

A Survey of Perspectives on the Future of the Accounting Profession

Part I: Stettler's Six Predictions

By Byron Henry and Margaret Hicks

In a speech to students and faculty at Texas Christian University in 1968, professor Howard Stettler shared the changes he anticipated in professional auditing practice by the year 2000, as well as in the pro-

A Brief History of the Profession

Public accountants were first given professional status in 1854 through the creation of the Chartered Accountant designation in Scotland, and later England

formed the American Association of Public Accountants, the predecessor of the AICPA. In 1896, New York became the first state to license accountants to practice; by 1912, at least 33 states had laws recognizing the CPA designation (H. Langenderfer, "Accounting Education's History—A 100-Year Search for Identity," *Journal of Accountancy*, May 1987, pp. 302–331).

The tremendous growth of business at the turn of the century, and corresponding stakeholder demand for the regulation of business activities, led to the eventual creation of several federal agencies, such as the Interstate Commerce Commission (ICC) and the Federal Reserve Board, which required companies to publish audited reports that conformed to generally accepted accounting principles (A. Dennis, "No One Stands Still in Public Accounting," *Journal of Accountancy*, June 2000a, pp. 67–74). In the aftermath of the stock market crash in 1929, the demand for accounting services increased with the passage of the federal securities acts, which required the certification of financial statements of publicly traded companies by CPAs (A. Dennis, "Taking Account: Key Dates for the Profession," *Journal of Accountancy*, October 2000b, pp. 97–105).

The 1950s brought a dramatic expansion in independent audits for, publicly traded companies, as well as private companies, governments, and nonprofits. At this time, the tension between CPAs and non-licensed accountants worsened. CPAs believed that noncertified accountants providing similar services without CPAs' level of training and experience would dilute the value of the CPA designation.

By the early 1960s, the accounting and auditing profession had reached the height of its standing. Shortly afterwards, several financial scandals would lead to criticism of



fessional who would provide these services. His stance was that the profession often took a backward-looking approach to facing changes in the economic and social climate. This article traces a brief history of the accounting profession, discusses whether Stettler's (and more recent) predictions came true, and offers perspectives on the current and future state of the accounting profession by a variety of stakeholders. It concludes with an overview of the implications for the profession.

(J. Edwards, *History of Public Accounting in the United States*, University of Alabama Press, 1978). The impetus for its creation was the recognition that independent auditors were personally responsible for their work, separate from their employers, and accountable to not only their clients but also third parties who rely upon their work. British firms drove the development of accounting in the United States, but here they struggled to gain acceptance and recognition. In 1887, U.S. accounting practitioners

the profession. It was within this context that Stettler offered his predictions regarding the future of the profession.

Prediction One: CPAs Will Exceed both Medical and Legal Practitioners in Number

Stettler believed that the prestige of the accounting profession would grow to match and surpass that of the older, more recognized professions of law and medicine, and that CPAs would outnumber physicians and lawyers by the year 2000. While the volume of services rendered by physicians and lawyers was closely tied to population growth, Stettler argued, the volume of services rendered by CPAs was closely tied to economic growth. Stettler's reasoning was based on expected annual population growth rates of 1%, and annual growth rates in gross national product (GNP) of 3%–5%. Furthermore, the number of CPAs could grow to meet increased demand for governmental audit work, and could take work away from the dwindling other related professional designations, such as registered accountants and public accountants.

Slow growth. Stettler was surprisingly accurate with his growth rate projections: The average population growth from 1960 to 1997 was 1.08%, while average GNP growth was 6.24% (Bureau of Economic Analysis, 1997). While growth has been impressive, the number of CPAs, however, has not surpassed that of legal and medical professionals. The number of accountants grew from 69,000 in 1960 to 786,211 in 2013, but the number of attorneys grew from 213,000 to 1,268,001, and physicians from 230,000 to 878,194 (according to the National Association of State Boards of Accountancy, American Bar Association, and American Medical Association).

One explanation for the lower-than-expected growth in the number of CPAs includes the profession's inability to recruit the best and brightest graduates as compared to other fields, such as finance and information technology (S. Collins, "Recruiting and Retaining the Best and Brightest in Today's Economic Market," *Journal of Accountancy*, February 1987, pp. 52–58).

Stettler was correct in predicting that the number of state-issued professional des-

ignations would decrease. Many states have eliminated non-CPA designations, such as public accountants (PA) and registered accountants (RA); however, additional certification programs have emerged. Stettler could not have envisioned the growth of organization-awarded designations, such as the Certified Management Accountant (CMA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), or Certified Information Systems Auditor (CISA).

In 1999, the AICPA proposed a new global business credential, referred to as the "XYZ" credential, as an alternative to the CPA designation. Its advocates suggested that the CPA license binds accountants to a limited array of services, while the new interdisciplinary business credential would allow license holders to broaden their scope of services, to adapt swiftly to changes in global markets, and to provide services across international borders. Despite strong organizational support, the membership voted overwhelmingly against the new business credential, as many professionals felt the CPA designation had the most established credibility in the business community. Nonetheless, alternative certification programs have proliferated as mechanisms of diversification. The popularity of these alternative designations may impact the number of CPAs.

Barriers to entry. Barriers to entry and mobility may have also adversely affected the growth in CPAs. Some believe the 150-hour rule for AICPA membership and licensing has significantly dampened the supply of candidates. Researchers, however, have found that the general decline in accounting graduates was similar in jurisdictions with and without the 150-hour requirement (L. Gramling, A. Rosman, "The Ongoing Debate About the Impact of the 150-Hour Education Requirement on the Supply of Certified Public Accountants," *Issues in Accounting Education*, November 2009, pp. 465–479).

The lack of reciprocity across U.S. jurisdictions may have further discouraged potential candidates. Despite the pervasiveness of accounting standards and practices (i.e., GAAP), each state or jurisdiction has distinct licensing requirements. As a result, CPAs licensed in states with less stringent requirements may face challenges

when seeking the right to practice in other states. The Uniform Accountancy Act (UAA), a joint project of the AICPA and the National Association of State Boards of Accountancy (NASBA), was launched years ago to address such issues, but seamless mobility has remained elusive.

Prediction Two: The Common Degree of Entry for Admission to the Profession Will Be a Master's Degree

The bachelor's degree became a prominent requirement for entry into the profession during the 1930s, even though most states required only a high school diploma. In 1929, New York enacted the first law requiring CPA candidates to hold a bachelor's degree (Dennis, 2000b).

Stettler reported that 90% of the CPA candidates at the November 1965 examination held an undergraduate accounting degree, although fewer than 20 states required the degree for certification. He reasoned that most persons entering the profession in the year 2000 would hold a master's degree to set themselves apart from other job candidates, in a similar fashion.

The profession has long promoted a five-year professional education, comparing itself to the legal profession (R. Kester, R. McCrea, "A School of Professional Accountancy," *Journal of Accountancy*, February 1936, pp. 106–117). The proliferation of standards from FASB further pushed the accounting curriculum to become more technical, or rules-focused, and less oriented toward general business knowledge and skills (I. Nelson, "What's New About Accounting Education Change? An Historical Perspective on the Change Movement," *Accounting Horizons*, December 1995, p. 62). Other professions, namely law and medicine, have responded to "knowledge explosion" in their fields by moving technical training to graduate programs. The enactment of the 150-hour legislation across most U.S. jurisdictions has effectively (if not completely) established the master's degree or its equivalent as a requirement for entry into the profession.

In 1964, Stettler reported that there were presently 13,772 accounting undergraduates students and only 530 holders of a master's degree of accounting. In 1997, the AICPA reported that for the academic

year 1996/1997, the number of accounting undergraduates had increased to 52,030, while the number of master's degree holders had risen to 7,630; in 2012, those numbers were 61,304 and 20,843, respectively. In the early 1970s, graduate degree holders accounted for 8.4% of all accounting graduates; by 2012, this had grown to 25.3%.

The proportion of undergraduate accounting degree holders relative to graduate accounting degree holders employed by CPA firms has been shifting as well. According to the AICPA, in 1971, CPA firms hired 28% of accounting undergraduates, but more than 90% of master's degree holders. These numbers have become more comparable over time. Approximately 34% of graduates from each pool were hired by CPA firms in 1995 (AICPA 1997). This suggests that industry began to compete more aggressively for accountants with master's degrees. Alternatively, the advanced degree may have had little perceived added value. At that time, most industry accountants believed that a bachelor's degree adequately prepared students to enter the workforce and that individuals with an advanced degree did not outperform those with only a four-year degree (J. Etheridge, J. Hemingway, "Industry's View of the 150-Hour Requirements," *The CPA Journal*, 1993, pp. 67-70).

Recent data, however, suggest that firms are again interested in hiring accountants with advanced degrees. In 2012, the AICPA reported that 80% of new hires held graduate degrees. As financial transactions become more complex and financial reporting requirements increase, there is a need for more experienced people.

Prediction Three: Greater Proportions of Accounting Graduates Will Be Employed by Public Accounting Firms

Stettler was incorrect in predicting that the work of public accountants was "not susceptible to computerization," and thus more accountants would find employment in public accounting firms as compared to government or industry. The AICPA reported, that members in public practice had dropped from 49% in 1986 to 40% in 1997. Audit

efficiencies achieved through the widespread use of technology and sampling techniques had eliminated work previously assigned to junior accountants, and for every three or four people needed to draft financial reports in the 1950s, only one is needed today (Dennis 2000a).

More experienced professionals, and not entry-level accountants, have been in demand, as consulting and other nontraditional services have increasingly driven firm growth. Moreover, firms are directing resources away from assurance and tax services, which require greater accounting proficiency. Many professional service firms now hire engineers, scientists, and other non-accountants to provide an array

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of non-attestation services. Diminished skills among accounting students have also forced employers to recruit graduates from other disciplines (Nelson 1995).

Other factors affecting the number of accounting professionals employed by accounting firms may be an increase in merger activity, which reduces the job pool available to accounting graduates, and the passage of federal financial management laws, such as the Chief Financial Officers Act of 1990, which provided numerous opportunities for new accountants in the government and nonprofit sector.

Prediction Four: Independent Auditing Will Become System-Oriented, with Less Emphasis on External Evidence

Stettler suggested that the primary focus of independent auditing would shift to the

"internal machinations of computerized accounting systems" as the concept of auditing using computers became more prominent. Today, auditors encounter computerized accounting systems in virtually all assurance engagements. In many cases, auditors may encounter systems where the audit trail is paperless, and the electronic trail may be retained online only briefly before being transferred to a lower-cost storage medium.

One such system is electronic data interchange (EDI), which has eliminated traditional paper trails for source documents such as purchase orders, bills of lading, invoices, and checks. Companies, their customers, and suppliers can now exchange electronic business documents online in real time. The absence of paper records in these business settings has made substantive testing for certain assertions difficult, if not impossible. In such cases, auditors may switch to a systems-based approach, as envisioned by Stettler. Existing auditing standards provide some guidance with this approach: SAS 80 (AU 326), *An Amendment to Statement on Auditing Standards No. 31, Evidential Matter*, states that when entities have significant information transmitted, processed, maintained, or accessed electronically, the auditor may determine that it is not practical or possible to reduce detection risk to an acceptable level by performing only substantive tests for some financial statement assertions. Auditing standards state that auditors should consider the time during which information exists, or is available, to determine the nature, timing, and extent of substantive tests and tests of controls.

Stettler's 1968 prediction has been proven both true and false. Auditors use computers to perform clerical steps, such as preparing the working trial balance, posting adjusting entries, preparing lead schedules, preparing comparative financial statements, computing financial ratios, and accessing firm and public data bases to search for unusual items; however, while computerized accounting systems have changed the control environment and the timing and nature of audit procedures, they have not changed basic auditing standards

regarding the purpose and use of external evidence. According to SAS 31 (AU 326), Evidential Matter, it is generally presumed that “when evidential matter can be obtained from independent sources outside an entity, it provides greater assurance of reliability for the purposes of an independent audit than that secured solely within the entity.” Confirmations of certain account balances (e.g., cash, accounts receivable, loans) are required unless the auditor can justify substituting other audit procedures.

Prediction Five: The Attest Function Will Be Extended to Forward Accounting

Stettler predicted that auditors would issue opinions on not only the current year’s financial statements, but also those of the following year, due to the services provided to company management. Despite Rule 2.04 of the AICPA’s Code of Professional Ethics, which banned CPAs from issuing opinions on forecast or other forward accounting information, Stettler believed that creditors and investors would be better served by the extension of the attest function to forecasts of cash flows, financial position, and results of operation. Although the ban has remained in place, CPAs provide a wide array of assurance services—such as elder care, risk assessment, and business performance measurement—which extend well beyond the attestation of financial statements. Today’s litigious environment and numerous financial scandals, though, do make it unlikely that CPAs will render opinions on forward accounting information in the near future.

Prediction Six: The Attest Function Will Be Extended to Income Tax Returns

The extension of functions performed by CPAs has created tension with other professional groups, but in 1965, Public Law 89-332 validated the status of CPAs to practice on tax issues before the IRS, ending a long dispute with the legal profession (Dennis 2000b). Stettler asserted that CPAs have implicitly attested to the information provided in the income tax return through their preparation of the audited financial statements and the reconciliation of differences between accounting and taxable income. Despite any implicit attestation, actu-

al attestation is unlikely, given that a CPA must act as an advocate for a taxpayer, and thus does not possess the independence required under GAAS. Although CPAs are not currently rendering opinions on federal income tax returns, many states have established contractual programs that allow CPAs to conduct state tax compliance audits.

Predictions in a Dynamic Environment

Stettler’s comments provide further evidence of the dynamic nature of the accounting and auditing profession. To summarize his predictions: While the number of CPAs has not exceeded those of the medical and legal professions, the passage of the 150-hour rule has made the equivalent of a master’s education a requirement for AICPA membership and state licensure. Moreover, a smaller proportion of accounting graduates are now


employed in accounting firms. Although the attest function has not been extended to forward accounting information and income tax returns, the passage of the Sarbanes-Oxley Act of 2002 (SOX) has extended the function to internal controls and created new demand for services. Many of Stettler’s predictions from 1968 have proved accurate, and even those that have not yet emerged in practice remain plausible for the foreseeable future. □

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