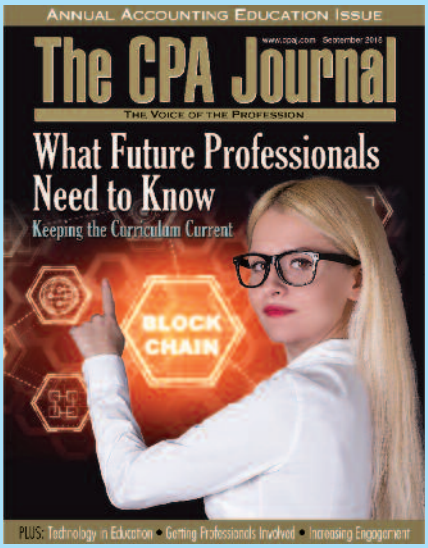
The Way We Were

By Vincent J. Love

The Lawyer's duty is first of all to his client, and that duty frequently compels him to avail himself of technicalities and other means of enabling that client to evade the Law and its penalties; but the Public Accountant has only one duty to his client and the Public, and that is to disclose to him or for him 'the truth, the whole truth, and nothing but the truth' so far as his abilities and special training to that end enable him to ascertain it.

—Robert H. Montgomery, 1905

I read with great interest Arthur Radin's article in the September 2018 *CPA Journal,* "Reflections on My 66 Years in Public Accounting." While I cannot compete with Arthur on the number of years in the profession, I wholeheartedly agree with his pride in the profession. I do, however, have one observation about "life in the beginning" that I believe is worth mentioning.



In the Beginning

In 1967, after more than three years as an officer on active duty in the U.S. Army, I began my career as a public accountant with Arthur Young & Company. My beginning salary was less than I made as a captain, but high compared to beginning salaries in the profession. I knew nothing about financial statements before I took my first course in accounting at the Baruch School of Business Administration of the City College of New York.

The one point not touched on by Arthur Radin relates to the grounding of the profession in the AICPA's Code of Professional Conduct. I left the service, where the saying was "an officer's word is his bond." I joined an accounting firm where great emphasis was placed on ethical behavior no matter the cost. The tone at the top ingrained ethical behavior into all of its professionals. The need for strict adherence to ethical standards was emphasized at the first firm introductory session and reemphasized in all subsequent staff meetings and firm CPE courses. Maintaining a client relationship was very important, but came second to ethical behavior.

After the Beginning

At the time I started in the profession, the accounting firms were almost wholly performing only accounting, auditing, and tax services. Consulting services were growing, but not a major component of the business. Today, the largest auditing firms are large financial services and consulting firms and no longer primarily auditing firms. Make no mistake about it, they are well-managed, highly qualified firms, but are their audit and attest services as grounded in ethical standards as they once were? Are these firms' professionals, including non-attest professionals, as grounded in the ethical standards as they should be? I do not believe they are—not by any plan or design, but by normal human instincts when revenue and growth are paramount for advancement and earnings. This diminishment of the adherence to a strict interpretation of the profession's ethical codes is also, at the larger firms, exacerbated by the loss of a true partnership form of doing business. With thousands of partners, their relationship is bound to be more akin to the officers of a large corporation.

The recent collapse of the U.K. construction giant, Carillion, led the Financial Reporting Council (FRC) to consider whether the largest accounting firms should be broken up. In 2018, a joint select committee of Members of Parliament concluded that all of the firms that had an auditing or advisory role with Carillion repeatedly failed to divulge problems or challenge management.

In the United States, regulators indicted five former audit executives and a former professional at KPMG with conspiracy and wire fraud. It is alleged that they used confidential regulator information to subvert the firm's inspection by the PCAOB. In addition, there were audit failures that were reported in the press, including a judgment against PricewaterhouseCoopers of $625 million in favor of the FDIC related to alleged failed audits from 2008 and before.

It is not only the larger firms that experience issues related to objectivity; smaller firms and individual practitioners face the same problems. Getting too close to the client and going beyond the services cited in engagement letters can cause problems for these smaller firms. Also, having one or a small number of clients represent a significant share of total revenues puts pressure on the service provider to keep those clients happy. The failures in providing assurance services can be related to what can be termed "partner arrogance," leading to failures in applying professional skepticism or maintaining true independence. The number of failures that are the result of the firm or engagement partner *knowingly* participating in a fraud is extremely small.

Into the Future

Some are calling for a breakup of the larger accounting firms, or perhaps restrictions on accepting consulting engagements for clients that also receive attest services. These proposals, however, have very serious drawbacks and could negatively affect assurances needed on expanded future reporting. There is an increasing need for independent assurance of an enterprise's reports on its sustainability and community involvement. The changes in evidence used when making investment and credit decisions create a need for independent and competent assurance beyond that given in the traditional financial statements and related disclosures.

The larger firms are highly effective consulting firms and have developed excellent auditing procedures. The auditors usually have a familiarity with the client's internal systems and operating strengths and weaknesses, which most often leads to better consulting advice. The smaller firms and individual practitioners also have an in-depth knowledge of the client that usually leads to more effective advice. This benefit would be lost by imposing undue mandatory restraint on doing both attest and nonattest work for a client.

> The profession needs to maintain its standing in the public's perception as the provider of reliable assurance.

What needs to be done is for firms and self-regulatory organizations to step up their implementation of professional standards through setting the tone at the top and enhancing the enforcement of, and penalties for failure to follow, relevant ethical standards. It is important that all professionals, not only audit professionals, understand ethical principles and the need for them to be implemented in every service delivered to a client. This is in line with Barry Melancon's stated outlook for the profession and his insight that has led to expanding the membership of non-CPAs in the AICPA, making them subject to the Code of Professional Conduct.

Objectivity, integrity, competency, due care, and the public interest are paramount to the delivery of professional services. In addition, independence is required when performing assurance services. These principles are the foundation of the profession and fundamental to any future expanded enterprise reporting. The code defines the public interest as follows:

> Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
>
> A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of members to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on members.
>
> The public interest is defined as the collective well-being of the community of people and institutions that the profession serves. (Preface, 0.300.030)

The public interest and doing what is right should not be secondary to personal gain or advantage. Adherence to the form and the spirit of technical and ethical standards must be part of all services provided to a client.

For all professional service engagements, a CPA should possess "the degree of skill commonly possessed" by other similarly situated professionals and should exercise it with "reasonable care and diligence." Due care, or due professional care, does not characterize the result of its exercise. It refers to the characterization of the quality of the framework used to give advice, to render an opinion, or to make a recommendation. No result is guaranteed. Only the exercise of care expected of a reasonable professional in the same situation is required.

The future is bright for CPAs and the accounting profession. The profession needs to maintain its standing in the public's perception as the provider of reliable assurance. Association with unethical practices and engagement failures caused by not complying with the standards will lead to the erosion and the eventual demise of the profession. We should not be complacent, but should heal ourselves. Ernst & Young US gave the profession a great example of the type of policy that will enhance the public's confidence in the quality of audited data. They established an "independent audit quality committee" comprising a group of senior, independent leaders with diverse backgrounds and capabilities to advise the firm on the many aspects on its business that affect audit quality. Subsequently, Grant Thornton also established a similar committee. These are major steps in the process of ensuring the continuing and expanding role of the profession in data verification. We should strive to be the profession best qualified to provide assurance on the vastly expanding reports issued by an enterprise for dissemination to the public. ❑

Vincent J. Love, CPA/CFF, CFE, *is the chairman of VJL Consulting, LLC, New York, N.Y., and a member of* The CPA Journal *Editorial Advisory Board.*