

*Exploring the idea of developing new types of services  
to new classes of customers*

## The CPA Journal Symposium on the Future of Assurance Services

*The Special Committee on Assurance Services was authorized by the board of directors of the AICPA on April 22, 1994. Its establishment was an outgrowth of an AICPA sponsored meeting held in Santa Fe in May 1993 at which representatives of small and medium-sized firms, regulators, and scholars explored where the audit, or more broadly speaking, the attest function was headed. The group proposed that this aspect of professional service be expanded and renamed the assurance function. The definition that grew out of the conference was as follows: "An assurance service involves the expression of a written or oral conclusion on the reliability and/or relevance of information and/or information systems."*

In essence the Special Committee was established "to develop new opportunities for the accounting profession to provide value-added assurance services." One of its charges is to consider the recommendations of the Santa Fe conference as well as those of the AICPA Special Committee on Financial Reporting (the Jenkins committee).

The Special Committee is chaired by Robert Elliott of KPMG Peat Marwick LLP. For the past year and a half he has led his committee through a research phase—studying the very nature of and market for expanded assurance services—while at the same time expending a great deal of energy and time in informing and educating the profession, the financial statement preparer community, and users of



assurance services about the committee's findings. It is Elliott's view that it is just as important to have the profession accept the ideas and work of the committee as it is for the committee to arrive at recommendations and conclusions.

On January 5, 1996, *The CPA Journal* held a symposium to discuss the work of the committee at the mid-point of its deliberations. The objective of the symposium was to help disseminate the ideas and preliminary conclusions of the committee, while at the same time creating an opportunity for some of the constituencies—auditors, regulators, educators, those in corporate governance—likely to be affected by the recommendations to give input before the project was finalized.

Robert L. Gray, CPA, publisher and editor-in-chief of *The CPA Journal* hosted the symposium. Doyle Z. Williams was the moderator. Panelists included Robert Elliott; David Costello, president and CEO of the National Association of State Boards of Accountancy; Gary Holstrum, professor in the school of accountancy at the University of South Florida; Robert Mednick of Arthur Andersen LLP and vice chair of the board of directors of the AICPA; John

J. Perrell, III, financial standards and policy vice president for the American Express Company and active in both the Institute of Management Accountants and the Financial Executives Institute; Edward F. Rockman, shareholder in Alpern, Rosenthal & Company and a member of the Auditing Standards Board; Michael Sutton, chief accountant of the SEC; and Kathryn Wriston, a director and member of the audit committee of several for-profit and not-for-profit organizations.

Prior to the symposium, each member of the invited audience was provided with materials explaining the purpose and early work of the committee. Robert Elliott opened the symposium with an overview and update of the project. An edited version of his overview is presented as a sidebar.

In order that the audience and other panel members could understand their point of view, moderator Doyle Williams invited each of the panelists to express their expectations and apprehensions about the project. Excerpts of their comments along with biographical information are presented as a third section to this article.

### THE PANEL DISCUSSES THE ISSUES

*(Moderator Doyle Z. Williams  
opened the discussion.)*

**Williams:** What will be the role of regulation versus the marketplace in regard to the expansion of assurance services?

Why do we need a special committee? Shouldn't users and the market be telling CPAs what services to provide? And not the profession telling users what they need?

**Elliott:** The accounting profession and typical market-driven business activity are different. Our product design takes place at the industry level. For example, my firm cannot design its own financial statement presentation using its own GAAP. Neither can we develop our own GAAS. We have a standardized product, and unlike the automobile industry, our research and development takes place at the industry level, not the company one. We also have the situation where we have industry rules from the SEC, the AICPA, the FASB, and state licensing bodies that limit or prevent individual firms or CPAs from doing what the marketplace may want. One of the things our committee is doing is identifying institutional barriers that would limit the services CPAs can perform that would have value to users.

**Williams:** What about unlicensed or unregulated persons moving in to perform the services the marketplace demands? Are we therefore performing this exercise out of our own self interest to protect the profession?

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**Elliott:** The only service that is truly protected and reserved for licensed CPAs is the audit (and, in some states, review and compilation) of financial statements. The services we are exploring are to a large degree outside the traditional audit and therefore in the unregulated area. There are barriers that nonregulated enterprises would face seeking to enter our markets—competency and reputational issues being chief among them. We have a window of opportunity to leverage the assets the profession has in the marketplace and bring them to bear in developing new services. Is this exercise somewhat self-serving? Yes, it is, and I make no apology about it. Every viable business or industry seeks to create new value for its customer set. We maximize our position by creating more value for our cus-

tomers than we consume.

**Williams:** From the point of view of state boards of accountancy, David, do you see an issue here in the way they would regulate an expanding array of services? Or will they just continue to regulate the one traditional aspect that they now do?

**Costello:** I think state boards will react very proactively. The bigger issue is the possibility of others—not CPAs—attempting to jump in to provide these expanded services. We can't use regulation to establish or restrict entry into the marketplace solely for the benefit of CPAs. However, we see our role to work hand-in-glove with the profession as it develops new services. We seek to help the public to distinguish that a CPA in performing a service brings added value because



**Robert L. Gray opening the symposium.**

of being accountable. We will, by no means, be an impediment to the profession moving forward.

**Williams:** As the profession moves to new areas of service requiring new competencies, will the accounting programs

at our colleges and universities find themselves out in the cold?

**Holstrum:** This will be up to the schools and the marketplace. Those schools that are on the cutting edge of technology will be in a better position to

respond. Also those programs that adapt to change will do very well.

**Williams:** Are you optimistic that the educational institutions will be able to respond?

**Holstrum:** As a whole, they may lag

## A FRAMEWORK FOR DISCUSSION

**R**obert Elliott, chair of the Special Committee provided context for the discussion by giving an update on the work of the committee.

"The Special Committee is involved in the transformation of the public accounting profession now under siege by intense competition and its failure to keep pace with change as society moves from an Industrial Age to the Information Age. Some industries and companies have succeeded in making the changes necessary—General Electric, Motorola, and Xerox. Some such as Pan Am and Wang didn't make it. Others such as IBM and GM are still in the midst of their transformations. Can a profession, such as accounting, with a financial accounting system going back to Pacioli in the 15th century and an auditing system that dates back to the end of the 19th century ever hope to keep pace with other industries with product life cycles now being measured in some cases in terms of months? That is the question we hope to answer.

Audits—the mainstay of assurance services—continue to have value. But the warning signs are clear that the marketplace for audit services is saturated. There is no growth, and competition, technological advances, and a loss in relevance are driving the demand for and the value of audits lower. In the information era, the focus must turn to the customer or decision maker. Products or information flows are being requested by consumers based upon their individual needs, and responses must be designed accordingly.

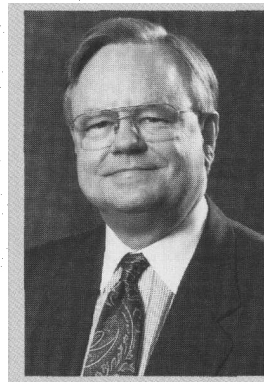
"This new paradigm in the world of the accounting profession starts with a decision maker making inquiries (or having direct access to the data base) of an enterprise and then seeking corroboration from the auditor that the information he or she obtained online on a real-time basis is true. It will look like a network of information flying around in various directions. Is this new world of auditor assurance likely to happen soon? I'm not sure just when it will happen. But I am confident it will happen, and the profession must be ready.

"The committee has completed its research phase of the various needs for assurance services—based upon discussions with existing and potential customers—and is now in the midst of the second phase of exploring new services that can be responsive to the changing needs of users. The final phase will be the development of implementation guidelines.

"This second phase is the building of bridges to the

future as the committee explores where existing customers are not being presently served and the whole realm of new customers and their needs for assurance services. The bridge building—which is in the nature of a time line—begins with the exploration of enhancements to existing products. Another bridge is the consideration of line extensions of new services for existing clients or the extension of existing services to new clients or customers. The final bridge is the development of new products and services for completely new customers or clients. In terms of a time scheme, I see the first bridge taking shape over a 1-3 year period, the second bridge perhaps three to five years out, and the final bridge will be constructed some 5 to 10 years or so from now.

"The committee is strongly interested in arriving at market driven solutions to the challenge. It is not seeking to increase regulatory demand for services. It is seeking to find services that customers will purchase voluntarily. The services must be worth more than they cost." □



**Robert K. Elliott, CPA, is a partner of KPMG Peat Marwick LLP where, for many years, he has served as assistant to the chairman of his firm. His responsibilities include strategic planning, government affairs, and intraprofessional relations. He is chairman of the AICPA Special Committee on Assurance Services, which service immediately followed his three years on the AICPA Special Committee on Financial Reporting.**

*Elliott is a member of the AICPA's board of directors, its governing council, and its strategic planning committee. He is a past member of the AICPA Auditing Standards Board and a member the SEC advisory committee on capital formation and the regulatory processes. Previously he served as vice president of the American Accounting Association and a member of its executive committee, council, and Accounting Education Change Commission. He is a frequent contributor to or referee of articles for accounting journals, including the Accounting Review, Accounting Horizons, The Journal of Accountancy, and The CPA Journal.* □

*More recently some of the large firms have shown evidence of cold feet—because of liability concerns—in responding to an SEC idea to register companies.*

behind. There will be some who will respond and do well in supplying graduates to accounting firms and to business in general. Accounting educators, however, may respond less quickly than those who hire our graduates want us to. They may look elsewhere.

**Williams:** In general society, we expect our institutions of higher learning to be leaders in thought processes and knowledge systems. Why haven't these institutions been in the forefront doing what the Elliott committee is doing?

**Holstrum:** One of the reasons may be the requirement for capital investment in order to be on the cutting edge of information technology. Universities just don't have that kind of capital. The large institutions depend on tax-based tuition and can't raise the capital. This is especially true in accounting programs. We can be of help in doing research to test hypotheses and identify user needs. We may not be so good in innovating new products.

**Williams:** Bob Mednick, you have been heavily involved in the profession and in your firm in grappling with professional liability issues. We know you are celebrating the securities liability reform legislation recently passed by Congress. The question quickly arises when we begin to talk about new services about the possibility of expanded liability, especially if we move outside traditional boundaries where there are no rules of generally accepted accounting principles or generally accepted auditing standards.

**Mednick:** There is no doubt that the concern over litigation has had a dampening influence on firms in experimenting with new competencies and services. While there has been some experimentation in attest reports and attest services. There is the example of solvency letters where the profession moved in only to retreat because of liability issues. More recently some of the large firms have shown evidence of cold feet—because of

liability concerns—to promote a broader gatekeeper role for auditors in responding to an SEC idea to register companies rather than a particular issuance of securities. Whether the recently passed Federal legislation will change all this is not clear; it will take time for it all to sort out. My concern is that we are in a catch-22 situation. If we don't step out and take the initiative, we will find our services becoming less and less valuable. We are in the information business—independent information professionals. We have to consider where to invest—designing information systems, expanding assurance and attest services, or what. I think because of the litigation risks, we have been investing in other areas.

**Elliott:** One of the reasons we are faced with the huge liability exposures has to do with the fact we are dealing with the general public. We are not in privity of contract with investors and other users of our reports on finan-

cial. When there is a dispute, tort law governs, which by definition has no limitation on liability. We are not able to get into a contractual relationship where we can limit liability just as insurance companies do. What would happen if we were to sell a particular assurance service to a known third party over the Internet who agrees to a contractual relationship for an agreed upon price? It might be a small price. Such a transaction might be structured under contractual law, with limitations on liability. And some of the first users of expanded services might be boards of directors and audit committees who would have a contractual relationship with auditors. If we can structure the new relationships for new services on a contractual basis, we probably will be more willing to experiment.

**Williams:** Ed, an annual conference that we have for small businesses in Arkansas—suppliers of a large retailer there—shows that small businesses are concerned with much more than just their financial statements. They are concerned about the ability, on a long-term basis, for their businesses to grow and produce and continue long-term relationships with customers. This would seem to fit under this umbrella of new and expanded services. How do you see this playing out?

**Rockman:** I can easily see CPAs being able to help small businesses along these



*Management fraud has been a huge problem for independent auditors. The committee seems to ignore the prospects of management fraud in its discussion of expanded services.*

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lines, gaining these competencies.

**Williams:** Would you see small firms forming niche areas such as these?

**Rockman:** That has been a recent trend that has served smaller and local firms very well. That trend will continue. As Bob's committee suggests new areas of service, local firms will pick and choose where they would like to develop new competencies that fit their marketplace and their clients.

**Holstrum:** One of the likely outcomes of the work of the committee will be to broaden the franchise or operating sphere for CPA firms. It will empower firms—local and national—to do more than they are now doing.

**Williams:** Kathy, I sense from your remarks that the outcome may be additional services that can assist boards and audit committees in carrying out their responsibilities. Can you elaborate on the specifics?

**Wriston:** The major question for a board is the financial vitality of the organization and its long-term strategies to enhance shareholder value. This includes an assessment of various risks the company faces. Auditor involvement in these areas has struck me as being potentially very beneficial to directors. But auditors often seem reluctant to help along these lines. They see themselves as being limited to expertise and competence in financial statement matters. Liability concerns have been a factor inhibiting auditors from stepping forward in these areas. Auditors should be able to have an intelligent dialogue with board members about the overall health of the company and where it is headed.

**Perrell:** Kathy mentioned the need for auditor assurance on broader business reporting and data flows. This brings me to a major question in my mind. How do we test the certified information assessor for his or her competence in providing

these new services of financial viability and strategic planning? One of the important elements of a strategic plan is growing market share. But there is no universal definition or set of rules on how to determine or compute market share. As a result, I don't know how the auditor could help here.

**Costello:** State boards of accountancy are working on this issue. Our future licensing, litigation, and legislation committee is studying issues of this kind. Even the relevance of today's CPA exam is under review. Are the questions in line with what is taking place in the real world of public accounting? The AICPA special committee on the regulation and structure of the profession is also dealing with these issues.

**Williams:** Bob Elliott you mention that there may be the need for new standards to cover the recommendations of the committee. Why do we need more standards to add to an already overloaded situation? Aren't the attestation standards that already exist enough?

**Elliott:** As Bob Mednick alluded to, the attest standards are really almost standards for standards. They don't lay out with any specificity how you would go about attesting to new types of information. They provide a general framework for the establishment or identification of criteria for use in arriving at consistent and relevant conclusions. The criteria can come from two places—a generally recognized or accepted body, not necessarily from the AICPA, SEC, or FASB, or they can be developed and presented in the report for users to evaluate as to their relevance and usefulness. In practice, however, the attestation framework has not been used that much. There is an enormous benefit to users to have one set of rules to deal with. It may make sense to establish some form of measurement standards. This could be a problem, however, because of

the time today's standard setters take. And it would likely add to the perceived standards overload problem. Our committee is addressing these kinds of issues at least on the strategic level. We plan to have suggestions on how the profession should proceed in the future.

## THE AUDIENCE REACTS AND PROBES THE ISSUES

*(Moderator Williams opened the symposium to questions from the audience.)*

**Douglas Carmichael:** Management fraud has been a huge problem for independent auditors, especially in the 80s as some managements abusively used accounting principles to accomplish their own objectives. The committee to date seems to ignore the prospects of management fraud in its discussion of expanded services.

**Elliott:** Auditors do their best to detect and eliminate fraud. If you look at a broad cross section of all audits, I would say that in most cases—perhaps in the high ninety percent—auditors find the material discrepancies that if undetected could lead to allegations of material fraud. We would like that percentage to be higher, very close to 100%. But there are two problems. First, technology is not there yet to sense and detect all fraud, especially collusive fraud involving outsiders. Second, there is a relationship between how effective an audit will be and how much the marketplace is willing to pay. For a ballpark representation of this issue, let's assume that the total amount paid for audits of SEC companies is around \$6 billion. Let's also assume that at this level of effort 10 material frauds a year go undetected. What would it cost, given today's

technology to get the number down to five or even one. If we priced this out and found it would cost an additional \$6 billion in audit fees, is that a price worth paying? Don't get me wrong. The profession is very serious about eliminating all management frauds and is doing the best it can to do so.

**B**ut the good news is that there are going to be technological advances that will increase the difficulty in committing fraud or otherwise introducing unauthorized transactions. Auditors will then be able to focus their audit efforts on relevancy rather than on accuracy of data.

**Peter Knutson:** I chair the accounting policy committee of the Association for Investment Management and Research. I also consult with the Robert Morris Associates. What I sense is happening is a revolution, at least in thought and concept—it is the movement of who pays for the assurances about the relevance of information. Bob Elliott sees the user of the information becoming—even by con-

tract—the purchaser of the service. This is unlike the situation today where the primary purchaser is the preparer of the information. I fear that if the user is the purchaser, the information would not be disseminated as uniformly or broadly as it is now to all participants in the marketplace.

**Elliott:** We are talking about a paradigm shift of incredible proportions that would affect everything, a change that cannot be lightly dismissed. No one knows the answers to these questions. But I would make a distinction between differential disclosure and differential assurance. Looking into the future, I can much more easily imagine corporate databases open equally to all shareholders and potential investors than I can imagine differential disclosure to members of the investment community. And that applies no matter who pays the assurer.

**Perrell:** Like Bob, I am baffled somewhat by how all this will play out. But, I would not like to leave the impression that preparers are unwilling to pay the price for additional or expanded services

if they lead to an increase in shareholder value. I would not be in favor of the preparer paying additional costs that were not more than compensated for by greater efficiency in the capital marketplace, which benefits shareholders.

**Knutson:** The point I am making is that the quality of information may go up, but the dissemination of that information may be more uneven than it is today. An appropriate comparison might be broadcast television as compared to pay-per-view.

**Elliott:** We need to put this discussion somewhat into perspective. Much of today's discussion has focused upon corporate reporting to shareholders and to creditors. And that is very important. We are also exploring a broader set of customers—i.e., suppliers, employees, and individuals as decision makers as empowered by the Internet. When we look well into the future, where capital is abundant and technology is cheap, the limiting economic constraint may be human resources and talent. Perhaps the profession could play a role in this area analo-

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gous to the role we play for capital: to provide the information infrastructure that permits talent to flow to its most effective uses.

**Lee Berton:** You say that the plan is to increase the value of information to decision makers. How are you determining exactly what that will be? For example, are you doing surveys of decision makers and the like?

**Elliott:** We are looking at the whole decision making process. How users define their problem and their decision model. How they identify the information they need and how to obtain it. How they analyze and interpret the information and develop alternatives and tradeoffs. And, finally, how they obtain and apply feedback from the decision to improve the decision process.

**Gary Previtts:** I think that it is more than just semantics here. Part of the paradigm shift is a movement from just detecting fraud and material errors to also being involved in systems that will prevent the errors from occurring in the first place.

**Robert Walker:** Is the Elliott committee factoring in the tremendous market for

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audit services in the government sector, including work that will benefit regulators and audits of governmental units themselves?

**Elliott:** Yes. One of the members of our committee is an assistant comptroller general of the United States for policy. Also one of the segments of our grid for ser-

vice includes social, political, and governmental decision makers.

**Walter Primoff:** What kind of competencies will the profession need to develop to bring the whole scheme into being? Are they the kind that those in the profession can acquire, or will the profession have to look outside and bring those possessing the competencies into the profession?

**Holstrum:** As educators we are exploring the set of skills that will be required by the next generation of auditors and how those skills should be developed. The audit section of the AAA at its January meeting will be exploring this very issue. Obviously, there will be greater need for computer and information technology skills and improved communication skills.

**Barry Wexler:** As the scope of work of CPAs broadens beyond the expertise of accounting and auditing, will the CPA's range of knowledge be so broad as to make him or her the proverbial "jack of all trades and master of none"? Also will the results of the committee be in the nature of a concepts statement that will provide a framework for future standard setting?

**Elliott:** Expertise in everything is a pretty tall order. But there is a unifying factor here, as Bob Mednick referred to. It is the notion of the independent information professional. The information content may vary quite a bit, but there is likely to be a core of expertise, which will be the ability for the professional to figure out what the information needs are for making a decision, how to collect and assure the quality of the data, and to obtain feedback on the results.

The second part of your question has to do with the role of standards. I think the process will need some fundamental redesign—to speed the process up, and focus more on the desired outputs rather than on inputs, how to's, and rules. But the committee won't be deliberating on these type issues probably until it reaches its third phase later this year.

**Mednick:** It is important to focus on the fact that audits and other attest services are performed by firms. As a sidebar here we need to be focusing on the regulation of firms rather on the CPA license of individuals. Also I don't think we are seeking or are entitled to a



## ABOUT THE MODERATOR

**D**oyle Z. Williams, PhD, CPA, is the dean of the College of Business Administration and holds the Sam M. Walton Leadership Chair at the University of Arkansas. He was the founding dean of the school of accounting at the University of Southern California and served for two years as interim dean of the USC School of Business Administration. He was chairman of the Accounting Education Change Commission from its inception in 1989 until 1993. Among many awards he has received are the AICPA's Outstanding Accounting Educator Award and

the California state society's Distinguished Professor Award.

He is a past president of the American Accounting Association, former vice president and member of the board of directors of the AICPA, and past president of the Federation of Schools of Accountancy. He served as a member of the advisory board for the National Commission on Fraudulent Financial Reporting.

Williams opened the symposium: "We are not here to praise the work of the committee nor to bury it. The purpose is to give constructive feedback by some of the stakeholders of the project. Is the committee moving in the right direction, or are there immovable objects in its path?" □

monopoly or exclusive franchise for other than audits and reviews and possibly compilations of financial statements; nor do I believe there is a need to regulate other services which are also performed by non-regulated professionals in a competitive marketplace. At one point we saw big name consulting firms begin to move into the market to prepare and give assurances about feasibility studies. As it turned out, they probably lacked the "permission" of the market to do this kind of work. They have since disappeared from this scene. But the reality is we will have to compete with other service providers. In the end the market will decide whose product to buy.

**Robert Gray:** We will have regulated providers (CPAs) and unregulated providers in the marketplace competing for the same work. Regulators are already stretched to their limits in regulating the full scope of services now provided by CPA firms. Is it logical that state boards and other regulators should regulate all the services being performed by licensed firms or just those things that involve the public interest?

**Costello:** No, but you may want them to. You make an excellent point with respect to public interest.

**Gray:** Isn't it just in the holding out area where regulators are justified in exercising their protective sphere? By that I mean those areas where there is some public interest involved or benefit from the service, even if nonlicensed people are also providing the same service.

**Costello:** If there is any potential for harm to the public, I think states will find a way to regulate the service.

**Williams:** What is the timetable for the committee to finish its work and what will be the nature of the report?

**Elliott:** We have until the end of 1996 to finish our work. We don't quite see the shape of the end output as yet. Our objective is not to issue reports. Even if at the end of the process we were to issue no report but the profession were in a position to take advantage of new opportunities, we would consider this a highly successful outcome. But there will be a report. Our main objective will be to motivate institutions, firms, and individuals to change their practices. There will always be a demand for assurance on the quality of information, because decision mak-

*We will have regulated providers (CPAs) and unregulated providers in the marketplace competing for the same work.*

ers need high quality information. And information technology will expand the types of information and the ways it can become available. The question is who is going to provide the assurances—the profession or the new technology-savvy competitors? Are we going to reengineer the profession so that we can take advantage of these opportunities? That's what this effort is all about.

## THE PANELISTS EXPRESS THEIR EXPECTATIONS AND THEIR APPREHENSIONS

**David A. Costello, CPA, is president and CEO of the National Association of State Boards of Accountancy (NASBA), a position he has held since September 1994. NASBA is a voluntary organization of the 54 boards of accountancy in the U.S. and its territories. These boards are responsible for the licensing of CPAs nationwide, as well as monitoring the continuing competence of their licensees through continuing education and practice review programs. He began his career at a large national CPA firm and later moved into a career in industry, moving from internal auditor to senior executive positions. In 1991 he started his own consulting firm. He also served as the executive director of the Tennessee State Board of Accountancy.**



**“E**xciting, thrilling, scary, uncomfortable are the words that express my feeling for the time in which NASBA now finds itself. For it is indeed a period of rapid change—and change is the business of NASBA. We have two committees at work getting our boards of accountancy ready for the changes ahead. One is long-term strategic planning and the other is future licensing, litigation, and legislation. We are trying to stay in step with the events that impact those who our members regulate. But we are ever mindful that the CPA designation is a license rooted in some timeless concepts such as independence, integrity, trust, and objectivity.

“As the profession moves from the small pond of highly regulated audit services to the larger ocean of assurance services, there will be challenges from others also seeking to be players. They will ask consumers if they are really benefiting from the CPA license for the services they are also providing. Questions of this kind are already being asked—sometimes in the courtroom. I don't think this possibility of competition from others and the pressures of an open marketplace should deter the profession from moving ahead. It should, however, be mindful that there will be more and more challenges to the franchise of the CPA as assurance giver.”

**Gary Holstrum, PhD, CPA, is a professor in the school of accountancy at the University of South Florida and a former partner of a Big Six accounting firm. Currently, he is chair of the Future Audit Assurance Task Force of the auditing section of the American Accounting Association (AAA) and a member of one of the task forces of the AICPA Special Committee on Assurance Services. Previously, he was a member of the Auditing Standards Board and chair of the auditing section of the AAA. He has served as chair or a member of numerous national committees, editorial boards, and advisory boards on auditing research, education, and practice, including the AICPA council and the Board of Governors of the**





Florida Institute of CPAs. He has published numerous articles and research monographs and received the AAA's Innovation in Accounting Education Award.

**“**Bring a two-pronged point of view to the discussion—first as an academic and chair of an

AAA auditing section task force on future assurance services, and second as a member of one of Bob Elliott's subcommittees, the one that is looking at the future of current services. The AAA task force's interest in what the Elliott committee is doing can be summarized in four basic issues:

■ What will be the demand for accounting graduates from our business schools? The number of graduates and the number of those graduates hired by accounting firms over the last four years, quite like the overall demand for audit services has been basically unchanged. It has not been a growing market, unlike some others in our business schools such as information technology.

■ How will curriculum design need to change to help develop the new competencies needed and to take advantage of new teaching and learning techniques?

■ What is the role of academic research in helping to move the profession forward? Academics should be on the leading edge, but often find themselves falling

*Soon the young person seeking to pursue a career in accounting may begin to question the need to go through all the ordeal and stress of enrolling and attending college in some far away setting.*

behind with the pace of change.

■ What is the role of the academics as instruments of change in moving the recommendations of the committee forward?

“Answering these questions will be a major activity of the academic community over the next decade.

“But apart from these concerns, the changing society and movement to the information age is affecting the academic community in its own way. Our great universities have been looked upon as the storehouse of knowledge and power. We have had the franchise. But that franchise is being eroded away. The traditional library of stacks of books is being replaced by the Internet. Recently available funds for library purchases have gone toward electronic sources, not hardcover books. And the very nature of university education is under attack. Soon the young person seeking to pursue a career in accounting may begin to question the need to go

through all the ordeal and stress of enrolling and attending college in some far away setting. Universities competing for students will begin to use the Internet and other electronic means to transform the very nature of a university education. Accreditation will have to keep up with the new look for university education.”

**Robert Mednick, CPA, is vice chairman of the AICPA and will assume the**



**position of chair for the 1996-97 fiscal year. He earns his keep as partner in the world headquarters of Arthur Andersen LLP in Chicago, where he has served as the firm's**

**director of SEC policies, managing director of auditing procedures, chairman of the worldwide committee on professional standards, and managing partner of professional and regulatory matters. He recently celebrated the passage of Federal securities liability reform on which he had been expending a considerable portion of his energy by a sojourn to Mexico. His article in the March issue of The Journal of Accountancy sets the tone for his agenda as the next chairman of the board of the AICPA.**

**“**I am a staunch supporter of what the committee is doing. The future of the profession is to a great degree lies in the success of this project. As vice chair and soon-to-be chair of the AICPA, I pledge my support to moving the project forward through its next phase. To put my position in context, I would like to quote from an article I wrote for *The CPA Journal* over a decade ago. At that time, I said we must find new and relevant ways to add value through the audit and give new meaning to the attest function. Limiting attest ser-



**Peter Knutson questions the panel.**

*There is an intense interest in considering other assurance services that can return the audit side of public accounting to a more dynamic state.*

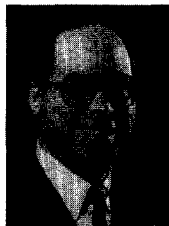
vices solely to financial information even when defined to include more than financial statements is unnecessarily restrictive and not in the public interest. I was asked to chair a task force at about that time—Bob Elliott was a member—of the Auditing Standards Board to explore how to expand the attest function. In 1986 that task force and the ASB issued a formal statement to establish a framework for providing a broad range of attest services. The framework was conceptual in nature and did not provide a great deal of implementation guidance. What happened as a result was not nearly enough.

"In the meantime, technology has caused a virtual explosion in the quantity and availability of decision-useful information. Who is better qualified than the CPA to assist decision makers in distilling, sorting, and validating all this information to the point that it can be used with confidence? By education, training, and tradition, it is a natural fit. But because of a lot of reasons, and I suppose the litigation burden is an important one, we have not seized the moment.

"What's different now than it was 10 years ago? First, we have a very high level committee under Bob Elliott's leadership, spearheading the effort. It has the full attention and support of the board of directors and council of the institute. Second, the earlier effort was conceptual and did not address the market aspects of specific consumer needs. Third, the desire for

useable and reliable information by decision makers is growing, as is an increasing demand for accountability. People want to hold groups, entities, and individuals accountable, and this is what auditors can help do. And finally there is a growing softness in the demand for traditional audit services. The number of total audit hours of the large firms has actually declined in recent years, and so there is an intense interest on the part of firms in considering other assurance services that can return the audit side of public accounting to a more dynamic state."

*John J. Perrell, III, CPA, is vice president financial standards and policy for*



*American Express Company. His responsibilities include establishing companywide accounting policies and participating proactively on behalf of his company in the external standard setting process. He has held various accounting and reporting positions within American Express Company over the past 14 years. Prior to that he had industry and Big Six accounting experience.*

*He is on the committee on corporate reporting of the Financial Executives Institute and a member of the financial reporting committee of the Institute of Management Accountants. He is one of the two U.S. board members of the International Accounting Standards Committee.*

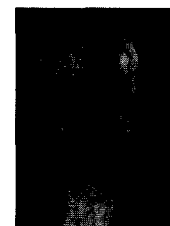
**“W**ithout meaning to throw a wet blanket on the process, I must honestly say that many management accountants are wary that the end result of the project will be higher fees to the independent accountants but with no value added to the preparer community. For example, Bob Elliott's committee has determined that users would like navigation aids to the financial statements and presumably some assurance from auditors about those aids. For a public company today, we have a management's discussion and analysis (MD&A), which presently has auditor involvement. We would not look forward to a requirement

that the MD&A be covered by an auditor's opinion. We see that as resulting in additional fees but with no enhancement in the actual material.

"A caution that should always be undertaken is obtaining positive evidence that the perceived user needs are in fact their real needs. For example, in my standard-setting role I see the same classes of users—those in the U.S. and those in Europe—going in two different directions when it comes to segment or disaggregated financial information. What this says to me is that the various possibilities and their ramifications have to be presented to a particular user group before a decision is reached as to what that group's needs are.

"I do see a very strong need for a validation of information coming from various sources and data bases such as the Internet. The Internet and similar electronic media have the potential of providing a great deal of information for use in decision making. But is the information accurate? Assurance of its reliability is important and people will be willing to pay for that assurance."

*Edward F. Rockman, CPA, is a shareholder and director of quality control*



*for Alpern, Rosenthal & Company. He is presently a member of the Auditing Standards Board and the Financial Accounting Standards Advisory Council. He is a past chair of the Technical Issues Committee of the AICPA Private Companies Practice Section and a past member of the Private Companies Practice Executive Committee.*

**“I**speak to you today from the point of view of the practitioner serving small, private companies, often family owned. This perspective is independent of CPA firm size—it is the size of the client that drives the concern. In my firm we have about 120 people. Almost all of our clients fit the description. Don't misunderstand. These are not corner grocery stores or gas stations. They are \$20 million and \$30 million family owned or closely held businesses. As I look at this project, and I

*The auditor is the primary gatekeeper in the flow of information to those markets, and the integrity and credibility of that information is at the top of our list .*

have been following it, my concern is how do we get the input from these small companies and the users of their financial statements. Private companies are different from public companies. They cherish, and are very protective of, their confidentiality. There may only be one significant user of their financial statements—a bank or perhaps a major supplier. Often their business decisions are tax driven, with little concern on what the impact will be on the financial statements. If they are looking to present a picture, it may be just to break even, with showing profits a very secondary consideration. Profits mean taxes.

"I keep hearing that small, privately owned businesses are the backbone of our economy and capital structure. But I await a clear understanding of how this group is likely to be affected by the changing nature of assurance services. Or perhaps more importantly, how should assurance services change to better serve this very important group?"

**Michael H. Sutton, CPA**, was appointed Chief Accountant of the Securities and Exchange Commission in June 1995. Prior to his appointment, Mr. Sutton was national director, Accounting and Auditing Professional Practice of Deloitte &



Touche LLP. Previously, he served as client services partner in the firm's Detroit and Atlanta offices. He was a member of the Emerging Issues Task Force of the FASB from 1987 to May 1995 and served on the FASB's Financial Accounting Standards Advisory Council from 1983 to 1986. He was chairman of the FASB Committee to Review the Emerging Issues Task Force

and vice chairman of the AICPA Special Committee on Financial Reporting. He also served on the AICPA Accounting Standards Executive Committee.

Before beginning his remarks, Sutton reminded the audience that what he was about to say and any comments that he had were strictly his own and did not necessarily reflect those of the SEC or other members of the SEC staff.

"I have followed the work of the committee from its inception, and from the outset and to this moment, I view the work of the committee as being important to the future of the auditing profession. I also feel that the approach of the committee in addressing the future of attest and assurance services from a market perspective is the right approach. Any service must have value in the marketplace or it will not be successful. And I don't think you can rely on regulation to create a market. Importantly, value to the market (from my perspective), means that the value to investors and creditors must be clear.

"Let me acknowledge that I believe the work of the committee can have important implications for our regulatory processes as the commission explores ways to improve and streamline access to the capital markets and to assist capital formation generally. In that context, I think it is important to understand the commission's perspective on the role of the auditor. The services the profession provides are critical to assuring the effective functioning of our capital markets. The auditor is the primary gatekeeper in the flow of information to those markets, and the integrity and credibility of that information is at the top of our list of value drivers. So improvements in the relevance and reliability of information provided to investors through improvements in finan-

cial reporting and the effectiveness of attest and assurance services can reduce the information risk—the risk that the information going to the market is either not relevant or not reliable. Thus, improvements in the attest function are of interest to us because of the potential benefit to investors. At the end of the day our overriding interest is in the effectiveness and the integrity of our capital markets. In many respects, the standard of living our nation enjoys depends on how well we do that job.

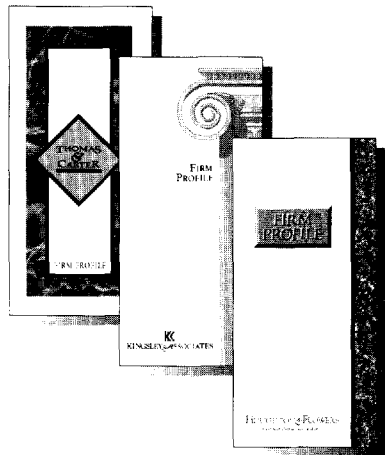
"I do have some concern when I hear it said that the value of the audit is declining, is losing value, or is becoming a commodity. As a professional, I find those comments disturbing. As a former practitioner, I certainly understand what's behind those comments. But to others those sentiments can raise questions about whether our high expectations of the auditor's gatekeeper function in the capital markets is recognized and valued. I trust that the committee and the profession won't lose sight of importance we attach to this primary mission as they seek to improve the attest and assurance services in the future."

**Kathryn D. Wriston** serves and has served as a director and board committee member of several for-profit and not-for-profit organizations. She currently serves as a trustee of the Financial Accounting Foundation and has served as a member of the board of directors of the AICPA and as a member of the Financial Accounting Standards Advisory Council.



Mrs. Wriston is admitted to the Bar in the state of New York, U.S. Court of Appeals for the Second Circuit, and the U.S. Supreme Court and is a member of the American Bar Association, the Association of the Bar of The City of New York, New York County Lawyers Association, Institute of Management Accountants, Financial Women's Association of New York, and the Women's Forum. Professional activities and affiliations include vice president and trustee of the Practising Law Institute, director of the American Arbitration Association, and

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member of the executive committee of the CPR Institute for Dispute Resolution.

**“T**he perspective from which I view the committee's activities is that of a board of directors, and audit committee member. The question then is whether the work of the committee has the potential of helping board members in the governance of public companies and not-for-profit enterprises. I think it will, if the committee examines what additional assurances can be given to the expanded business reporting of the kind recommended by the AICPA Special Committee on Financial Reporting under the chairmanship of Ed Jenkins, but broadened to include databases and data sets. Absent SEC or other regulatory requirements, the demand for these additional services will be market driven. What the two special committees are doing is bringing a greater awareness to the extent and importance of financial information outside of published financial statements. Most corporations produce a separate stream of data as a basis for management decisions that are well beyond that reflected in historical financial statements.

“One of the basic forces driving the work of the Elliott committee is the rapid growth of computer technology. Do we have to wait for the full development of these technologies before we have more auditor involvement in expanded business reporting? I think not. Analytical tools and systems that would enable users to take advantage of electronic databases can be provided now, either by accounting firms or other analytical intermediaries. Current demand for analysis of these broader data flows is illustrated by surveys and focus groups which underlie the Jenkins committee recommendations. The first customer for this broader reporting will be the management and board because it will enable them to do a better job of running the company and make more effective allocations of capital resources.

“Bob Elliott's vision of future financial and business information is one that, because of technology, is relatively error free. This is supported by the present experience of some large corporations which claim statistical accuracy at very high levels. But even with such accuracy, boards of directors will continue to seek reviews of and assurances about the appropriate-

*The first customer for this broader reporting will be the management and board because it will enable them to do a better job of running the company.*

ness and conservatism of accounting principles, the reasonableness of management's estimates, the adequacy of disclosure, the adequacy and functioning of systems that collect data, and the adequacy and functioning of systems of internal control. I also think there clearly is a role for auditors to become involved in reporting and providing assurances with respect to various environmental issues.

“In order for audit firms to provide expanded assurance services, it may be necessary for them to seek employees and staff with additional competencies outside of traditional accounting and auditing—i.e., engineering, health sciences, and environmental matters. In the environmental area, some accounting firms have already added competencies and skills as they are needed now to assess estimates for financial reporting, reserves, and disclosures. The expanded services may give rise to scope of services issues of the type raised currently with respect to certain consulting services.

“The Elliott committee should not overlook or minimize the importance of providing assurance services to managements and boards. Yes, it is important to seek out the needs of consumers and others and whole new classes of customers. But the needs of boards should remain important and a significant part of the potential market for services. Please don't misunderstand—the profession can and should explore new markets and a new range of services. But this expansion should not come at the expense of their exclusive audit function and other services for corporate managements, boards, investors, and creditors: the profession's more traditional clients.” □