

10-27-2008

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The Auditing Profession: 21st Century Challenges

by

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October 27, 2008

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Introduction

Within the past year I've had the unique experience of serving as both President of the American Accounting Association (AAA), an organization in place since 1916 with over 8,000 members, 15 special interest groups and seven regions, and of which 2,000 members reside outside the United States; and also being one of the 21 members of the Treasury Department's Committee on the Auditing Profession (ACAP), in which I have served as chair of the Human Capital Subcommittee. These were valuable experiences because of the contrast they afforded. First, the AAA is predominantly a community of academics, but in the ACAP by contrast, I was the only academic, the others being business representatives, representatives of investors and labor groups, policy makers and practicing professionals who were focused upon one dimension of the academic community, that of being a part of the supply chain to provide qualified individuals to perform the profession's investment information function needed by society. I mention this as context for the remainder of my presentation and remarks.

Background

My interests have been in history, development of thought, regulation, and education policy. I have been steadfast to those subjects over the years that I've been an accounting academic because that's what's motivated me, and maintained my intellectual curiosity.

There would have been a time when we started *Research in Accounting Regulation* --our first edition was in 1987-- when someone using the word "regulation" would have been seen as using the equivalent of a four letter word, so powerful were the forces for deregulation and the belief in the markets. Times have changed once again. Indeed we go through these interesting periods in our free market system, or our mixed economy, depending on how you care to characterize it. Today it appears we're back to a point where we're going to be thinking very judiciously about what is

the proper balance between markets and regulation.

In his testimony before the Senate Banking Committee earlier this month, Arthur Levitt, former Chairman of the Securities and Exchange Commission (SEC), and Co-Chair of the ACAP, observed that "we must be creative and daring in order to get our markets working again." [1] I'm supportive of free enterprise and markets. I've also studied rather extensively the history of regulation and public sector intervention in this country. It may not surprise you to know that we have had government participation in the free economy from the earliest days, as early as 17th century colonial turnpikes to the 1820s construction of the Erie Canal. So while free markets are certainly to be appreciated, there is precedent, successful and longstanding, for participation of government in the economy. We are beginning to observe, once again, a reprise to this stream of history where the relative emphasis on regulation versus deregulation, especially in the capital markets, is about to be challenged. Accountants, as information providers, will be involved.

Fundamentals of the System

The American System has as one of its purposes to advance the right of ownership in private productive property. Our Constitution establishes this way of life. It is our social contract and establishes expectations about the economic and political order of our nation. In this way, the Constitution and the right to own private productive property also is useful to derive precisely "what it is that we do as professional accountants."

I have concluded that our profession exists to serve the information right of society, which develops and is begotten from the constitutional right to own private productive property. To own property but be uninformed or misinformed about the economic performance or consequences of its use is to 'de facto' deprive owners of the constructive use of their property, i.e. it is a social forfeiture of property.

Our nation's founders fought the Revolutionary War. They based our new sovereign system upon the right of individuals to own private productive property and not have it controlled by the crown or subverted only to that interest. That the focus of the Constitution was on organizing a system around this important property right is made even clearer by the next action, namely that the founders wrote ten amendments to the Constitution to ensure individual civil rights: the right to free speech, to freedom of the press, to be free to observe religious preferences, to assemble, and so forth. Together these property and civil rights are the "DNA" of our economy and our culture. The revolution was fought to achieve them, e. g., the right to own private, productive property, not merely personal property, but the means of production. We balance that with the recognition of the importance of the freedom to speak, to assemble, to worship and we have the core of why the American System emerges as the *Novus Ordo Seclorum*, the New Order of the Ages. "Novus Ordo Seclorum" was the motto suggested in 1782 by Charles Thomson, the Founding Father chosen by the Continental Congress to come up with the final design for the Great Seal of the United States. [2] During World War II, Franklin Roosevelt refined these four ideas into the Four Freedoms under the Atlantic Charter, extending the philosophy of this new order to the four corners of the globe. [3] This fragile new order recognizes that while economic and political power flows from property/wealth, also more importantly it flows from the rights of citizens, the people, who exercise their franchise by voting in the election process. This wealth and franchise balance of power is an important dynamic in a free enterprise economy, relating the elements of the marketplace and government of, by and for the people. Each component, wealth and franchise, has its code words.

From a wealth perspective one tends to support practices which are concerned about efficiency. If you lend out a dollar you want a dollar's worth of purchasing power back, plus interest -- so the system has to be efficient.

From the view of those who have only the power of the vote, in order to serve their position or enhance it --if you're borrowing; you want to have a fair opportunity to benefit from owning private property even if you begin without any. The system then is evaluated on its ability to create and sustain opportunities for individuals to have a 'fair' opportunity to competitively acquire private property by entrepreneurial and value creating action. If you're Andrew Jackson or Thomas Jefferson and you prefer that particular interpretation of the democratic system, then you want access to inexpensive credit and the opportunity to earn your way to acquire some of the private means of production, which is what is at the center of this system.

Now it is important to make the connection between property rights, the evolution of the American economy to its

current state, relating this to what our accountancy profession does in a market economy so constituted.

The connection is direct and uncomplicated. The right to own private productive property, which in today's market is dominantly represented by financial instruments of debt and equity, begets a right to information about that property. This *Information Right* is a public and fundamental right which is likened to the right to healthful life and to a just system of laws. The right of individuals to receive information about their property is derived from this fundamental right to own such private productive property. Walter Wriston, Citibank's former chief executive, noted that "Information about money is now as important, or more important, than money itself." [4] The information right is a primary condition to an efficient and fair market system of property. In a world of risks, the right to have information about your private productive property is essential.

Today capital is being sourced increasingly through institutions and intermediaries and yet it's the individual's right to own private productive property, wealthy or less wealthy, middle class, working class, upper class, however you title it, it's that fundamental right to private productive property that creates incentives for each new generation. Property is the premise for information rights. It is not new, it has been there all along, but perhaps never been made explicit, particularly to accountants. The role of the accounting profession, broadly defined, is to serve society's right to information about its private productive property. Maybe the term "information rights" is novel to your thinking. Yet if the individual right of private property ownership is an important one, essential to our way of life, then it follows that a right to information about that property is also a necessary right. How that information is managed and prepared for others becomes what our profession is called upon by society to do. And, given the rise of public investment in large publicly held corporations in the early twentieth century, and most recently the concentration of capital formation in the hands of a few large financial intermediary corporations, assuring the effective flow of information to the ultimate individual risk bearers and owners becomes increasingly important.

Individual Stock Ownership

Individual investors, who are the ultimate owners of public securities, have become less dominant as price makers today, even while their investments remain at risk in the marketplace. Institutional intermediaries have become the price makers and individuals are price takers. This transformation from individuals to institutions is profiled in a recent piece in the *Financial Times* last month. Net direct individual ownership of stocks in the United States has fallen to a record low. [5] For example, almost all of my productive property rights are represented by the financial instruments held by TIAA-CREF in my behalf. If they do not provide me with information that will help me assess and assume a responsible role regarding this property, I essentially forfeit my property to them, in terms of control. In general, if the information flows around this structure are not adequate to serve the needs and responsibilities of the individual property owner, there is reason for concern and a need to raise issues about how well the accounting profession is fulfilling its role. Much as it is the role of attorneys advocating legal rights of individuals or physicians caring about individual wellbeing, so it is our role as public accountants to serve society's information right. No other profession has the role to serve that right. The laws that were established in New York state in 1896 began the formal recognition of an informed society's right to have a profession dedicated to serving this information right. [6] If you did not know that the first CPA law was passed in New York in 1896, then there's a bit of your history that you should know because New York played a leadership role in establishing a profession to perform a *public accounting* function that would serve this information right. This was not just a case of pleading for a vocational privilege. Charles Ezra Sprague was not special pleading. [7] Charles Waldo Haskins was not special pleading to get a mandate for a trade privilege. [8] There was an essential public service component in their vision. When you read the literature of that time, you recognize that they perceived a need that corporations were going to begin to change the way in which people who were proprietors would get information about their property. They had foresight. It would require three decades for all the other states to become aligned in establishing CPA legislation. It seems to take us about 30 years for achieve such structural change. It is a little disturbing but that is part of the perspective that you obtain when you study such things historically. And by the way, the educational expectation at that time was a high school diploma.

Accounting Education

Ohio is the state in which I first took the CPA examination, in 1963. That was also the first year that Ohio required a

bachelor's degree to sit for the exam. In the 1960s fewer than 20 states required a bachelor's degree in order to sit for the CPA exam. New York was the first state to require a bachelor's degree, having done so in the 1930s. [9] During this period Elmer Beamer, who was the managing partner at Haskins & Sells, (now Deloitte), in Cleveland, was the chair of the Horizon's Commission of the AICPA, which, along with the Carnegie Foundation, supported a study of what should comprise the Common Body of Knowledge for CPAs. [10] This Horizons study set out a plan for expanding our educational expectations. Today we have achieved a level identified variously as a post-graduate or a 150 semester credit hour standard. Ultimately it will convert into an advanced professional degree. But at the moment what we have is a compromise between a bachelor's and master's degree requirement of sorts. As the firms and the leadership of the AICPA met in the late 1980s to decide on what they could obtain support for, the notion of a graduate degree as an entry requirement was replaced by the post baccalaureate 150 hour language. They moved from a post graduate education requirement, a master's degree, to 150 hours i.e., bachelor's plus 30 hours. The Accounting Horizons study (1967) by Robert Roy and James McNeill [11] was the platform for change. It identified the common body of knowledge and supported the conclusion that this body of knowledge would require more than a bachelor's degree to attain. That said, for coming generations, a bachelor's degree is not going to be sufficient. Here we are, 40 years after Horizons and we are not quite there; we continue to go to and fro, while generally society has moved in support and expectation of more higher education. That is an issue for us and something we have been prompted to address as a result of ACAP's HR Recommendation No. 5. [12]

But it is not a new concern. It goes back at least as far as 1828. There's always been a tension between whether the proper basis of American higher education is purely classics or whether a blend of general education and practical education should be the norm. The Yale Report of 1828 [13] believed in the former classic basis of education. Engineering and similar applied arts and eventually accounting are more in the latter mode: general education requirements and professional requirements. In this model the tension is great between whether or not such programs are merely training or truly education. Until 1967, one might argue accounting education was singularly driven toward professional training, i.e. the CPA examination. Horizons began to change that. And in 1969, in our own private sector, we said, let's change the accreditation standard so that accounting would be taught by people with earned doctorates. Today we are now getting near the end of the first generation of a doctoral-led faculty cohort in accounting higher education. The question of how much liberal education is needed for a complete education and how much applied education should be accomplished in a finite number of courses remains a challenge to us. Because the challenges often appear intractable does not mean that we can dismiss them. Indeed, as technology and means of communication and calculation change, these bear upon the mix. For example, using a computer spreadsheet, software, and other data base approaches have speeded and strengthened the ability of individuals to prepare and review an expanded scope of information.

Table 1 is provided from a paper recently posted on the National Association of State Board of Accountancy (NASBA) website. [14] It suggests the varieties of coursework required for licensure in a world where a model education in terms of the accounting technical component consists of approximately thirty semester hours. There are 55 CPA jurisdictions overall with 54 reporting in Table 1. This raises a question about what truly constitutes appropriate coursework across all states, given the variety of educational patterns as to what it takes to be technically competent and what we should be doing in the classroom to achieve it and broader liberal educational goals. There is a need for more coherence in our curriculum and that is a matter for more discussion. In Table 2 you see that when it comes to financial accounting, when it comes to assurance or auditing, when it comes to taxation and management accounting, there is near symmetry that says yes, those are all understood to be parts of our curriculum--more than the majority share those insights.

Someone who wants to be critical of this could very easily say, yes but there are only eight or nine or ten states that really matter due to demographics. Of course New York is one of those, we know that. So are California, Florida, Texas, you can assess this by volume. Where would this come out? I think it would come out on the side of where the averages are. Next August, New York will join the ranks of states requiring 150 hours for licensure. California remains in flux, but hopefully will follow soon. So you will not see much difference here. Is this helpful guidance? Yes I think it is. Parents and aspirants expect a competency and a future professional career coming out of our higher education process and investment of time effort and money. Society also has and will learn to express their information rights views as well. The CPA exam validates the training aspects of such education, but it does not necessarily assert anything about the full educational outcome. The marketplace provides that signal. What an

educated professional demonstrates is often less tangible---communication skills, listening, speaking and writing---critical thinking, lifelong learning, the endless pursuit of improvement of understanding the elements of the information and communication and measurement processes. So let's be realistic about what education should be and not simply place it at a level of technical training. Passing the exam is a necessary but insufficient outcome; meeting the needs of the society's information rights and the market's expectations of a learned professional are equally if not more important.

Where are we on 150 hours? Where are we on the accounting education response to this? Of course there is a controversy of sit at 120 and certify at 150. Since the 1967 Horizon study, since the Albers Commission in 1980 [15] and since the Accounting Education Change Commission in the 1990s [16], state laws have moved in the direction of more formal education. The problem is the template is not very good. You saw the dispersion in the state laws. The same kind of dispersion fits into the hiring practices of firms when it comes to thinking about the perceived benefit of additional education. We are still addressing that mix. We recognize that several approaches have existed and may well continue to exist en route to an advanced professional degree. Absolute uniformity is not always the route to adequate preparation. In January 2008, the Center of Audit Quality (CAQ) produced some data for the first time about the hiring practices of the six largest audit networks. [17] One piece of data is that the firms collectively now have partners whose educational background represents a graduate degree, the ratio is closing on 50 percent. [18] Soon the majority of partners will have graduate degrees, an important step toward a claim of being a learned profession.

Another example of educational content is found in an early version, nearly 20 years old, of an AICPA model program for the 150 hours requirement. There is enough flexibility in each of the areas so that if you believe that the general education requirements ought to be 60 hours and the rest ought to be business and professional, then you would say 60 for general education and the rest of the 90 would flow into the other part of the chart. Settling upon the balance and range in this context has favored the graduate professional degrees, the evidence is in the marketplace. Since the early 1980s when the first accounting programs were accredited separately, over 160 such graduate programs have been admitted to this level of quality. This is a market signal that where resources and faculty are properly combined customers will come.

A few years ago I sat down with state board members in Ohio and listened as they berated academics, first privately and then more publicly, about the fact that we as educators did not stand up and do something about the lack of uniformity in educational requirements. Their concern was that the 150 hours were 'hollow,' so to speak. Yet it was the practice community, meeting in the form of the AICPA Governing Council back in the late 1980s, that set up the 150 hours requirement. It was their decision not to do a post-graduate degree requirement yet because of the concern about a constriction in supply. [19] Those are real factors and issues we can't deny. It has taken time to build supply and to assess the level of demand, and it will require even more time and effort to resolve that, and that time and effort might take at least how long? How long did it take for CPA laws to be passed across all jurisdictions? Thirty years? Do not expect things to move as quickly as you would like because it is inconvenient to you that it does not move more quickly. It is just the way that we change our organizational arrangements. A final achievement of an advanced professional degree is on the coming horizon, but it is going to require effort to truly build the higher education base for a learned profession.

Recent data is now available to identify total demand for public accounting hiring in the United States, based on the 2008 AICPA Supply and Demand study. [20] This data has been gathered regularly since the 1970s, but was interrupted recently. Fortunately the series is being restored. The demand, this is public accounting demand, is for 36,000 public accounting hires per year. The major firms, ACAP was told in a filing by CAQ, hired 10,000 of that total. Where are the majority of the hires occurring? Regional and local small firms. Powerful data. But do these other firms set the market price? The national market power in public accounting suggests that they do not, just as we do not set the price for the shares that we buy. We are price takers, not price makers. This is a very segmented market. We know who comes to the campuses. Yet the majority of the demand is not from the larger firms, even if we believe they have great influence over price.

If supply and demand are going to mean anything, you're going to say "Show me the supply side." This is bachelors and masters combined. I'll estimate it at 64,000---- in a world where the 150 hours is not quite yet in place for

everybody. Look at the growth rates in supply. Do they match up or are they far behind? And if they are far behind, do they need to match? Well no. Demand is 36,000, supply is 64,000. We are oversupplying the market. At the same time, we're not oversupplying the market because this is just public accounting demand. There's General Electric, the Street, Alabama Power, there's Dell Computer, and so forth that also hire entry-level people from our programs. While a lot of people do still hire entry-level individuals, they are occurring out of this population. For the most part they are hiring at the masters level, which is what we need to be thinking about in the future given where laws will eventually roll out as we go through this long period of adjustment.

We have to pay attention to data if we are going to have a solution to our human capital and our audit function activities in the future.

The Treasury Committee: Human Capital

Being at Baruch I would like to paraphrase something Mr. Baruch said. It's a comment attributed to him following the passage of the securities laws. Baruch had substantial influence in Washington because he led the War Industries Board during World War I and was close to the New Deal administration. President Roosevelt had held an important role in the Navy Department during World War I. After the passage of the 1934 Act, a person came up and said, "Mr. Baruch now that we've got laws in place to supervise the securities market, will we ever again have such a horrible market crash?" He replied, to the effect that, unfortunately nothing can outlaw human folly. Indeed, the point is that there are limits to what laws and regulations can achieve. So, while the cost of education may be high, consider how expensive it is to be ignorant, to be lacking in education, a vital component in limiting human folly.

I had a very intense experience as a member of the Treasury Committee this past year. It evolved out of a November 2006 speech on competitiveness of United States capital markets by Secretary Paulson. [21] Also, in early 2007 Senator Charles Schumer and others were saying that we're falling behind in competitiveness. [22] We're overregulated. Remember those exchanges? As a result, Secretary Paulson was approached with particular regard to the audit function. There are all sorts of apocryphal and semi apocryphal and probably real stories about leaders in the auditing profession, anticipating political change and suggesting that it might be a wise thing to have a bipartisan committee at the Treasury study the future of the auditing profession, as the market approached new heights, and old ways seemed limiting and perhaps costly, even in light of the Enron and WorldCom experiences.

The Advisory Committee on the Auditing Profession began to take form in May 2007, the appointments were made over the summer, and the first meeting occurred in October 2007. There were 21 members and three subcommittees: human capital, firm structure and finances, and concentration and competition. Of the 21 members, 20 voted in favor, with one opposed, to support the recommendations. The subcommittees advanced 18 recommendations including five involving human capital. [23] (Note: See <http://www.treas.gov/offices/domestic-finance/acap/index.shtml>). The dissenting member expressed impatience with Human Capital Recommendation No. 5, to study yet even further educational issues, and sought support for the idea of a free standing professional school of accounting. The dissenter expressed concerns about the recommendations of the other subcommittees as well.

Our final meeting was September 26, 2008, and the report was issued earlier this month (October 2008). By virtue of being asked to chair the human capital subcommittee, I also held a position on the steering committee, which met regularly every second Tuesday at 7:30 in the morning. We had staff and committee leadership on the phone and held some interesting discussions. The heads of the other subcommittees were Damon Silvers, Associate General Counsel of the AFL-CIO, who headed up the Competition and Consolidation Task Force, and Bob Glauber, a former Treasury and NASDAQ official, now on the Harvard faculty, who headed up the Firm Structure and Finance subcommittee. Don Nicolaisen and Arthur Levitt, the co-chairs, had substantial capital markets and government regulatory experience of course, including service at the Securities and Exchange Commission. [24]

I believe there was a realization that auditing is really a global issue and no longer just a domestic issue. It touches on a statement by President John Kennedy that in the final analysis our most common link is that we all inhabit the same small planet, we all breathe the same air, and so forth. [25] Therefore, resource allocation is global in all respects. The focus becomes how societies agree through their sovereignty to accomplish it and provide information about it. We have a view that our system is still the best despite the weaknesses it has recently demonstrated. Our commitment is

to improve, so information can be even more available and capital and resources can more effectively engaged on a global scale.

The notion of global auditing and the notion of global education are not going to just be limited to what we are saying, and yet once we step outside of the sovereign bounds of the United States, the Treasury committee's influence is diminished. Thus Treasury recommendations are viewed as being national first, international second, but not for a second blinking at the reality that capital diffuses rapidly around the world.

Demographics and Resources

In June 2007, a noted academic demographer, Dave Leslie, met with leaders of the American Accounting Association in Richmond. We talked about what it is we know about the academic community of accounting in terms of the demographic profile. We found that since the early 1990s, when the AICPA discontinued a series of academic program capacity studies, there was a declining supply of information about academic program capacity in an environment which was rapidly changing. We just did not know the profile of the academic community in any ready and definable way. Today the AAA has begun to develop more information about this capacity. And the AAA studies by David Leslie, the first appearing in early 2008 and the second due out early next year, indicate that over the last 20 years, the number of accounting faculty, i.e., tenure track, full time lines, declined by 13 percent. [26] Meanwhile the number of accounting students has increased by 12 percent. This suggests that accounting faculty have had to learn how to do more with less. The greatest shift was in four year degree schools. They have suffered the largest decline: 31 percent of their lines have been eradicated in the last 20 years.

The other part that we have to constantly remember is that our profession and our discipline on campus are not the only ones competing for faculty and for professional talent. Who are we competing with? Wall Street of course, but we're also competing with engineering, medicine, and the sciences for bright people seeking a professional career in the future. What do we know about what others are doing? Each year, the National Institutes of Health (NIH) receive \$30 billion to fund their educational processes. On October 7, 2007, there was an event at the White House when the engineering and sciences higher education communities celebrated that their legislation had passed providing for \$30 billion over seven years. That's coming out of my wallet, your wallet, that's public money funding of the sciences. At Case Western Reserve, we have a substantial engineering school and a large medical school. Accountants, as taxpayers are subsidizing our engineering and medical schools, a noble motive, and also subsidizing our human resource competition. It took their community 10 years but they have in place the platform for change. We have not even started. Where is our spark for change going to come from? Can we also advance the socially responsible view in the political sector for recognizing the need to service the public's information right? And, if so, will that strategic matter compel public investment in our profession's human resource supply chain just as it has done in medicine and the sciences? We're as strategic as science education; as health education. If you have had a loved one that's had a near death experience or had major surgery recently, you appreciate that NIH investment; \$30 billion every seven years. Are the tragedies of poor investment decisions and poor economic choice less debilitating, less destructive of the quality of life? Our field and profession receive nothing because we have failed to make our case clearly that society would benefit from similar investments in financial information and, relatedly, financial literacy. If we were provided just one tenth of one percent of NIH funding each year for accounting education, approximately \$30 million per year, it would double the amount the AICPA has recently obtained by passing the hat among the firms and state societies to address just one element of the educational structure, the PhD shortage. That amount, at \$15 million, is the total for five years.

The AICPA Accounting Doctoral Scholars program is designed to support PhD study in taxation and auditing, and is limited to individuals who are CPAs. [27] It's an important, targeted and symbolic gesture. However it's doubtful that we are going to turn the doctoral and faculty shortfall around from this program alone. There is still a significant challenge, having adequate human capital on campus to produce individuals who are able to support and protect the information right and serve it so the capital markets are strong and vibrant.

The public's lack of knowledge about the role of accounting in society and the general low financial literacy on the part of the average investor needs to be addressed. The AICPA has, to its credit, supported a financial literacy program, but it is not sufficient to have more than marginal impact. Lack of investment literacy in a society whose

single most popular form of retirement investment is now the 401(k) is a national embarrassment that even our profession's dedicated efforts alone will not solve. It is a bigger issue than we're willing to admit to; it's always difficult to acknowledge such a weakness, especially during times when market performance and economic security is suspect.

Can the Advisory Committee on the Auditing Profession (ACAP) Human Capital Recommendations begin to assist in addressing these issues? Let's consider them. There are a total of five.

Recommendation #1: Curriculum

I thought this was really the bellwether recommendation. The first and perhaps clearest message from the HR Subcommittee is that more can be done to adapt the curriculum. In addition to me, as an academic, the other members were traditionally educated business people, two from the banking sector, and one from a manufacturing company. In addition the fifth member of the subcommittee was Barry Melancon, the AICPA President. What is it they want? They want more and better from the supply chain side where academics provide the input. How do we produce more students and better students with fewer faculty positions, and a community aging and approaching retirement? The 2008 AICPA Supply and Demand study suggests that supply side is 64,000 and the demand side is 34,000 from public accounting. [28] The remainder of the demand is assumed to be from direct hiring in non public accounting. However the total demand for accounting degrees at the undergraduate and graduate level is not known. There is no Bureau of the Census number for this dimension. Further, there are some in the academic community who say we may be oversupplying the market right now. That is more degrees at the undergraduate level may not be needed, but more at the graduate level may be needed over time. So changing the mix, if not the total, is also an issue. How do we change the distribution in the future, working together, practice and academe? Where are the supply and demand curves going to rest so that we do a better job of meeting that range? Currently, all is "ad hocery," that is, everyone acts independently and behaves as if a sole participant. As noted already, we hear reports that firms will be cutting their demand this year. Belt tightening? There is almost no cooperation, no data, and there's no communication at anything but the local or campus level, and even that is incomplete and late. Some improvement in data and communication is called for. And new entities like the Center for Audit Quality (CAQ) and the Public Company Accounting Oversight Board (PCAOB) should be expected to provide information regularly in the form and of the type they are able to construct. Yes, there will always be a need to critically examine the curriculum. There is a need for the curriculum to be dynamic; the curriculum has to change. But we also have to find the way to provide resources in the face of major demographic changes, and we have to be able to better predict and allow for changes in demand, especially when the lead time in academic programs is one of multiple years, and competition from business and non business careers have attractive and cross subsidized advantages.

Recommendation #2: Minorities

We have not achieved the level inclusive of minorities to the rate and to the level that we can. The counterargument to that is yes, but everyone has tried. ACAP's message is try harder, try again. [29] There is talent there. We have little or no representation at some historically black colleges and universities. Are clear and consistent messages being sent in recruitment to campuses? Engineering, medicine, and law have some pretty strong competition and offer financial incentives, as well as Wall Street, so accounting doesn't necessarily represent to them their first choice. And do we have the right image in minority communities, and the support of the black community? Does the preacher and the head of the house look upon accounting careers as the same as the career of a doctor or a lawyer or an engineer? We have some relationship building to do. This recommendation deserves full attention.

Recommendation #3: Faculty

The third recommendation really follows from an item mentioned earlier. We have and expect to have, as do most professions, a baby boom retirement phenomena that is going to have to be well managed. Many of us have seen the 2007 bar chart which displays the age distribution of United States' full time accounting faculty. [30] These are PhD holders, academic faculty, full time in American colleges and universities. There is a spike or peak at the age of 62; the average is 55. Within a decade, do your own calculation, all 55 and older members will be beyond 65 years old **half of the doctoral qualified academic community will be retired or on the brink of retirement.** Ask

yourself who that part of the population is going to be replaced by----you have a sense of what the issue is. The answer is not clear. One recommendation is that we bring more retired practitioners into the classroom. I know that there is something attractive on the face of it, about teaching and I have known many retiring or contemplating retirement who do in fact consider teaching. We have two successful examples on our faculty. Dave Pearson, since retiring as a partner from Ernst & Young in 1999, is a professor on our faculty, and Lee Blazey, a retired Andersen partner, has similarly been a full time faculty colleague since 1999. But many are called and few are chosen. Often I have heard retired professionals tell me that the work is too time-consuming and the pay is too low. Once you have retired from public practice do you want to obligate yourself to a fixed teaching schedule for two semester long periods each year? Further, those attracted to teaching have also to factor in the upcoming changes, adopting XBRL and IFRS, and also applying fair value. Fortunately for those who are interested there is more support now than before, in the form of 'bridge programs' offered by the Association for the Advancement of Collegiate Schools of Business (AACSB) and the American Accounting Association. [31] If you have that passion, and it is not about money and time, then I encourage you, if you are in the practice community, to consider and pursue this option. On balance, I would say there are as many long term successes as failures.

Another thing we can do is to encourage bright students and colleagues who express an interest or are motivated to the academic lifestyle to consider the option. Motivations for this type of life are different of course, financial and otherwise, but it is a good opportunity if you enjoy working with people and teaching is something that runs in your family or your blood or your interests. There are things that we can do, but we have a long way to go to meet what we're going to experience from this first PhD generational shift. And on campus we will have to be responsive as well, addressing the most effective and efficient way to offer doctoral education.

An incidental but important corollary issue in preparing the next generation of PhDs in accounting is how to address the availability of data to support research, especially in taxation and auditing areas where proprietary and legal concerns are forbidding barriers to access. Yet if we're going to build a qualified faculty to teach auditing, you have to have access to research data. Currently that's a non-starter unless you have connections. Try to get data on auditing and contact the chief counsel of the firms to get it. They immediately and defensively respond negatively. And you may also say, if you are a shareholder in a firm, they are responding correctly. Medicine certainly has similar concerns, and yet they have developed a means to clear both patient and institutional barriers. Greater effort and cooperation have to be forthcoming here if progress on the availability of research data is to be accomplished.

Bill Kinney, a noted auditing professor, testified before ACAP at a session we had last summer. [32] He observed that he currently has only one PhD student at Texas at Austin, implying that he cannot get the data to support research by more students. What is being done instead is that since data about stock market prices is available people are doing auditing research, which is really capital markets research. That is, they are studying the effect of auditing on share prices. That's what is being identified today as auditing research. Is that auditing research? That was markets research, and it was not auditing research. Audit research is drying up, and with it the training of auditing educators who will prepare auditors for the next generation. It is a serious problem. Again, it will require bolder thinking and action than has thus far been demonstrated to resolve this issue. Yes, audit partners who want to retire and teach auditing are welcome if the work load does not turn out to be a challenge for them, something that they would be uncomfortable with. But most audit partners are not in a position to undertake academic research and earn appointments in the academic setting, which is required to assure that our discipline and profession have a secure place in higher education.

Another issue is low cost availability of databases of authoritative literature, as supplied by the Financial Accounting Standards Board (FASB), and the International Accounting Standards Board (IASB) and other authoritative standard setters. [33] There is substantial interest, I'd call it pressure, on reforming the curriculum so that international accounting standards are included. But since the community does not speak with one voice, and recruiting, as we have noted is dominated in numbers by smaller firms, is this a universally needed element, or should it be selectively taught? A subscription to searchable eIFRS is about 400 pounds per year, translated to dollars, that's a large investment for a student. [34] There is a short term arrangement for students through an academic organization, but it's not clear this will be a continuous arrangement, which is in the amount of \$20 for a one year subscription. It is sponsored by the Association of Chartered Certified Accountants (ACCA), a British professional association. However in a few years, who knows what's going to happen? The FASB has now a beta version of their searchable

digitized standards. With the leadership of Bob Herz and one of the FAF Trustees, former AAA President Steve Albrecht, the American Accounting Association is nearing an agreement to make this database fully available in a premium version for a very affordable campus subscription price when the full version becomes effective July 1st, 2009. [35]

Recommendation #4: Data

How many CPAs are there in the United States right now? How many? We have almost no idea. NASBA will tell you they have a number. Their number of registrants however is suspect of double counting, at least. For example I am certified in two states. Partners in major firms are often certified in several states. I am counted twice in the NASBA totals, one for each state. NASBA has been developing a registry for over three decades, but have yet to complete this important project. How disappointing! We all need to know more about the demographics of our profession, and those with the resources to do so should be responsibly developing and sharing such data. This is just a simple example. There are going to be unprecedented numbers of retirements, and the analysis of the exiting talent is a vital element of planning for substitution of individuals and technology to provide cost effective practice and education capacity in the future. If it takes 30 years to change how will we turn this ship around in five or ten? We're flying by the seat of our pants. This recommendation requires immediate attention.

Recommendation #5: Study

The Advisory Committee on the Auditing Profession (ACAP) encourages the American Accounting Association (AAA) and the American Institute of Certified Public Accountants (AICPA) to jointly address the long term educational needs as to content and structure in a comprehensive and extensive effort. No other study, even the Bedford Study published by the AAA in the 1980s, has yet to achieve the comprehensive effort last achieved last in 1967 in *Horizons for a Profession* (AICPA). Our history in this matter reveals a long discontinuous set of efforts to develop a plan and institutional arrangements to provide for higher education and supply the needs of a socially relevant profession, accountancy. With new market complexities, new technology and increased competition for the most capable aspirants, we are facing a dearth of guidance as to how to prepare for the 21st century. New aspirational goals and views are needed. We aspire to be a learned profession and to serve the public's information right, so, we have some work to do.

This past week, I was in Atlanta with the core leadership of the American Accounting Association. The executive director asked me, "When are we going to address the Treasury recommendation for a blue ribbon panel?" I said whenever you're ready, it'll be done. The AICPA and the American Accounting Association will work together. We are both interested, but there have been a few things since Lehman Brothers melted down last month that galvanized everyone's attention. And we are a few short days from a presidential election. More change? Everybody's now interested in the immediate and short term. J.P. Morgan said, "Don't sell America short!" [36] I'm inclined to agree with that sentiment and to apply it to the accounting profession and our academic community. 'Don't sell us short!' We do have the ability in this profession to work together to address the human capital needs, and with that serve our profession's needs to meet and serve society's information right. What a great story to be able to relate to our students and others: that accountants have a role in society that's as vital and important as other organized professions.

Table 1
Minimum Accounting Education
in Total Semester Hours
for Licensure as a Certified Public Accountant

BOARDS (54)		
Accounting Education in Semester Hours	Number	Percent
38 hours must be completed	1	1.85
36 hours must be completed	3	5.56
33 hours must be completed	3	5.56
30 hours must be completed	11	20.37

27 hours must be completed	4	20.37
24 hours must be completed	22	40.74
21 hours must be completed	2	3.70
20 hours must be completed	1	1.85
18 hours must be completed	1	1.85
15 hours must be completed	2	3.70
12 hours must be completed	2	3.70
3 hours must be completed	1	1.85
No hours must be completed	1	1.85

Table 2
Comparison of Accounting Requirements
of NASBA and the Boards of Accountancy

Accounting Topics	NASBA	BOARDS (54)	
		Number	Percent
Financial Accounting and Reporting for Business Organizations	6 SCH	30	55.56
Financial Accounting and Reporting for Government & Not-for-Profit	2 SCH	6	11.11
Assurance Services (e.g., auditing and attestation)	3 SCH	31	57.41
Taxation	3 SCH	29	53.70
Management Accounting	3 SCH	27	50.00
Accounting Information Systems	3 SCH	5	9.26
Ethical and Professional Responsibilities	3 SCH	2	3.70
Advanced Accounting		5	9.26
Theory		2	3.70
Introductory Accounting		3	5.56
Accounting Research		1	1.85
Accounting Electives		4	7.41
At least 30 upper division and/or graduate semester hours in accounting		7	12.96

SOURCE: Griffin, Richard, B. Wynne Griffin, and Robert L. Putman, "Is the Uniform Certified Public Accounting Exam Uniform?" Posted on the NASBA website May 2008.

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