societal. And we must find ways to address them. Who is better qualified? Ethical principles are not just a lofty abstraction. They're the cornerstone of everything we do.

We should certainly call for effective ethical leadership by managements and boards of directors, and the development of corporate codes of conduct supported by effective internal controls. But that's not enough. The ethical challenge today is primarily a **people challenge**. And that challenge is two-fold. First, even ethical employees may behave unethically if they think they are being treated unfairly or are afraid of losing their jobs. We're being told that the era of restructuring, and therefore layoffs and cutbacks, is far from over. If companies can no longer offer job security, they must find other ways of winning their employees' loyalty and trust. Second, an environment rife with temptations to commit fraud, in which much of the work force is in constant motion, calls for people whose ethical commitment is portable and durable. It will go anywhere

and hold up in any situation. Due to the decline of the family and the educational and religious institutions traditionally responsible for ethical development, it's predicted that people with this type of commitment will be in shorter and shorter supply.

We've launched one initiative that is very relevant to this challenge -- the Women and Family Issues Executive Committee. Amidst calls for ethics courses in business school, college, and even high school and elementary school, we're constantly reminded that it's the home environment that counts. So the question of "Who's minding the kids?" has an ethical dimension. It isn't just that working parents lack time to spend on ethical instruction and activities that promote ethical development. Children who are deprived of parental attention, particularly at early ages, may suffer feelings of inadequacy and low self-esteem. And parents balancing the demands of work and home are likely to be under constant stress and may thus create a stressful home environment. These factors discourage the strong sense of self that is vital to developing a personal ethical commitment that is portable and durable.

The bottom line -- "family-friendly" work arrangements and programs are also "ethics friendly." Employers who offer them will be helping to build the inventory of ethical people in the future work force. In addition, the Families and Work Institute Survey I mentioned earlier indicates that people who are offered a range of benefits to help them balance family and career obligations are more likely to develop feelings of loyalty and commitment to their employers. Loyal, committed employees are less apt to commit fraud. Granted, these benefits can be expensive, but not as expensive as the resource drains that can't be traced or the damage to a company's reputation when fraud is exposed.

If you don't have ethical **people**, you can forget about **principles**. And if you don't have qualified and dedicated **people**, you can forget about **performance**. That is why the Institute has so many initiatives devoted to recruiting and retaining the best and brightest. We are encouraging young people to enter the profession. We have programs to attract and promote the upward mobility of minorities and women. And we are working on improving the quality of accounting education. All these efforts, however, are aimed primarily at the college level and above. Our new program to tell high school students more about accounting is exciting and a step in the right direction, but it addresses only half the equation. We must start paying attention to the other half of the equation -- that is, how can we be sure the students we are trying to attract are up to the challenge?

The accounting profession shares a critical problem with business, government and society at large. The foundation for success in college and beyond is laid at the elementary and high school levels, yet there is abundant evidence that this country's

elementary and secondary schools are simply not doing their jobs. A new study by the National Center for Education Statistics concludes that nearly half of all Americans do not read and write well enough to hold a decent job. And only 20 percent of those surveyed could determine the correct change using prices in a menu. On hearing reports like these, we have to wonder how many students are in the pipeline who can develop the analytical, reasoning, and communications skills accountants must have to succeed in a global business environment?

The Conference Board reports that many of the nation's largest companies now regard support of public education as a long-term investment in the future quality of the work force. They are designing and executing business plans to solve what they perceive as a business problem. Surely the accounting profession has an equally high stake in getting involved at the front end of the education pipeline. And, as business advisors and problem-solvers, I believe we are well-equipped to do so.

I'm not standing up here and telling you that I intend to launch a major new Institute program on public education, or that I expect to solve a problem in one year that has defeated federal, state and local governments and the educational establishment for many years. But I am telling you that we cannot be uninvolved. And I will seek the counsel of Institute members to determine what kind of role we can play.

In summing up, I invite you to look at the Institute's various activities in terms of performance, principles and people. See if this doesn't help you better grasp the relationship between them, and identify issues that cut across them and have impact far beyond the profession. Consider how the Institute can reach outward to others and inward to its members to address these issues. And consider how you, the members, can become involved.

After all, the Institute is its members. The members make the Institute strong enough to live up to John Carey's description and honor the commitment to **performance, principles and people**. We're strong when we can harness the talents of all segments of our membership -- practitioners, educators, government members, and industry members. We're strong when our various membership constituencies collaborate -- large and small CPA firms, public and industry accountants, business and academic members. We're strong when our members work through state societies and boards of accountancy with the assistance of dedicated staff to achieve common objectives -- such as our legislative program. There is a new era of cooperation, collaboration and partnership among all these groups. We must capitalize on it to accomplish the profession's agenda. And we must capitalize on it to work with others outside the profession to meet a broader, public agenda.

Amazing vitality. An extraordinary capacity for self-criticism. The ability to act on many broad fronts. A determination to serve society. And an uncompromising commitment to performance, principles and people. I feel privileged indeed to serve as Chairman of an organization that has these qualities and I assure you that I will be an advocate for the profession's interests and the public interest.

