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AICPA-NASBA Committee on Professional  
Recognition and Regulation

Report to Spring Meeting of Council  
May 3, 1972  
by Kenneth W. Thompson

My task this morning is to inform you about the work of the AICPA-NASBA Committee on Professional Recognition and Regulation, and to present what might be called our tentative recommendations. We are not asking for your approval, but we do wish to obtain the benefit of your thinking--particularly before we submit our final report to our respective Boards of Directors later this year.

Now before I tell you what we've been doing, I want to tell you something about this committee. I doubt if many of you even know of our existence. We have enjoyed a period of comparative obscurity. In fact, when my own firm recently reported in our internal bulletin the list of current Institute committee chairmanships held by our partners, this committee wasn't even mentioned! Now that's not all bad, because operating without high visibility does have its advantages.

The committee has been in existence for nearly two years. It came into existence at the end of Lou Kessler's term as President of the Institute and at his special urging.

While President, Lou broached the idea many times that the time was at hand for studying the issues surrounding a national

CPA certificate. Some of the papers he created during his term in office also were about this topic.

Enough interest was found in the idea for the Institute to undertake a preliminary examination of what the study might be. This examination indicated that the committee, if it came into existence, should address itself to the problems of recognition and regulation of CPAs and not necessarily to the acceptance or proposed cure, a national CPA certificate. There was no indication of a preliminary effort that the problems so identified would or would not be overcome by a national CPA certificate.

This preliminary examination also drew heavily upon the proposal made by Jack Carey in 1967 that a commission on state legislation be formed to study the legislative problems of the profession. The background material for that proposal and the ensuing discussions, which are in the Institute's permanent files, were helpful in the preliminary examination. This initial effort led to the following charge being placed on the committee:

"To study and report to the NASBA and AICPA Boards of Directors on the effectiveness of current procedures for professional recognition and regulation of CPAs.

We were asked to consider the following questions:

1. In what ways, if any, is the practice of public accounting affected by the issuance of CPA certificates by fifty-four jurisdictions?

2. Is the public interest in accounting practice primarily state, national, or international in character?
3. Are new kinds of legislation necessary or desirable? Is diversity or uniformity of legislation preferable?
4. What impact does current legislation have on:
  - a. The meaning and image of the CPA certificate?
  - b. Disciplinary control by boards of accountancy and professional societies?
  - c. Preparation for the profession?
  - d. Attraction of personnel to the profession?
5. Assuming the boards of accountancy continue to license accounting practitioners, would the profession's objectives be facilitated if the Institute were to accredit individuals (grant the CPA certificate)?"

The preliminary study and charge, it is evident, required that the committee include among its members individuals with experience in administering accountancy statutes. The committee needed the knowledge that state board members have. Remembering Willard Bowen's suggestion to Council in 1970 that NASBA and the Institute join in a common effort when their interests overlap, Lou Kessler was approached with the idea that the committee become

a joint Institute-NASBA committee. He consulted with Carl Dechow, President-nominee at that time, and members of the Board of Directors responded affirmatively to the request.

So the following committee came into existence. The NASBA members are:

Willard G. Bowen, Colorado

Roger R. Cloutier, Iowa

Sam I. Diamond, Jr., Alabama

Charles W. Lamden, New York

Andrew P. Marincovich, California

The Institute members are:

William T. Diss, Colorado

William L. Ferrara, Pennsylvania

Ellsworth H. Morse, Jr., Washington, D. C.

Max Myers, Missouri

Kenneth L. Thompson, California

At its first meeting in 1970 the committee elected its own chairman.

Since then the committee has held 9 meetings which represent about fourteen days of discussions, interviews of guests, and general efforts to assimilate information. In addition, for the committee's study purposes, the staff assembled numerous documents pertaining to the problems under attack. The committee members themselves also undertook fact-finding efforts which have

been extremely helpful. The committee has also followed with special interest the deliberations of other Institute committees, notably the committees on state legislation, specialization, continuing education, and educational policies.

To establish some parameters for its study, at its first meeting the committee agreed to the following additional guidelines:

- "1. Deliberations will be limited to professional recognition and regulation of CPAs. Problems created by pressures of PAs should be dealt with chiefly by the committee on state legislation.
2. Committee recommendations for modification or change of existing procedures should be realistic. Consequent problems which might arise in the implementation of the recommendations cannot be overlooked."

At that first meeting, four subcommittees were formed and assigned specific tasks. The subcommittee on other professions was asked to examine procedures for professional recognition and regulation of other professions in the United States and of professional accountants in other countries.

A second subcommittee concerned itself with how effective the procedures are for professional recognition of CPAs. It studied the problems caused by differences in admission requirements of the states and the impact of the differences upon the attraction of personnel to the profession, academic preparation

for the profession, and the meaning and the image of the CPA certificate.

A third subcommittee on regulation was charged with determining how effective are the current procedures for professional regulation of CPAs. This committee addressed itself to the effectiveness of current disciplinary efforts on the part of state societies, state boards, and the Institute, problems caused by differences in the rules of professional conduct and other professional standards required of CPAs, and finally, the impact upon the profession of the regulatory requirements of federal agencies.

Finally, the subcommittee on legal implications was asked to study the legal framework of the present procedures for recognizing and regulating CPAs and the legal implication of the portended changes of these procedures. This subcommittee's work is underway but is not yet complete.

Perhaps the most fruitful aspect of the committee's work has been the invitation of distinguished CPAs and others to its meetings for interview purposes. These interviews ranged in length from fifteen minutes to over two hours a piece.

The following questions were posed to those interviewed at the discussions and were not necessarily limited to these topics:

"1. What problems are caused by present procedures for

recognition and regulation?

- a. Is interstate practice of public accounting handicapped?
2. What impact do present procedures for recognition have on:
    - a. Attraction of personnel to the profession?
    - b. Academic preparation for the profession?
    - c. The meaning and image of the CPA certificate?
  3. Under present procedures is attainment of uniformity or near uniformity of requirements of fifty-four jurisdictions feasible?
  4. Is establishment of a national CPA certificate issued by either the Institute or by an organization sanctioned by Congress feasible?"

Following these interviews, the committee has sought to crystallize its thinking about the kinds of recommendations it should ultimately submit. Basically, this covers what the committee has done so far. Now for a description of what the subcommittees found.

#### SUBCOMMITTEE ON OTHER PROFESSIONS

This subcommittee undertook the investigation of the regulation of nine other professions in the United States and then, using the Institute's study "Professional Accounting in 25 Countries," the subcommittee undertook to study in depth the pro-



professional accounting licensing procedures in six foreign countries: Australia, Canada, France, South Africa, United Kingdom, and West Germany. Time does not permit me to explain the findings of the subcommittee in detail, but I do wish to summarize the seven observations which concluded the report of this subcommittee:

1. A comprehensive set of procedures for professional recognition and regulation that would be ideal for the accounting profession in the United States does not exist intact in other professions or in accounting professions in foreign countries. While certain procedures of others may be adoptable for CPAs in the United States, no other profession or country can serve as a model.

The absence of an ideal prototype for CPAs results, at least in part, from the unique characteristics of the interstate practice of public accounting in the United States.

2. With varying degrees of weight, others generally rely upon similar types of qualifications for entry into their professions: education, examination, experience, and character investigation. The learned professions of law, medicine, and dentistry rely chiefly on formal education for preparation for their professions with little or no emphasis on experience.

None of the other professions in the United States has a uniform examination accepted by all jurisdictions as is the case with the CPA examination. Nearly all states, however, utilize

national examinations for licensing architects, dentists, and doctors.

3. Professions, requiring lengthy and specialized formal educational preparation, are involved in educational processes to the extent of accreditation of professional schools or curricula. The national professional association may be the chief accreditation authority, as is the case with the dentists and doctors; or the professional associations may participate with educational and state board groups in the accreditation processes, as is the case with architects and engineers. The American Bar Association approves most of the law schools, but some, chiefly those operating at night, are approved solely by state authorities.

4. There is a perceptible trend in other professions toward the designation of specialists who fulfill specified requirements. Specialists are recognized among the doctors, dentists, and engineers. Lawyers have inaugurated a pilot program in California for recognition of legal specialists.

Another identifiable trend is the establishment of sections within the professional associations to serve special needs or interests. Such sections in medicine, dentistry, and law are organized to the extent of having dues, bylaws, officers, publications, and annual meetings. These sections, however, are subordinate to their national associations.

Engineers provide for sectionalized interest through independent engineering societies. These societies, however, are

not subject to a controlling national association. There is no strong national association which takes all qualified engineers into its membership regardless of their specialties.

5. Other professions apparently are not confronted with the same problems as CPAs in obtaining licenses or certificates in other states. The absence of the reciprocity problem may be attributable to the fact that other professionals tend to practice intrastate whereas CPAs practice interstate.

6. Two professions, architects and physical therapists, maintain national data banks of qualified members of their professions. State boards refer to these data banks for information on out-of-state applicants for licenses or certificates.

7. No discernible trend of relationships between national accounting associations and federal governments could be identified in other countries. In some countries there is a close relationship between the association and government. In others, such as the United Kingdom, professional designations are granted solely by the professional association.

#### SUBCOMMITTEE ON RECOGNITION

The charge to this subcommittee was "How effective are current procedures for professional recognition of CPAs."

This subcommittee considered, among other things, the requirements for obtaining a CPA certificate under various state laws, the problems caused by present procedures, whether interstate

practice in public accounting is impeded, the impact upon attraction of personnel to the profession, whether there should be recognition of some kind before the CPA level, whether there should be recognition of non-CPA specialists in public accounting firms, and whether national recognition for the CPA certificate is desirable and attainable.

A study was made of the requirements for issuance for the CPA certificate in ten representative states. Factors considered were education, experience, transfer of examination credits for less than all parts as well as all parts passed, citizenship and residency requirements, age and reciprocity provisions between states.

This subcommittee reached the following conclusions:

1. There presently exists wide variations and educational and experience requirements for the CPA certificate, transfer of credits, and provisions for reciprocity.
2. The attainment of substantial uniformity among the fifty-four jurisdictions is all but impossible under present procedures.
3. The separation of the CPA certificate and the permit to practice is a logical one.
4. The establishment of a quasi-governmental authority to set standards and issue CPA certificates would not be in the best interest of the public.
5. The current procedures for professional recognition of CPAs fall far short of desirable goals.

## SUBCOMMITTEE ON REGULATION

The task of the subcommittee on professional regulation was to determine the effectiveness of regulation of certified public accountants. Regulations of state boards, state societies, and Federal governmental agencies were examined, classified, and analyzed. In addition, enforcement of regulations was studied. The Institute staff, under the direction of Jack Shoheit, circularized the state boards of accountancy and the state societies and tabulated data showing comparability of their rules to those of the AICPA and their enforcement of their rules. The conclusions of this subcommittee may be summarized as follows:

## 1. Regulations:

When compared to the Institute's rules of professional conduct, the regulations of state boards of accountancy present a widely divergent picture, although on some major points, there is reasonable cohesiveness. The same holds true of rules of various organized societies in the different states. For example, for the current Institute rule 1.01 on independence, the subcommittee found twenty-one different variations in this rule in state regulations. There were thirty-two variations of the Institute's rule 2.01 on the work of other accountants, and there were twenty-nine different variations on the Institute's rule 2.03 on reports, opinions and disclaimers.

## 2. Enforcement of Regulations:

The subcommittee's study of enforcement activities and the results of such activities on the part of the various political subdivisions led them to suggest these alternative conclusions:

- Practically no certified public accountants breached the rules and regulations, or
- There is little enforcement of the rules, and
- Violations, when they occur, are generally considered of an isolated or accidental nature not worthy or not requiring formal enforcement activity.

## 3. Summary

In summary, the subcommittee's conclusion was that the current procedures for the regulation of certified public accountants need strengthening.

### THE COMMITTEE'S RECOMMENDATIONS

The last two meetings of the committee have been devoted to developing its recommendations for exposure to this Council and the board of directors of the National Association of State Boards of Accountancy. Our tentative recommendations fall into three categories:

- Professional recognition
- Professional regulation
- Implementation

1. Professional Recognition

A. National CPA Certificate

The establishment of a national CPA certificate should be an objective of the profession. One method could be the issuance of the certificate by the Institute with the licensing function retained by the states. A national commission, drawn chiefly from the accounting profession, should be formed to lay down standards for issuance of the certificate.

B. National Qualification Service

The Institute should establish a national qualification service to enroll individuals who have fulfilled prescribed requirements for education, experience, and completion of the CPA examination. Enrollees would include individuals who had passed the CPA examination but had not yet received a CPA certificate. Foreign licensees would be included. The Institute would issue a certificate to the enrollee which would state that he was duly enrolled. The data bank would be a means for clearing applications for reciprocal certificates.

The national qualification service should be made available to state boards, for a fee, to pass upon the educational qualifications of individuals to sit for the CPA examination.

C. Professional Schools of Accounting

The Institute should encourage the establishment of professional schools of accounting at qualified and receptive colleges and universities. State societies and other segments of

the profession should join with the Institute in this effort and provide financial support to the extent possible.

A task force should be formed to develop standards for professional schools and to identify ways and means by which this recommendation can be translated into action.

In the interim the Institute should encourage and support pioneer programs to establish professional schools of accounting.

D. Participation in Accreditation

The Institute should participate in the accreditation of accounting curricula and professional schools.

E. Expansion of Directory of CPA Firms

The Institute's Directory of Accounting Firms and Practitioners should be expanded to encompass the information and data set forth in the law firm directories such as the Martindale-Hubbell Law Directory. The Institute should continue its current policy of listing only firms, all of whose partners are members of the Institute. The committee on professional ethics should be called upon to determine the ethical implications of this expansion.

F. Sections

The issues surrounding the establishment of Sections within the Institute should be restudied in the light of current conditions.

2. Professional Regulation

A. Data Bank



The Institute should establish and maintain a data bank of individuals against whom formal disciplinary actions have been taken by the profession. The data bank should include CPAs indicted for or convicted of fraud or a criminal offense which tends to discredit the profession.

B. Coordination of Enforcement of Rules of Professional Conduct

The current plans and efforts of the ethics committee to coordinate the procedures of the Institute, state boards, and state societies in the enforcement of the Rules of Professional Conduct are endorsed. Coordination of procedures should be structured on a regional basis, encompassing groups of state, and be sponsored jointly by the Institute and NASBA.

3. Implementation

A. State Legislation in Affirmative Stance

The Institute should make a stronger affirmative, paternal effort for achieving uniformity in accountancy acts.

B. Cooperation between Institute and NASBA

The Institute and NASBA should cooperate actively, where appropriate, in legislative activities for the advancement of the profession.

C. Model Regulations

A permanent joint AICPA-NASBA committee should be formed to prepare model regulations for state boards and to subsequently

monitor state board regulations.

#### CONCLUSION

Now that you have heard the recommendations of our committee, I hope you can better understand the magnitude of the charge that was laid on this committee. There have been a number of times when some of us felt that we were trying to dig the Panama Canal with a teaspoon. We have, however, come to the unanimous conclusion that the present procedures for the Professional Recognition and Regulation of CPAs must be completely overhauled. How we accomplish this is quite another matter. The existence of fifty-four different jurisdictions coupled with the many forces at work today that are shaping the future direction of our profession may make this an insurmountable task. If the accounting profession can be shown that changes are necessary, we will probably find a way to bring about a change. Meanwhile, our committee solicits your reactions and suggestions which we will consider before submitting our final report to the respective Boards of Directors later this year.