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Chairman's Remarks: AICPA Members' meeting, October 3, 1983

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CHAIRMAN'S REMARKS
AICPA MEMBERS' MEETING - OCTOBER 3, 1983

RHOLAN E. LARSON

AS I HAVE HEARD MOST PREVIOUS CHAIRMAN SAY AT THE END OF THEIR TERMS, I COME TO THIS POINT WITH MIXED EMOTIONS. OF THE VARIETY OF FEELINGS I HAVE, THE MOST SIGNIFICANT IS ONE OF GRATITUDE -- GRATITUDE FOR THE OPPORTUNITY YOU HAVE GIVEN ME TO SERVE AS YOUR CHAIRMAN. BUT I DON'T WANT TO OVER-EMPHASIZE THAT POINT SINCE THIS PROFESSION HAS SO MANY WHO ARE SERVING IN LEADERSHIP POSITIONS IN DIFFERENT WAYS. THE INSTITUTE REALLY IS THE RESULT OF ONGOING CONTRIBUTIONS OF MANY, MANY MEMBERS.

I HAVE NEVER HEARD ANYONE COMPLAIN ABOUT THE BURDEN OF SERVING. THE SATISFACTIONS THAT RESULT FROM CONTRIBUTIONS TO OUR PROFESSION ARE JUST TOO GREAT. IT WAS EXPRESSED WELL BY AN ANCIENT PHILOSOPHER WHO SAID, "THAT MAN MAY LAST, BUT NEVER LIVES, WHO MUCH RECEIVES, BUT NOTHING GIVES." I AGAIN WANT TO EXPRESS MY GRATITUDE FOR THE OPPORTUNITY YOU HAVE GIVEN ME.

AS I COMPLETE MY YEAR AS CHAIRMAN OF THE AICPA, I REALIZE THAT MOST ISSUES IN OUR PROFESSION ARE NOT SOLVED WITHIN SHORT TIME FRAMES. THOSE WHO SERVE IN LEADERSHIP POSITIONS IN THE AICPA ARE DROPPED INTO A STREAM OF ONGOING EVENTS. AT BEST, WE CAN MOVE THOSE ALONG EXPEDITIOUSLY, MAKE SOME IMPACT BY IDENTIFYING PERTINENT ISSUES AND INITIATE SOME NEW PROGRAMS.

ONE OF THE MOST IMPORTANT OBLIGATIONS OF LEADERSHIP IS TO LOOK AHEAD -- TO IDENTIFY PROBLEMS BEFORE THEY BECOME CRISES -- TO PLAN FOR THE FUTURE WITH VISION. MY PREDECESSOR, GEORGE ANDERSON, CREATED THE FUTURE ISSUES COMMITTEE WHICH HAS THE RESPONSIBILITY OF IDENTIFYING SUCH ISSUES.

OUR INSTITUTE HAS DONE A GOOD JOB IN RECENT YEARS OF LOOKING AHEAD EVEN BEFORE THE FORMATION OF THE FUTURE ISSUES COMMITTEE. WE WORKED HARD AT DOING THAT THIS YEAR. YOU HAVE OUR ANNUAL REPORT WHICH SUMMARIZES THE MAJOR ACTIVITIES OF YOUR INSTITUTE DURING THE PAST YEAR. YOU ALSO HAVE A COPY OF A PAPER ENTITLED "ISSUES CONFRONTING THE ACCOUNTING PROFESSION", A SUMMARY OF ISSUES AS VIEWED JOINTLY BY OUR INCOMING CHAIRMAN, B. Z. LEE, OUR PRESIDENT, PHIL CHENOK, AND ME.

A YEAR AGO IN PORTLAND, I IDENTIFIED THE CHALLENGES AHEAD AS INCLUDING THE FOLLOWING ISSUES:

- CONTINUED NEED TO MAINTAIN QUALITY OF PRACTICE, PARTICULARLY TO ASSESS PROGRESS OF THE DIVISION FOR CPA FIRMS.
- NEED TO REVIEW SELF-REGULATION EFFORTS RELATING TO INDIVIDUAL MEMBERS
 - IMPROVEMENT OF THE JEEP PROGRAM
 - PROPOSALS FOR REVISION OF OUR CODE OF PROFESSIONAL CONDUCT
- DEVELOPMENT OF IMPROVED DIALOGUE WITH THE FASB REGARDING:
 - ACCOUNTING STANDARDS OVERLOAD
 - OTHER ISSUES
- THE NEED FOR IMPROVING AND EXPANDING SERVICES TO MEMBERS.
- CONTINUANCE OF EFFECTIVE WORKING RELATIONSHIPS WITH STATE SOCIETIES TO ACCOMPLISH MUTUAL OBJECTIVES.
- INITIATION OF A MEANINGFUL PROGRAM FOR MEMBERS NOT IN PUBLIC PRACTICE.

WE FOCUSED OUR ATTENTION ON THESE ISSUES -- AS WELL AS MANY MORE DURING THE YEAR. I CALL YOUR SPECIFIC ATTENTION, WITHOUT DISCUSSION, TO THE FOLLOWING SIGNIFICANT ACTIVITIES WHICH ARE SUMMARIZED IN THE ANNUAL REPORT.

- THE APPOINTMENT OF A TASK FORCE WHICH HAS BEGUN A COOPERATIVE EFFORT WITH THE FASB CONCERNING STANDARDS OVERLOAD.
- MEMBER SERVICES COMMITTEE REPORT WHICH RECOMMENDS A FRAMEWORK FOR SUB-GROUPS WITHIN THE INSTITUTE TO RESPOND TO MEMBERS' SPECIAL INTERESTS IN TAX, AUDIT, FINANCIAL ACCOUNTING AND REPORTING, MANAGEMENT AND POSSIBLE OTHERS AREAS.
- AS I MENTIONED EARLIER, THE APPROVAL BY COUNCIL JUST LAST SATURDAY OF A FEDERAL TAX MEMBERSHIP DIVISION TO PROVIDE ADDITIONAL SERVICES, ON A DUES-PAYING BASIS, FOR MEMBERS HAVING A COMMON INTEREST IN TAX MATTERS.
- A CLOSER WORKING RELATIONSHIP WITH NASBA -- THE NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY -- INCLUDING THE APPOINTMENT OF TWO JOINT COMMITTEES: ONE TO MERGE THE PROVISIONS OF THE TWO MODEL BILLS TO BETTER INFLUENCE STATE LEGISLATION WITH UNITY. THE SECOND TO STUDY CENTRAL LICENSING AGENCIES AND THEIR EFFECT ON STATE BOARDS OF ACCOUNTANCY.

THESE AND OTHER ACTIVITIES ARE SUMMARIZED IN THE ANNUAL REPORT. FURTHERMORE, I KNOW MY SUCCESSOR, B. Z. LEE, WILL WANT TOMORROW TO DISCUSS ONGOING PROGRAMS IN WHICH WE ARE INVOLVED AS HE SHARES HIS PLANS FOR THE COMING YEAR.

WHILE I WILL NOT TAKE YOUR TIME TO DISCUSS DETAILS ABOUT A WIDE RANGE OF ACTIVITIES, THERE ARE THREE ISSUES ABOUT WHICH

I WILL BRIEFLY COMMENT BECAUSE OF THEIR SIGNIFICANT IMPACT ON OUR FUTURE. INITIATIVES HAVE BEEN TAKEN DURING THE PAST YEAR TO RESPOND TO THESE ISSUES. THEY DEMAND ACTION WHEN THERE ARE NO CRISES SO COOL LOGIC CAN PREVAIL. IN THAT WAY, OUR FUTURE DIRECTIONS ARE PLANNED RATHER THAN HAPPENING BY DEFAULT. THE ISSUES I AM REFERRING TO ARE THESE:

- THE IMPLICATIONS FOR THE AICPA OF DEVELOPMENTS RELATED TO MEMBERS NOT IN PUBLIC PRACTICE.
- THE ONGOING DEMAND FOR QUALITY OF PERFORMANCE -- PARTICULARLY AS IT RELATES TO OUR AUDIT AND ACCOUNTING PRACTICES.
- THE EXPANDING SCOPE OF SERVICES, THE COMPETITIVE ENVIRONMENT AND NEED TO RECONCILE THE SOMETIMES CONFLICTING PROFESSIONAL AND COMMERCIAL PRESSURES THAT CONFRONT US IN THIS PRACTICE ENVIRONMENT.

MEMBERS NOT IN PUBLIC PRACTICE

WHEN I NOTED THIS AS A MAJOR ISSUE IN PORTLAND LAST YEAR, A NUMBER OF INDUSTRY MEMBERS TOLD ME THEY WERE PLEASED TO SEE IT ON OUR AGENDA. TWO OR THREE OTHER MEMBERS CANDIDLY REMINDED ME THAT THIS ISSUE HAD BEEN MENTIONED BY MOST CHAIRMEN IN THEIR OPENING REMARKS FOR AT LEAST A DECADE.

THE ISSUE IS GENERALLY PERCEIVED TO MEAN DEVELOPMENT OF MORE MEANINGFUL PROGRAMS FOR MEMBERS NOT IN PUBLIC PRACTICE AND GREATER PARTICIPATION IN THE AFFAIRS OF THE INSTITUTE. THE INDUSTRY COMMITTEE COMPLETED A TWO-YEAR STUDY AND DISCUSSED ITS POSITION PAPER WITH THE BOARD OF DIRECTORS IN DECEMBER. IT WAS AN EXCELLENT REPORT AND SUGGESTED WAYS IN WHICH THESE OBJECTIVES MIGHT BE ACCOMPLISHED. WE HAVE BEEN SENSITIVE TO THE NEED FOR GREATER INVOLVEMENT OF THESE MEMBERS WHO NOW COMPRISE OVER 47% OF OUR MEMBERSHIP AND HAVE RESPONDED AT LEAST MODESTLY THIS YEAR DURING THE COMMITTEE APPOINTMENT AND NOMINATION PROCESSES.

BUT THE POSITION PAPER SUGGESTED THE IMPLICATIONS OF THE ISSUE MIGHT BE MUCH GREATER THAN BETTER SERVICES AND GREATER PARTICIPATION. WE HAVE BEEN DISCUSSING THOSE IMPLICATIONS IN LEADERSHP PLANNING SESSIONS AND BROUGHT IT TO THE BOARD FOR DISCUSSION AT ITS SEPTEMBER MEETING. THE BOARD AGREED THAT THESE ARE IMPORTANT CONSIDERATIONS FOR THE AICPA AND ALL OF ITS MEMBERS. A COMMITTEE IS IN THE PROCESS OF BEING APPOINTED TO STUDY THE IMPLICATIONS. AMONG OTHER THINGS, IT WILL CONSIDER THE FOLLOWING:

- THE AICPA IS GENERALLY PERCEIVED IN CONGRESS, AT THE SEC, AND IN OTHER PLACES, AS REPRESENTING THE PRACTICING PROFESSION. MOST WOULD AGREE THAT FOCUS MUST REMAIN IN FULL FORCE. AT THE SAME TIME, THE AICPA IS COMMITTED TO REPRESENTING ALL OF ITS MEMBERS -- WHETHER IN PRACTICE OR NOT. THE BOARD AFFIRMED THAT COMMITMENT IN DECEMBER. CAN WE EFFECTIVELY DO BOTH -- AND IF SO, HOW?

- THE INCREASING PERCENTAGE OF MEMBERS NOT IN PUBLIC PRACTICE -- PRESENTLY 47% AND LIKELY SOON TO EXCEED 50% -- HAS IMPLICATIONS FOR PRACTICING MEMBERS, AS WELL AS FOR MEMBERS NOT IN PUBLIC PRACTICE. SOME HAVE QUESTIONED WHETHER MEMBERS NOT IN PUBLIC PRACTICE SHOULD VOTE ON ISSUES PRIMARILY AFFECTING THE PRACTICING PROFESSION -- AND VICE VERSA.
- THE IMPLICATIONS FOR THE PROFESSION IF ALL PROVISIONS OF THE CODE OF PROFESSIONAL ETHICS WERE TO BE EXTENDED TO INCLUDE MEMBERS NOT IN PUBLIC PRACTICE.
- OTHER ORGANIZATIONS SUCH AS THE NATIONAL ASSOCIATION OF ACCOUNTANTS (NAA), THE INSTITUTE OF INTERNAL AUDITORS (IIA), THE FINANCIAL EXECUTIVES INSTITUTE (FEI) ARE REPRESENTING ACCOUNTANTS IN MANAGEMENT POSITIONS IN NEW AND MORE EFFECTIVE WAYS THAN IN THE PAST. FOR EXAMPLE, NAA HAS AN ACCREDITATION PROGRAM AND HAS RECENTLY DEVELOPED A CODE OF ETHICS FOR MANAGEMENT ACCOUNTANTS.
- HOW MIGHT THE AICPA WORK COOPERATIVELY WITH THESE OTHER ORGANIZATIONS TO AVOID COMPETITION AND EMPIRE-BUILDING BETWEEN ORGANIZATIONS WHICH COULD BE COUNTER-PRODUCTIVE TO THE BEST INTERESTS OF OUR MEMBERS AND THE PUBLIC?

PROFESSIONAL ACCOUNTING ORGANIZATIONS AROUND THE WORLD ARE STRUGGLING WITH THIS PROBLEM. IN SOME COUNTRIES THERE ARE SEVERAL BODIES COMPETING WITH EACH OTHER.

IN OTHERS, ONE ORGANIZATION IS TRYING TO REPRESENT ALL CPAs JUST AS WE ARE.

IT IS LARGELY AN ORGANIZATIONAL PROBLEM -- ONE WHICH MUST BE CONFRONTED NOW BEFORE EVENTS OVERTAKE US.

I URGE YOU TO BECOME SENSITIZED TO THIS ISSUE AND ITS IMPLICATIONS AS THE STUDY COMMITTEE BEGINS ITS WORK.

THE DEMAND FOR QUALITY PERFORMANCE

SECONDLY, I WANT TO EMPHASIZE THE DEMAND FOR QUALITY. THIS EFFORT IS GENERALLY REFERRED TO AS SELF-REGULATION. BROADLY SPEAKING, SELF-REGULATION INCLUDES ALL OF OUR PROGRAMS IN PLACE FOR THE PURPOSE OF IMPROVING QUALITY PERFORMANCE AND GIVING ASSURANCE TO OUR PUBLIC ABOUT THE QUALITY OF THAT PERFORMANCE. AMONG OTHER THINGS, IT INCLUDES STANDARD SETTING, CONTINUING PROFESSIONAL EDUCATION, OUR RULES OF PROFESSIONAL CONDUCT AND THE RELATED ENFORCEMENT PROGRAMS; AND MOST RECENTLY, IT HAS COME TO INCLUDE THE DIVISION FOR CPA FIRMS OF WHICH FIRM PEER REVIEW IS THE CORNERSTONE.

THE ATTEST FUNCTION IS STILL THE FOUNDATION OF OUR PROFESSION EVEN THOUGH THE PERCENTAGE OF AUDIT WORK IS DECREASING IN MOST FIRMS. WE HAVE, AND WANT TO RETAIN THE IMAGE -- AND THE OBLIGATIONS -- OF AUDITORS. CONGRESS, THE SEC, STOCKHOLDERS, BANKERS AND OTHER USERS WHO RELY ON OUR PROFESSIONAL OPINIONS ON FINANCIAL STATEMENTS, ARE ENTITLED TO -- IN FACT ARE DEMANDING -- TOP QUALITY PERFORMANCE. CREDIBILITY MUST BE MAINTAINED WITH ALL OF OUR PUBLICS IF WE ARE TO RETAIN OUR POSITION AS INDEPENDENT AUDITORS.

OFTEN DURING THIS PAST YEAR, I HAVE STATED MY CONVICTION THAT QUALITY IS NOT AN OPTION. QUALITY IS REALLY A MEANS OF SURVIVAL FOR OUR FIRMS -- AND FOR THE PROFESSION. IF THE CREDIBILITY -- IN THE SENSE OF BOTH INTEGRITY AND RELEVANCE -- IF THE CREDIBILITY OF OUR PRODUCT AND OUR SERVICES DIMINISHES, THE DEMAND FOR OUR PRODUCT AND SERVICES WILL ALSO DIMINISH. QUALITY IS IN THE PUBLIC INTEREST. BUT QUALITY IS ALSO A MATTER OF SELF-INTEREST.

THE AICPA IS COMMITTED TO PROVIDING MEANINGFUL PROGRAMS TO HELP OUR INDIVIDUAL MEMBERS AND FIRMS ACHIEVE TOP QUALITY PERFORMANCE.

EXPANDING SCOPE OF SERVICES AND THE COMPETITIVE ENVIRONMENT

OUR ETHICS DIVISION REPORTS THAT INQUIRIES FOR INTERPRETATIONS DEFINING ACCEPTABLE BEHAVIOR -- AS WELL AS COMPLAINTS AGAINST OUR MEMBERS -- SUGGEST A VASTLY INCREASING SCOPE OF SERVICES TO THE POINT WHERE IT IS DIFFICULT TO DEFINE THE PRACTICE OF PUBLIC ACCOUNTING.

COMPETITION HAS DECIDEDLY INCREASED OVER THE LAST THREE TO FIVE YEARS. THIS IS THE RESULT OF SEVERAL DEVELOPMENTS, INCLUDING THE ELIMINATION OF OUR BAN ON ADVERTISING AND SOLICITATION, THE ECONOMIC RECESSION AND THE SLOWER GROWTH IN THE NUMBER OF PUBLICLY-OWNED COMPANIES.

OUR FREE ENTERPRISE SYSTEM IMPLIES COMPETITION IS NECESSARY AND DESIRABLE. THE PUBLIC IS ENTITLED TO HAVE THE BENEFIT OF KNOWLEDGE ABOUT ALTERNATIVE CHOICES FOR GOODS AND SERVICES. CONCEPTUALLY SPEAKING, PRICE COMPETITION IS OF BENEFIT TO THE

CONSUMER. BUT SATISFYING THE PUBLIC INTEREST ALSO DEMANDS A HIGH LEVEL OF QUALITY. THE RISK IS THAT EXCESSIVE COMPETITION WILL DIMINISH THE QUALITY OF OUR SERVICES. ECONOMIC PRESSURES COULD RESULT IN AN INAPPROPRIATE CURTAILMENT OF NECESSARY PROCEDURES. FURTHERMORE, IF COMPETITION EXCESSIVELY ERODES INCOME LEVELS, IT COULD ADVERSELY AFFECT THE PROFESSION'S ABILITY TO ATTRACT AND RETAIN QUALITY PEOPLE IN AN ENVIRONMENT WHERE OTHER OPPORTUNITIES WITH SIMILAR PROFESSIONAL LURES MIGHT OFFER GREATER FINANCIAL REWARDS. QUALITY OF PRACTICE CANNOT EXIST WITHOUT TOP QUALITY PEOPLE.

THE COMPETITIVE ENVIRONMENT IS HERE AND CLEARLY PROVIDES SOME ADVANTAGES FOR THE PUBLIC WE SERVE, BUT, AS MEMBERS OF OUR PROFESSION, OUR BEHAVIOR AS INDIVIDUALS AND FIRMS IN THIS WORLD OF COMPETITIVE PRESSURES WILL DETERMINE WHETHER THE ULTIMATE EFFECT IS TRULY IN THE BEST INTEREST OF THE PUBLIC.

WHILE THE DEMAND CONTINUES FOR CREDIBILITY RELATED TO THE ATTEST FUNCTION, OTHER FORCES ARE WORKING TO CREATE DIFFERENT AND SOMETIMES CONTRARY PRESSURES. WE DO NOT PRACTICE OUR PROFESSION IN A VACUUM. WE MUST BE SENSITIVE TO THE NEEDS OF A HIGHLY-COMPLEX BUSINESS WORLD AND THE TRENDS IN SOCIETY THAT WILL HAVE A PROFOUND EFFECT ON OUR FUTURE.

JUST TO GET THE MATTER IN PERSPECTIVE, LISTEN TO A FEW QUOTES I HAVE RECENTLY HEARD OR READ:

- THIS IS A QUOTATION FROM THE MANAGING PARTNER OF ONE OF OUR LARGE FIRMS. "ONE OF THE CHALLENGES WE HAVE IS THAT IN OUR BUSINESS COMMUNITY THE DESIRE FOR ACCOUNTING FIRMS TO PARTICIPATE IN NON-AUDITING ACTIVITIES IS BECOMING GREATER. THERE IS MORE SEEKING OF AUDIT FIRMS' ADVICE AND TALENT ON A WHOLE RANGE OF FINANCIAL MATTERS." IT SPEAKS OF A DEMAND FROM THE PUBLIC FOR EXPANDED SERVICES.
- IN RESPONSE TO A QUESTION ABOUT WHAT THE MARKET IS DEMANDING RELATIVE TO OUR SERVICES, THE PRESIDENT OF ONE OF OUR PROFESSIONAL INSTITUTES IN ANOTHER COUNTRY SIMPLY SAID, "THE DEMAND IS FOR LESS AUDIT, MORE HELP!"
- A MAN WHO SERVES ON THE AUDIT COMMITTEES OF THE BOARD OF SEVERAL LARGE COMPANIES SAYS THAT HE ASKS THE AUDITING FIRM, "WHAT IS YOUR OUTPUT? WHAT DID WE GET FOR OUR MONEY?" "THE AUDIT IS NOT AN ADEQUATE ANSWER", SAYS THIS MAN. "I WANT TO KNOW WHAT ADDITIONAL POSITIVE HELP WE RECEIVED."
- IN A PAPER PRESENTED BY SANDY BURTON ENTITLED "THE INFORMATION REVOLUTION: WHO NEEDS TO KNOW WHAT, WHEN AND HOW" -- SANDY, OF COURSE, IS ONE OF OUR RESPECTED MEMBERS, FORMERLY WAS CHIEF ACCOUNTANT FOR THE SEC AND IS NOW DEAN OF THE COLUMBIA GRADUATE SCHOOL OF BUSINESS -- SANDY SAID, "THE LIKELIHOOD THAT SUBSTANTIAL FEES WILL CONTINUE TO BE PAID FOR AN AUDITOR'S ASSURANCE THAT

THE FINANCIAL STATEMENTS PRESENT A TRUE AND FAIR VIEW,
IS SMALL. ...IT SEEMS TO ME UNLIKELY THAT THE TRADITIONAL
AUDITING SERVICE CAN BE OTHER THAN A RESIDUAL,
REGULATORY PARASITE WHICH MIGHT BE DEFENDED FOR A
FEW YEARS BUT HAS LIMITED LONG-RUN PROSPECTS. THUS
THE PROFESSION IS FACED WITH THE NEED TO CHANGE OR
SHRINK INTO DRAMATIC INSIGNIFICANCE AND PROFITABILITY.
PUBLIC ACCOUNTANTS HAVE A GREAT OPPORTUNITY IF THEY
ACCEPT THE IMPERATIVES OF THE NEW WORLD THEY FACE...
ON THE OTHER HAND, IF WE SEE OURSELVES AS AUDITORS OF
FINANCIAL STATEMENTS, OUR FRUIT IS LIKELY TO WITHER
ON THE VINE."

YOU MAY OR MAY NOT AGREE WITH THESE STATEMENTS, BUT THE
SIGNALS ARE UNMISTAKABLY CLEAR.

THE QUESTION OF THE APPROPRIATE SCOPE OF SERVICES IS COMPLEX.
IT INVOLVES THE COMPETITIVE ENVIRONMENT. IT INVOLVES THE INCREAS-
ING DEMAND FROM OUR PUBLICS FOR A VARIETY OF SERVICES. IT
INVOLVES THE RELEVANCY OF OUR SERVICES.

THIS, THEN, IS THE DILEMMA WE FACE -- IN THE FUTURE -- AND
AT THIS MOMENT. WE MUST MAINTAIN OUR INDEPENDENCE, INTEGRITY
AND OBJECTIVITY AS IT RELATES TO OUR ROLE AS AUDITORS. HOWEVER,
WE DO NOT PRACTICE IN A VACUUM -- WE ARE NOT IMMUNE TO COMPETITIVE
PRESSURES. WE MUST NOT IGNORE THE DEMANDS OF THE MARKETPLACE
FOR EXPERTISE BEYOND THAT TRADITIONAL ROLE.

THE BASIC PROBLEM FACING OUR PROFESSION IS TO RETAIN THE

ESSENCE OF PROFESSIONALISM IN AN INCREASINGLY COMPETITIVE ENVIRONMENT. THE EXTENT TO WHICH WE RETAIN PROFESSIONALISM WILL DEPEND UPON:

- THE QUALITY OF OUR WORK AND
- OUR BEHAVIOR AS INDIVIDUALS AND AS FIRMS IN THIS WORLD OF COMPETITIVE PRESSURES.

WE MUST RECONCILE THE SOMETIMES CONFLICTING QUESTIONS RELATED TO OUR DUAL ROLES.

WE HAVE BEEN KEENLY AWARE OF THIS DILEMMA DURING THE LAST YEAR AND HAVE TAKEN INITIATIVES IN SEARCH OF ANSWERS.

- TO MAINTAIN OUR CREDIBILITY AS AUDITORS AND CONTINUE EMPHASIS ON THE QUEST FOR QUALITY, WE HAVE:
 - APPOINTED TWO COMMITTEES TO SEPARATELY STUDY THE OPERATIONS OF THE DIVISION FOR CPA FIRMS--ONE FOR THE SEC PRACTICE SECTION AND ONE FOR THE PRIVATE COMPANIES PRACTICE SECTION. THE PCPS STUDY COMMITTEE HAS ISSUED ITS INTERIM REPORT, TOGETHER WITH RECOMMENDATIONS FOR IMPROVEMENT IN THE PROGRAM AND GREATER RELEVANCY TO MEMBERS -- ESPECIALLY SMALLER PRACTICE UNITS. THE COMMITTEE STUDYING THE SEC PRACTICE SECTION IS EXPECTED TO REPORT ON ITS RECOMMENDATIONS ABOUT THE END OF THIS CALENDAR YEAR.

- MAINTAINED CONFIDENCE AND ENHANCED OUR CREDIBILITY BY CONTINUING TO CULTIVATE GOOD RELATIONSHIPS IN WASHINGTON -- BOTH WITH THE ADMINISTRATION AND WITH CONGRESS.

- MADE PLANS TO PROMOTE FURTHER MEMBERSHIP IN THE DIVISION FOR CPA FIRMS AND TO EXPLAIN THE BENEFITS OF THE PROGRAM TO AICPA MEMBERS AND OTHERS, INCLUDING USERS.

- TO BETTER UNDERSTAND THE IMPACT OF THE EXPANDING SCOPE OF SERVICES, THE APPROPRIATE ROLE OF THE INSTITUTE, RELATIVE TO PROFESSIONAL CONDUCT IN THIS ENVIRONMENT AND THE IMPLICATIONS FOR OUR MEMBERS AND THE PUBLIC, WE HAVE APPOINTED A COMMITTEE, CHAIRED BY MY PREDECESSOR, GEORGE ANDERSON. THAT COMMITTEE IS CHARGED WITH EVALUATING THE RELEVANCY OF OUR PRESENT CODE OF PROFESSIONAL CONDUCT TO PROFESSIONALISM, INTEGRITY, AND COMMITMENT TO QUALITY SERVICE IN THE PUBLIC INTEREST.

WE MUST CONTINUALLY REASSESS OUR PROGRAMS AND OUR MISSION.

BUT IT IS NOT ENOUGH TO MAKE OUR PROFESSION, AS WE KNOW IT, BETTER. WE MUST ALSO BE WILLING, IF NECESSARY, TO MOVE IN NEW DIRECTIONS WITH STUDIED CONCLUSIONS ABOUT THE IMPLICATIONS FOR OUR MEMBERS AND FOR THE PUBLIC WE SERVE. I KNOW B. Z. LEE, OUR NEW CHAIRMAN, WILL CAPABLY DIRECT THE PROFESSION AS IT PURSUES THESE AND OTHER CHALLENGES.

WHILE MANY OF THE ANSWERS ARE NOT EVIDENT AND, IN SOME INSTANCES, DIRECTIONS ARE AS YET UNCERTAIN, THERE ARE SOME CONCLUSIONS THAT, AT LEAST TO ME, ARE CRYSTAL CLEAR:

- WE MUST RETAIN PROFESSIONALISM THROUGH THE PURSUIT OF EXCELLENCE AND WITHOUT DEVIATION FROM THE PRINCIPLE THAT THE INTERESTS OF OUR CLIENTS AND THE PUBLIC COME BEFORE OUR OWN.
- IN A CHANGING WORLD, RELEVANCE OF OUR SERVICES TO THE REAL NEEDS OF THE MARKETPLACE MUST BE MAINTAINED -- BUT WITHIN THE PARAMETERS OF PROFESSIONALISM.
- IN TEN OR TWENTY YEARS, WHEN THIS PROFESSION TAKES A BACKWARD LOOK AT THE ACCOMPLISHMENTS OF WHAT IS NOW OUR FUTURE, ONE OF THE MOST IMPORTANT INGREDIENTS WILL HAVE BEEN OUR BEHAVIOR AS INDIVIDUALS AND AS FIRMS AS WE PRACTICE OUR PROFESSION.

THE LATE BILL GREGORY CHALLENGED US IN HIS FINAL MESSAGE AS HE COMPLETED HIS TERM AS CHAIRMAN OF THE INSTITUTE, TO DEMONSTRATE PROFESSIONAL RESPONSIBILITY AND SELF-RESTRAINT IN OUR CONDUCT AS PROFESSIONALS. AS WE LOOK BACK, IT IS CLEAR BILL SAID THIS WILL REAL FORESIGHT. LET US COMMIT TO APPROPRIATE CONDUCT -- NOT FOR THE SAKE OF COMPLIANCE WITH RULES -- BUT FOR THE SAKE OF RELEVANT, QUALITY PERFORMANCE. LET'S COMMIT TO RETAINING THE ESSENCE OF PROFESSIONALISM AS WE SEARCH FOR ANSWERS SO THAT THOSE WHO ASSESS THE RECORD TEN YEARS FROM NOW WILL CONCLUDE THE JOB WAS WELL DONE.

I'D LIKE TO LEAVE ONE LAST THOUGHT WITH YOU. IT WAS SUGGESTED SOME YEARS AGO BY THOMAS HIGGINS, WHO HAD SERVED AS CHAIRMAN OF THE AICPA ACCOUNTING AND AUDITING PROCEDURES COMMITTEE AND OF THE PROFESSIONAL ETHICS COMMITTEE. HE RECEIVED THE GOLD MEDAL FOR HIS DISTINGUISHED SERVICE. IN HIS BRIEF REMARKS IN ACCEPTING THIS AWARD, HE EXPRESSED THE VIEW THAT WE HAD FAR TOO MANY RULES, PARTICULARLY IN PROFESSIONAL ETHICS. HE CALLED ON THE PROFESSION TO LIVE BY A SIMPLY STATED BUT EASILY UNDERSTOOD AND, IN MY VIEW, POWERFUL CONCEPT. HE CHALLENGED US TO LIVE BY THE GOLDEN RULE: "DO UNTO OTHERS AS WE WOULD HAVE THEM DO UNTO US." HE LATER SERVED ON THE CODE RESTATEMENT COMMITTEE IN 1970 AND AGREED WITH ITS CONCLUSION THAT YOU CAN'T ENFORCE SUCH A BROADLY STATED STANDARD.

WHILE THE CHALLENGE TOMMY HIGGINS GAVE US WAS 2,000 YEARS OLD, HE MAY HAVE BEEN A MAN AHEAD OF HIS TIMES. BUT HIS COUNSEL HAS APPLICATION TODAY. IF EACH OF US WERE TO OBJECTIVELY MEASURE OUR EVERY PROFESSIONAL ACT BY HIS STANDARD, WE WOULD HAVE COMPETITION BUT NOT AN UNBRIDLED BATTLE FOR CLIENTS. AND IF WE PUT OURSELVES IN OUR CLIENTS' PLACE AND RECOGNIZE THE RIGHTFUL EXPECTATIONS OF THE CLIENT AND THE PUBLIC, WE WILL BE OFFERING ONLY TOP QUALITY SERVICES. IT MAY SEEM FARFETCHED AND EVEN OLD-FASHIONED AT FIRST. BUT I BELIEVE THAT IF YOU DWELL ON IT A LITTLE, AS I HAVE, IT CAN BE A GREAT FORCE FOR GOOD IN OUR RELATIONS. I'LL STATE IT AGAIN. DO UNTO OTHERS AS YOU WOULD HAVE THEM DO UNTO YOU.

WITH THAT MESSAGE, I THANK ALL OF YOU AGAIN FOR A MOST SATISFYING YEAR.