

On Being a Member of the Accounting & Auditing “PROFESSION”

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NOTE: The views expressed in this article are the views of the author only and do not represent the views of his employer or any of the six professional accounting and auditing associations he is a member of.

In 1981, over 28 years ago, I was admitted as a full card-carrying member of the accounting and auditing “profession”. I was proud then, and am still proud today, of my membership in the profession. However, in light of the current global economic crisis and massive erosion of the public’s confidence and faith in securities markets, regulators, governments, public companies, accountants, external auditors, internal auditors, and many others, I think it is worth revisiting an important question - are accountants and auditors, and the numerous fragmented “professional” associations that represent accountants and auditors, truly representative of a “profession”, or is the status quo more closely aligned with the idea of simply being “professional” - paid to provide services without any significant obligations to the greater public good.

What does it mean, or more importantly what should it mean, to be a member of the accounting/auditing “profession”?

What it means in a technical sense to be a “**professional**” is easy. You get paid to do work in a specific industry sector or service area. There are “professional” hockey players, football players, painters, carpet cleaners, carpenters, personal assistants, dentists, doctors, accountants, auditors, and scores of other that all lay claim to being professional somethings.

Having said that, I think the notion of belonging to a true “profession” should be something more - much more.

The International Federation of Accountants (IFAC) states that “As the global organization for the accountancy profession, IFAC is committed to **protecting the public interest** by developing high quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world.”

The Association of Chartered Certified Accountants (ACCA) in “Our Mission and Values” section of their web site indicates that one element of ACCA’s mission is “to

achieve and promote the highest professional, ethical and governance standards to **advance the public interest**". The Ontario Institute of Chartered Accountants, one of a number of associations I belong, states on its web site that its core mission is "to **protect the public interest** and maintain the good reputation of the CA profession." The American Institute of Certified Public Accountants (AICPA) in the U.S. references the need to provide services that "**benefit the public** as well as employers and clients".

Words like "advance" "protect" and "benefit" the public interest convey an onerous responsibility that goes far beyond being paid for services provided.

It is worth noting that two other organizations I belong to, the Institute of Management Accountants (IMA) and the Institute of Internal Auditors (IIA), both headquartered in the U.S, although generally aligned with the notion of protecting the public interest, are silent in their mission statements on whether they have any specific requirements or goals to advance or protect "the public interest".

Some Key Questions

Given the global erosion of confidence in the work products and the competence and ethics of accountants and auditors, I think now is an appropriate time to reflect on, what in reality are, two very tough questions:

1. Do accountants generally, including those who work in public and private sector organizations, as well as accountants that work as internal and external auditors, have, and truly believe they have, a duty to advance, protect and benefit the public interest?
2. If the answer to #1 is, or should be, yes, how well have the accounting and auditing associations done promoting and delivering on the notion that members have an obligation to protect and advance the public interest?

It's important to recognize that these questions are big and complex and warrant far more study, research, reflection, and debate than I can offer in a short article. To encourage more research and debate on these issues I offer, what many may consider to be, controversial observations based on my global involvement in the "profession" over the past 25 years, and a range of technical research work on accounting and auditing failures I have undertaken for the IMA and Financial Executives Institute (FEI) over the past five years.

Responsibility to the Public Interest

The Question

Do accountants and auditors that see themselves as members of the "profession" have a responsibility to advance, protect and benefit the public interest?

In many ways this question is a very personal one, one that can often be personally challenging at various points in an accountant's career. "Conscience checks" accountants and auditors may have to confront over the course of his or her career can take many forms:

*Do the company's financial statements reliably and **transparently** disclose the true financial position and results of operations to bankers, shareholders, employees and other important stakeholders or, alternatively, do they in fact represent the newest in-vogue term to describe woefully lacking financial disclosures - **opaque**?*

*When confronted with a choice between reliable, **transparent** disclosure to stakeholders versus **opaque** disclosure that will personally benefit senior management, including the CFO and CEO, which one prevails?*

*Is the organization's board of directors aware of the true state of residual risk in all areas of the organization, including the company's exposure in the event of one or more scenarios occurring simultaneously that are perceived as low likelihood/high consequence, or are they getting **opaque** status reports from senior management that cloud the true status?*

*Does the board of directors really and truly understand senior management's risk appetite, including senior management's willingness to make decisions based on limited and sometimes flawed information, or even think it is their job to understand management's risk appetite? Or, alternatively, is the company's board of directors **largely content to live in an opaque world that fails to consider significant retained risk positions**?*

*When confronted with a choice between what's right for the shareholders (**transparent disclosure**) versus what senior management wants to do to further their own personal agenda (**often opaque disclosures in the short term**) what should be done by an in-house accountant when it is clear that management self-interest has prevailed?*

*For accountants working as external auditors, are the staff members assigned to an audit engagement appropriately equipped, qualified and sufficient to provide a consistently reliable audit opinion? Is the in-charge audit partner willing to make the tough calls to ensure **transparent disclosures**, even calls that risk losing the client? Are serious efforts made to identify and correct root causes of audit firm failures when audit teams provide clean opinions on financial statements that later prove to be materially unreliable?*

The Answer:

In spite of the real-life personal risks involved making the type of decisions listed above, I think the answer to the question of whether accountants and auditors that form "the profession" have a duty to advance, protect and benefit the public interest should be an unequivocal yes.

My fear, based on more than 25 years in the profession, is that tens of thousands of accountants have made wrong decisions when confronted with situations like the ones above. What bothers me even more than the profession's high failure rate generating reliable transparent disclosures, is that the accounting and auditing associations have rarely, if ever, dedicated financial resources to systematically and empirically study why wrong decisions were made by their members in tens of thousands of instances, and most importantly, what could be done by the "profession" to prevent future wrong decisions.

Performance of Professional Associations Protecting the Public Interest

The Question:

How have accounting and auditing associations, including IFAC, ACCA, AICPA, CICA, ICAEW, IMA, IIA and many other associations representing accountants and auditors around the world done in terms of their obligation to protect the public interest?

The Answer:

Not anywhere near as good as they could and should have done. As a grader I would have to assign a grade to the accounting/auditing profession globally of somewhere between a C- to a D. I think the ACCA deserves special mention for acknowledging that there is a problem that includes the performance of accountants and auditors. The quote below from ACCA's website from a December 2008 ACCA paper is a step in the right direction:

But ACCA also accepts that the accountancy profession must come under scrutiny. Aitken-Davies said: 'Accounts preparers, standard-setters and auditors must all learn from the past year. It is clearly unacceptable that poor quality loans can be sliced, diced and parcelled up with an AAA sticker and overvalued on banks' balance sheets as a consequence. ACCA still believes that fair value accounting has an important part to play in modern global financial reporting but we must make sure the model is as robust as we can make it.'

For recognition that the accountancy profession should take at least part of the blame I think ACCA deserves a C+.

Professional associations are often strongly influenced by the commercial motivations and self-interests of its members, the constraints that flow from the risk of litigation and negative impacts on members, and the shortcomings that come with having revolving Chairs and Committees that often serve for terms of as short as a year and then are replaced. Very few accounting and auditing associations have acted as if they are really focused on fulfilling their claims of advancing and protecting the public interest, or had

the capability or willingness to early diagnose systemic failures of their members to protect the public interest before major damage to the public occurs.

It is true that commission after commission around the world, commissions that have often included representatives of the profession, have claimed to have studied, what was known 25 years ago and is still known today as, “the expectation gap”. Unfortunately, it is also true and fair to say that that expectation gap with respect to the performance of accountants and auditors is even bigger today than it was when I entered the profession in 1981. The expectation gap, simply defined, relates to instances the accounting and auditing profession didn’t protect and advance the public interest adequately.

In spite of the recurring tendency to appoint commissions and committees to study the problem, I am not aware of a single research study being undertaken or planned by any regulator, professional oversight body, or accounting or auditing association anywhere in the world to systematically and empirically examine a large population of real life accounting and auditing failures to try and make a fact-based determination of what went wrong. It is this information that is desperately needed to determine what should be done systemically to prevent future instances.

Anticipating reader’s reactions, it is important to note that I recognize that the obstacles to such research in terms of increased litigation risk, absence of member support, funding, and access to the necessary data are huge. However, I also believe that the consequences of not being able to complete this type of serious empirical research, including a continuation of a high incidence of colossal accounting and auditing failures around the world, and related massive collateral damage to society, are even bigger.

It is also important to note that in the U.S., the root of the current economic crisis, Congressional hearings, committees, and other inquiry type vehicles continue today to be formed to “study” the issue. What has been lacking, and is today still missing, is rigorous, fact-based analysis of what went wrong. Not went wrong in individual instances like Enron, Bears Stern, Citigroup, Lehman Brothers and other high-profile failures, but what was lacking in the performance of accountants and auditors in literally tens of thousands of accounting and auditing failures, and what was missing in professional preparation, entrance qualifications, exams, ongoing professional development, ethics training and oversight, disciplinary frameworks, and other elements that should be changed. Righteous indignation, even on the part of high-ranking politicians and regulators and senior heads of accounting and auditing “professional” bodies, will not by itself reduce the expectation gap. Serious research is desperately needed but to date, no government, professional association, or regulator has wanted to tackle it. It’s time somebody did.

It’s worth noting that in 2006 Audit Analytics (<http://www.auditanalytics.com>) reported a restatement rate in the financial disclosures of large U.S. listed companies, including large UK and Canadian companies listed in the U.S. of more than one in eight. These are companies that had gone through three or more full rounds of Sarbanes Oxley 404 financial control reporting and all had clean audit opinions on their initial financial

statement filings. To date, no organization, including the SEC, PCAOB, AICPA, the IIA or others, with the sole exception being the Institute of Management, has called for and launched a study of the root causes behind these failures. (Note: to see the IMA discussion paper on the issue go to https://www.imanet.org/restatement_paper.asp?restate=2 . Registration is required). In other countries including the U.K., Canada, Europe and elsewhere, there aren't even reliable statistics available on the frequency that accountants prepare and issue, and external auditors certify materially unreliable financial accounting disclosures. We simply don't know enough about how often and why accountants on the inside, and auditors on the outside, continue to produce and certify materially unreliable financial disclosures at a shockingly high rate.

I believe the absence of fact-based information on the root causes of materially unreliable financial disclosures to be a problem of such significance that, in the absence of the profession taking serious steps to address this information shortfall, we should quit claiming to be a true profession and be content with being “professional accountants and auditors”. At least that way the public knows we are mainly in the game for the money and that their interests will often be subordinated to the personal interests of the accountants and auditors involved.

What do you think? If you have a view on this subject, I encourage you to write the senior leadership of the accounting and/or auditing association/institutes you belong to and voice your opinion.

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