

Has the time come to look at possibly outdated rules?

Reconsidering CPA Experience Requirements

By David J. Roberts

The potpourri of experience requirements across the country may not recognize changes that have taken place in the profession, may run counter to the public interest, and may be out of sync with current attitudes toward gender and family.

Non-uniform, sometimes outmoded, experience requirements for CPAs among the 50 states and four other jurisdictions often impose a burden on the CPA candidate and tend to restrict entry into the profession. This may be justified if the requirements serve a substantial public interest, such as helping to assure professional competence. There are, however, questions about the relationship between experience requirements and professional competence, in light of the present-day role of CPAs. Also, consider those same requirements in the context of both the need for gender neutrality and the balance between professional and family responsibilities.

An Overview of the Experience Requirements

The 54 jurisdictions that regulate CPAs impose a variety of requirements for entry into the profession. Based on the 1988 *Digest of State Accountancy Laws and State Board Regulations* published by the AICPA and NASBA, some jurisdictions do not require experience for certification, while others require as much as six years of experience or even more in rare circumstances. Some specifically require full-time experience, and at least one requires that the experience be continuous. Some jurisdictions require that the experience be obtained immediately preceding the application, and some require that a portion of the experience be gained in-state. In many jurisdictions, the experience requirement is decreased for candidates with advanced education.

Some jurisdictions require public accounting experience only, while others allow non-public experience. Some require a greater amount of experience if that experience is not in public accounting, while others specifically require a stated amount of attest function experience. The range of acceptable non-public experience varies widely. There are jurisdictions that limit this to certain governmental experience, while others allow for a broad range of experience in industry, government, and education.

In some jurisdictions, the experience requirement must be met before sitting for the CPA exam, while in others the experience need be gained only before the certificate is issued. There are even jurisdictions with a two-tier system, creating a distinction between the CPA certificate, which does not require experience, and the license or permit to practice, which does require experience.

The 1992 Uniform Accountancy Act (UAA) was developed by the AICPA and NASBA as a comprehensive model designed to promote uniformity, protect the public, and promote high professional standards. Both organizations are encouraging the 54 individual jurisdictions to adopt the UAA. As to the experience requirement, the Act mandates "one year of experience in the practice of public accountancy or its equivalent, under the direction of a licensee meeting requirements prescribed by the Board by rule." Individual jurisdictions would define what qualifies as equivalent experience. The UAA provides for a one-tier system—there is no separate permit to practice—and the experience requirement would need to be met before the CPA certificate is issued.

Accounting Regulation

Experience requirements are just one aspect of the broader scheme of professional regulation of CPAs. The introductory comments to the UAA indicate the belief that statutory regulation of CPAs, with its resulting restrictions on who can practice and the manner of practice, is justified by considerations of substantial public interest, i.e., the need to protect the public welfare. It asserts that regulation does this in two principal ways:

1. By providing reasonable assurance of competence on the part of the persons and entities that perform those services that require a substantial degree of skill and competence for proper performance and regarding which the consequences of inadequate performance may be of serious dimension; and
2. By preventing deception of the public regarding the level of competence that may reasonably be expected of a given practitioner.

The UAA further asserts that the public is most affected by competence in the audit function and construes this broadly to include most compilation and review services. It goes on to reason that the need to assure the public of reasonable competence and to protect the public warrants regulation of those licensed to engage in the audit function even when they are performing non-audit work, for which no license is required but where the public may reasonably expect special competence.

The CPA profession is unusual compared to most other regulated occupations in that the one activity that the laws of most jurisdictions limit to CPAs, and which provides the initial ground for regulation, is an activity in which many CPAs do not actually engage—the audit function. Presumably most physicians spend

their working hours engaged in activities that only licensed individuals can lawfully engage in. The same can probably be said for most other regulated occupations, from lawyers to hairdressers. Yet many CPAs, including many employed at CPA firms and those who are not in public practice, do not engage in the audit function. Instead, they perform services that non-licensed individuals can also lawfully perform. According to Rick Elam, vice-president—education at the AICPA, “Most of the roughly 400,000 CPAs in the U.S. do work that does not require state licensure.”

Relationship Between Experience Requirements and Competence

How Much Attest Function? While the attest function is generally limited to CPAs, the activities of the profession have increased and changed over the years. The AICPA and most

state societies have acknowledged that many CPAs are not in public practice and that many who are do not perform attest function work. These organizations have reached out in their activities and publications to CPAs in industry, government, education, and elsewhere, who use their CPA skills in many capacities. The continuing professional education offerings of state and local professional organizations and the requirements in some governing jurisdictions recognize the varied activities of CPAs and allow for flexibility of choice in courses. At the same time however, in many jurisdictions the qualifying experience requirements do not reflect this recognition.

Because the primary role reserved by law for CPAs is the attest function, it would appear that experience in the attest function is necessary to assure competence and protect the public. If this is true, present experience requirements fall

far short. Even among the states requiring public accounting experience, many do not demand attest function experience. Among those that do, generally only a small portion of the required experience is in the attest function. It is doubtful that the required experience would enable the candidate to hang out a shingle and engage in any sophisticated audit work. If the emphasis is on qualification to perform the attest function, it could be argued that what is needed is a much longer experience requirement with an increased focus on the attest function.

On the other hand, given that many CPAs choose not to do audit work and, instead, provide a variety of other services, it is doubtful that attest function experience would help to ensure their competence in serving the public. For example, such experience would not be particularly beneficial for a CPA candidate planning a career in taxation or consult-

ing. Wouldn't the public benefit more if the required experience was in the area in which the accountant will actually practice?

The CPA Credential

Designation as a CPA is already recognized as a credential for non-attest function activity such as practice before the IRS and appearance before a variety of government agencies. For example, while it is not necessary to have a professional license to prepare tax returns, there are higher levels of activity that constitute practice before the IRS that are restricted to certain designated practitioners, among them CPAs. A CPA might, therefore, have met a state experience requirement, such as three years of public accounting, but have little or no tax experience, and yet qualify to practice before the IRS.

For many accountants who are not in public practice and never intend to be, the CPA

designation also serves as an academic credential, much like an advanced degree, and is used to demonstrate academic competence to prospective employers. In jurisdictions with a two-tier system, or those flexible as to what is acceptable experience, the experience requirement should not present an obstacle. But, in jurisdictions requiring public accounting experience to obtain the credential, the requirement is likely to exclude some otherwise qualified candidates from the profession. They, as well as their employers, may have to forego the benefits of increased competence that would result from preparation for the CPA exam and subsequent participation in other aspects of the profession. Who would be harmed if these otherwise qualified CPA candidates don't engage in public practice when they become CPAs, particularly if their licenses are so designated?

The Public. One expressed concern

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of the drafters of the UAA is the prevention of any deception of the public regarding a CPA's level of competence. If "the public" refers to persons who are knowledgeable about the accounting profession and its role—financial executives, directors of publicly held companies, bankers and other sophisticated users—it seems unlikely that they will be misled by the experience necessary for a CPA license. When retaining an accountant, they probably inquire about specific experience. And when relying on an auditor's report, they are entitled to have a much higher expectation of competence than most of the present qualifying experience requirements could begin to ensure.

If, on the other hand, "the public" refers to the average person, the public is probably already misled. The average person on the street is more likely to believe that CPAs maintain accounting records and prepare tax returns. A year of write-up and tax experience would probably be more helpful in fulfilling these expectations of competence.

Experience and/or Education. Compare accountancy with the legal profession. In most cases, there is no experience requirement for new lawyers to be admitted to the bar. While the legal profession is subjected to a great deal of criticism, it is not obvious that some required experience before admission to the bar would be a cure. In some special areas where experience has been determined to be important, specific relevant experience requirements have been imposed. For example, some Federal district courts impose their own trial experience requirements. Note that this experience is directly related to the work that the trial lawyer will actually perform. Most of the accounting experience requirements do not assure such a close relationship between the required experience and the work that the accountant will subsequently perform.

An argument might be made that since the accounting profession requires a lesser amount of specialized education than the legal profession, an experience requirement compensates for the difference. That is doubtful. Experience often does not compensate for necessary formal education. There are certainly some people who have fulfilled the experience requirement but are unable to pass the CPA exam.

If more accounting education is needed, it can be required. If a greater knowledge

of accounting or auditing is needed to assure competence, course requirements can be increased and the CPA exam modified accordingly to help ensure that the requirements are met. It is unlikely that most of the present experience requirements would provide an equivalent assurance of competence. Interestingly, in some states where the 150-hour requirement is being added, no increase in accounting courses will be required.

Many jurisdictions that impose experience requirements also mandate public accounting experience or limited alternatives, recognized as comparable by their state boards. In some, while only limited alternatives are viewed as comparable, almost any kind of professional experience in a CPA firm will qualify. For example, a person with 20 years of technical tax experience in the tax departments of several major corporations who even reported to CPAs, often would not qualify; whereas someone with one year of entry-level public accounting experience often would. In some jurisdictions, while many years of teaching advanced-level accounting and auditing courses is not sufficient experience to qualify, one year of footing and ticking in public accounting is.

Gender and Family Issues

A letter to the editor in the November 1992 issue of *The Journal of Accountancy* described the problems that one woman confronted in trying to meet the experience requirement. The writer resided in a small town where she was unable to gain audit experience, and in a state that mandated, as part of its two-year experience requirement, a specified portion of audit experience. In an effort to qualify as a CPA, she moved, with her spouse and children, to a state in which two years of *continuous* public accounting experience with no audit component would have been sufficient experience. Then, because of breaks in continuity of her experience, apparently due partly to the job market and partly to her choice of staying home with her children for periods of several months, she lost credit for all of the experience that she had obtained. Her letter asserted a need for uniform certification across the country and a plea that gender and family issues would be addressed. The letter generated a number of responses expressing a wide range of opinions and observations.

While experience requirements would not likely be as troublesome for most can-

didates, it seems clear that in some circumstances they can present an extreme burden. It is not obvious that a uniform national experience requirement would benefit the letter writer or others who are burdened by the present melange of experience requirements. A more rigid experience requirement, imposed uniformly, would in fact be more burdensome. This is not to suggest that uniformity would be a bad thing, but simply that it would not necessarily provide a better result for every candidate.

Some problems that the letter writer identified do not, at first glance, seem gender related. For example, a man living in a small town with no nearby audit experience opportunities would be faced with the same problems. Long commutes would interfere with family responsibilities, and relocating would impose a burden on a spouse and family. Similarly, a man who took off for several months during summer to stay home with his children would run afoul of the same continuous service requirement and would be susceptible to the same criticism concerning "priorities" to which the writer was subjected in one of the published responses.

Arguably, problems do arise here in part because of implicit gender assumptions in the design of the experience requirements. While it was probably never explicitly articulated, many of the experience requirements were designed when the CPA candidate, if married, was assumed to be a male. It was also assumed that the spouse was a homemaker or that the spouse's career was less important than the career of the CPA candidate. So, if necessary, it would have been easier to relocate or to engage in extended commuting or travel. It was assumed that most of the family responsibilities would be handled by the wife.

Now it is more likely that the husband and wife will have more equal career responsibilities, and the sharing of family responsibilities has changed. The experience requirements are more likely to impose a hardship whether the CPA candidate is the husband or the wife. And to the extent that the CPA candidate who is a wife and mother chooses to engage in child rearing and other family responsibilities, it is likely that the experience requirements will impose a greater burden on her than the drafters of the requirements anticipated. Further, the reality is that, whether by choice or due to some kind of societal

expectations, women, much more than men, are faced with trade offs between career and family responsibilities.

Note that a *continuous* experience requirement is even more likely to hurt women. In this society, women are still more likely than men to choose to stay home at times to rear children. Is there a good reason why that choice should negate any of their previous experience? Further, depending on how a continuous experience requirement is applied in case of pregnancy, such a requirement could necessarily have a disparate impact on women. For similar reasons, a requirement of a given amount of experience immediately preceding the application date is also likely to be more difficult for women to comply with.

In some jurisdictions, full-time experience is required. This is also more likely to have a disparate impact on women, since women are more likely than men to try to combine family responsibilities with a part-time career.

Viewed more broadly, the experience requirements present a family issue rather than a gender issue. Such requirements are more likely to impose a burden today on the CPA candidate who is trying to maintain a family than they did in the past, because the implicit assumptions described earlier were truer in the past. Whether it is the wife or the husband who might be forced to relocate the family and thereby interfere with the other spouse's career, or spend long hours away from the family commuting to a distant city to gain experience, the issue is the same. There may be a burden on the family, just as there will be other burdens on the family related to the candidate's entry into the profession, e.g., the burdens that fall on the family while the candidate is busy preparing for the CPA exam. The question here is whether the burdens that might be imposed by the experience requirements are justified in light of the benefits that the requirements provide to society and the profession. For example, if it is determined that the experience requirements provide no benefits, then any burden is unreasonable.

The Proposal for Reconsideration

Given that some jurisdictions have no experience requirements, and those that mandate experience have such a variety of requirements, it is obvious that there are different views of the need for such requirements. Further, given that many of

these requirements have been in place for such a long time, do they really meet the present day needs of the profession and society? It is one thing to impose legitimate standards that are rationally related to necessary professional skills and help assure the public of competence. It is quite another to restrict entry into the profession if the restriction does not serve a substantial public interest.

In light of the many issues described here, it is worth reconsidering the experience requirements. The present environment might well warrant different kinds of experience, different amounts, and distinctions based on the type of work to be engaged in. For example, it might be determined that an experience requirement is not justified for non-audit work, but that much greater audit experience than any state now requires should be mandated before a CPA is licensed to engage in the attest function.

The UAA approach, with a one-year experience requirement and state board determination of qualifying experience, is probably not the answer. It does not offer uniformity, because qualifying experience is likely to vary so widely between states, and it is not obvious that one year of experience is the appropriate amount to meet the goal of competence. Should an investor or lender be induced to take substantial risks on a complex business with sophisticated financial statements based on the audit report of an unsupervised CPA with one year of experience?

Further, contrary to the position taken in the UAA, consideration should be given to wider adoption of a two-tier system, where the candidate becomes a CPA

and receives the certificate with no experience. This would meet the needs of those who never intend to engage in public practice, while it is not likely to hurt the public. The license to practice could then be restricted to those with appropriate experience, if an experience requirement is found to be justified. Perhaps a different kind of license, with a greater experience requirement, could be required for the attest function.

Over the years, there have been major changes in the accounting profession, as well as in society and the economy. Other requirements for entry into the profession are presently being changed. For example, many states are adopting the 150-hour requirement, and the CPA exam itself has undergone significant changes in content and format. This would be an ideal time to reconsider the CPA experience requirements so that any such requirement can be rationally integrated with the other qualifications for entry into the profession. □

David J. Roberts, JD, MST, CPA, is an associate professor at DePaul University.

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