A STUDY OF THE IMPORTANCE OF INDEPENDENCE TO THE CERTIFIED PUBLIC ACCOUNTANT

Thesis for the Degree of M. A.

MICHIGAN STATE UNIVERSITY

Irwin Ronald Ettinger

1959

~~JAN 8 1974~~ 004

~~JAN 21 '74~~ /36

~~JUL 21 1974~~ 880 pd4

~~AUG 10 1974~~ 37

~~AUG 23 1974~~ R09

~~SEP 26 1974~~ 88

~~DEC 13 '74~~ 872

~~NOV 10 '74~~ 317

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AN ABSTRACT

Submitted to the College of Business and Public Service
Michigan State University of Agriculture and
Applied Science in partial fulfillment of
the requirements for the degree of

MASTER OF ARTS

Department of Accounting and Financial Administration

1959

Approved: James Don Edwards

The certified public accountant occupies a unique position in the economy of the United States. He expresses his opinion as to the fairness of management's representations in the financial statements. Many groups such as creditors, bankers, investors, and governmental agencies rely on the certified public accountant's opinion to insure the credibility of the financial statements upon which a great many important decisions are based. Thus, the smooth functioning of our credit and investment economy is facilitated by the certified public accountant.

The prime reason for the certified public accountant's ability to command such confidence is his independent position. The American Institute of Certified Public Accountants and many prominent certified public accountants maintain that independence is more important to the certified public accountant than technical ability, although both attributes are essential. The opinions of the Institute and some prominent practitioners are referred to, in order to establish the significance of independence. Although the certified public accountant is retained by his client, he maintains an unbiased attitude. He does not subordinate his opinion to that of his client and he has no substantial financial or personal interest in his client. The certified public accountant recognizes his duty to the public and, therefore, maintains his independent position.

However, to achieve and maintain optimum effectiveness, the certified public accountant must communicate his independence to the entire business world and the public in general. Furthermore, he must fully recognize the importance of independence to his clients, his profession, and the public.

The purpose of this thesis was to determine how aware the business world is of the importance of independence. Therefore, three hundred questionnaires were sent to banks, industrial corporations, and certified public accounting firms throughout the United States, to obtain their opinions on the importance of independence and related matters. The results indicate that the proper recognition is not given to the importance of independence. Although the majority of the respondents considered independence to be the most important quality or one of the two most important qualities of the certified public accountant, many respondents considered technical ability to be the most important quality or one of the two most important qualities of the certified public accountant.

Certain conclusions are indicated from the results of the survey: (1) the importance of independence to the certified public accountant must be stressed in the colleges, universities, and business schools; (2) a program of education should be undertaken both within and without the profession; (3) more objective standards pertaining to independence should be adopted.

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ACKNOWLEDGMENT

The author wishes to express his sincere appreciation to Dr. Robert Kvam for his encouragement and invaluable suggestions throughout the writing of this thesis. Without his constant support it is doubtful if this thesis would have been possible.

Thanks are also due to Dr. Roland Salmonson whose continuous support and criticism provided the writer with much needed guidance.

To Professor J. Ruswinckel go the author's deepest apprceiation for his participation on the examining committee.

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CHAPTER I

THE PURPOSE, DEFINITIONS, AND REASONS FOR STUDY

The independence of a Certified Public Accountant[1] is generally considered to be a state of mind, an inherent quality, unamenable to objective measurement. However, this independence must be communicated to clients, banks, governmental regulatory agencies, investors, and the public in general if the accounting profession is to receive and maintain the utmost faith of these groups. The question of how well the CPA is communicating the tremendous importance and significance of his independence is open to speculation.

I. PURPOSE

The purpose of this thesis is to determine how aware clients, bankers, and CPAs are of the importance and usefulness of independence to the CPA. As corollaries to this purpose there are two others: (1) to determine the advisability of creating more objective standards to help the CPA maintain the proper professional attitude, and to

[1] Hereafter referred to as the CPA.

act as evaluative criteria for the public to determine how well the CPA has lived up to his obligation; (2) to determine whether the CPA with the large practice, medium practice, or small practice most often lives up to the concept of independence.

II. SCOPE

To find the answers to these questions a survey of 300 CPAs, banks, and industrial corporations was conducted. The survey is too limited to draw any definite conclusions, but certain indications were uncovered. The survey is summarized in Chapter III.

Accounting literature dealing with independence was also reviewed. The opinions presented in the literature as to the importance of independence and objective standards are examined in this chapter. Other events and opinions presented in the literature were referred to in compiling Chapter II which deals with the history of independence.

III. DEFINITIONS

Independence. What is this quality we so glibly call independence? The *Rules of Professional Conduct*[2] of the American Institute of Certified Public Accountants[3] do not

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[2]American Institute of Certified Public Accountants, *By-Laws--Rules of Professional Conduct* (New York: American Institute of Certified Public Accountants, 1958), pp. 14-15.

[3]On June 3, 1957, the name of the American Institute

define or even mention independence. The Institute's *Codification of Statements on Auditing Procedure* refers to the independent CPA thus:

> To be independent he must be intellectually honest; to be recognized as independent he must be free from any obligation to, or interest in management, owners, creditors, . . . or others entitled to rely on his report. . . which might influence his judgment as to the fairness of the financial statements.[4]

In *Generally Accepted Auditing Standards, Their Significance and Scope* the Institute says:

> Independence in the last analysis bespeaks an honest disinterestedness on the part of the auditor in the formulation and expression of his opinion, which means unbiased judgment and objective consideration of facts as the determinants of that opinion.[5]

This same publication states, "In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors."[6]

Webster defines independence as "freedom from assistance by others or rule by others."[7] Independent is

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of Accountants, the national society of CPAs, was changed to the American Institute of Certified Public Accountants. Therefore, when the national society of CPAs is referred to the designations AICPA or the Institute will be used.

[4] *Codification of Statements on Auditing Procedure* (New York: American Institute of Accountants, 1951), p. 8.

[5] *Generally Accepted Auditing Standards, Their Significance and Scope* (New York: American Institute of Accountants, 1954), p. 21.

[6] *Ibid*., p. 13.

[7] Louis G. Adams (editor), *Webster's New American Dictionary* (New York: Books Inc., 1956), p. 483.

defined as, "Free, uncontrolled by another."[8]

These definitions stress mental attitude, unbiased judgment, and freedom from any obligation to or interest in the client which might influence the CPA's judgment. Therefore, the definition attached to independence in this thesis is: Independence is basically a state of mind whereby the CPA is able to withstand subordinating his opinion to that of his client or a third party. It involves unbiased judgment and objectivity, and complete honesty in reporting regardless of the effects of the report. Furthermore, independence entails freedom from a financial or personal interest in the client.

Ethics. The New Standard Pocket Dictionary defines ethics as "a standard of right conduct."[9] Mr. Lincoln G. Kelly defines ethics as a "system of moral principles to govern the relations of members with each other, with clients, and with the public."[10] Mr. Kelly further states, "The promulgation and enforcement of ethics set apart a professional group in our society as distinct from a commercial enterprise or business."[11]

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[8] Ibid.

[9] Charles E. Funk (editor), New Standard Pocket Dictionary (Chicago: Wilcox and Follett Co., 1946), p. 342.

[10] Lincoln G. Kelly, "The Value to the Individual Professional Man of Strict Adherence to His Code of Ethics," Journal of Accountancy, Vol. 96 (November, 1953), p. 57.

[11] Ibid.

The definition adopted for this thesis is: Rules of right conduct to govern the actions and relationships of CPAs with each other, with clients, and with the public.

Standards. Standards are defined as a "type, model, or example for comparison; criterion; pattern," by the New Standard Pocket Dictionary.[12] This is the definition adopted for this thesis when reference is made to objective standards.

Auditing. The definition of auditing employed by Mr. Arthur W. Holmes will be utilized in this thesis:

> Auditing involves a critical analysis and examination of the transactions and records of a concern, the interpretation of the results, and normally an expression of opinion concerning the records and financial statements of the client. This work is done by a person or persons independent of management, and is intended to determine the reliability of management's representations.[13]

IV. REASONS FOR STUDY

Independence-distinguishing characteristic of a CPA. The CPA certificate is the obvious distinguishing characteristic between the CPA and the non-certified public accountant. However, underlying this certificate is the basic quality of

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[12]Funk, op. cit., p. 870.

[13]Arthur W. Holmes, Auditing Principles and Procedures (Homewood, Illinois: Richard D. Irwin, Inc., 1952), p. 1.

the CPA, his independence. Once a CPA obtains his certificate he is morally and professionally obligated to maintain the high degree of independence required by the profession. While the certificate is indicative of an advanced degree of proficiency, its principal value lies in denoting the obligation of the CPA to maintain the highest degree of independence. A non-certified public accountant, no matter how proficient, is not required to measure up to the same level of independence as the CPA (although many non-certified public accountants probably do maintain the highest degree of independence). In order for a person to sit for the CPA examination his character and background must be impeccable. Before he can receive his CPA certificate a thorough investigation is made of his integrity and background in an attempt to insure the fact that this prospective CPA will live up to the code of ethics.

Opinions as to significance of independence. In 1947 the Institute issued an official pronouncement on independence that stated, "Independence, both historically and philosophically, is the foundation of the public accounting profession, and upon its maintenance depends the profession's strength and its stature."[14] Thus, the AICPA officially recognized independence as the keystone of the CPA profession.

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[14] Executive Committee of the American Institute of Accountants, "Independence of the Certified Public Accountant," Journal of Accountancy, Vol. 84 (January, 1947), p.53.

Carmen Blough, currently Director of Research of the AICPA, speaking before the Virginia Society of Public Accountants said, "Technical ability is essential for success in the field of public accountancy, but it is the quality of a CPA's integrity and his independence more than his ability that determines the extent of his usefulness to society."[15] Mr. Blough places integrity and independence above technical ability as essential for success in public accounting. Because of the unique functions the CPA performs for society (discussed in the next section), his technical ability is secondary in importance to independence. Technical ability alone would not permit the CPA to occupy his special position in the business world.

Mr. John L. Carey takes a similar position, although he does not mention technical ability when he says, "In the last analysis, therefore, it is independence which is the CPA's economic excuse for existence."[16] The justification for any profession, business, or service is the economic function it performs. According to Mr. Carey the CPA profession's existence could not be justified if its members were not independent. This is certainly a strong opinion of the significance of independence for the CPA.

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[15] Quoted in "Editorial," Journal of Accountancy, Vol. 82 (December, 1946), p. 453.

[16] John L. Carey, Professional Ethics of Certified Public Accountants (New York: American Institute of Accountants, 1956), p. 6.

An editorial in the Journal of Accountancy specifically compares the importance of independence and competence, stating, "The value of audits depends on the competence and independence of the auditors. Of these two indispensable qualities, independence is the more important."[17] The conclusion of the editor is that independence is the most important quality of a CPA.

Montgomery's Auditing takes the position that the best recommendation for the employment of a CPA is his independence. The text states:

> Public accountants know that a reputation for independence is their principal asset, and they are impelled by enlightened self interest, and supported by certain rules of professional conduct, to maintain independence at all costs.[18]

Here again independence is considered before technical ability. Mr. Louis H. Rappaport takes the same position stating, "Public accountants know that their reputation for independence is their principal stock in trade."[19]

Independence is not considered to be the most important attribute of a CPA by only those within the profession. For

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[17]"Editorial," Journal of Accountancy, Vol. 82 (December, 1946), p. 453.

[18]Norman J. Lenhart and Philip L. Defliese, Montgomery's Auditing (eighth edition; New York: The Ronald Press, 1957), p. 24.

[19]Louis H. Rappaport, SEC Accounting Practice and Procedure (New York: The Ronald Press, 1956), p. 434.

instance, Mr. Earl C. King, past Chief Accountant of the Securities Exchange Commission,[20] said, while speaking before the Georgia Society of Certified Public Accountants, ". . ., we regard the complete objectivity implied by the term independence as the major, if not sole, justification for the certification requirement in SEC filings."[21] Once more the emphasis is upon independence. The SEC accepts certified reports[22] because they feel the public can rely on the opinion of the CPA due to his unbiased, independent position.

Accounting literature is replete with statements similar to those quoted in this section, all acknowledging independence as the one quality that supports all other qualities of the CPA. Without this strong support the CPA profession could not and should not be.

Need for independence. Independence is so very significant for the CPA because of the unique position his profession occupies and the function he serves. This function, of necessity presupposes complete independence on the

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[20]Hereafter referred to as the SEC.

[21]Earl C. King, "What the Securities and Exchange Commission Desires in Financial Statements" (address before the Second Annual Institute, The Georgia Society of Certified Public Accountants and the University of Georgia, College of Business Administration, Athens Georgia, November 9, 1948).

[22]The CPA does not certify any segment of a financial report. However, through usage the term "certified" report has come to mean a financial report upon which a CPA has expressed his opinion as to the fairness of the information contained therein. The term, certified, will be used throughout this thesis in accordance with common usage.

part of the CPA. He must serve both his client and the general public. He is relied upon to furnish information which is useful to his clients and at the same time dependable from the viewpoint of the interested public.

As Mr. Holmes says:

> Auditing has become so much a matter of public interest that groups other than owners must be satisfied with the accuracy, clarity, and unequivocality of financial statements. These other-than-owner groups . . . , rely upon opinions rendered by competent persons of independence and high moral integrity.[23]

A glance at some of the purposes served by certified financial statements will indicate the interest the public has in these statements:

1. As a report of stewardship.
2. As a basis for fiscal policy.
3. To determine the legality of dividends.
4. As a guide to wise dividend action.
5. As a basis for the granting of credit.
6. As information for prospective investors in an enterprise.
7. As a guide to the value of investments already made.
8. As an aid to government supervision.
9. As a basis for price or rate regulation.
10. As a basis for taxation.[24]

Many of the listed purposes are of interest to both the CPA's clients and others. These other persons must be satisfied as to the CPA's independence if they are to rely on the certified reports.

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[23]Holmes, op. cit., p. 28.

[24]George O. May, Financial Accounting (New York: The MacMillan Company, 1943), pp. 19-21.

The Institute, in its official release pertaining to independence, stresses the maintenance of confidence between the CPA's clients and the public as the reason for the need of independence on the part of the CPA.

> A most important function which the CPA performs in our economic life today is the part he plays in the maintenance of mutual confidence which is necessary in business relations and transactions. . . . With the growth of business enterprises, the public accountant makes a vital contribution in meeting the need for independent, impartial, and expert opinions on the financial position and results of operations. This is his unique contribution, a service which no one else offers or is qualified to perform.[25]

The CPA is able to occupy this unique position because of his independent position which must be communicated to the entire interested public if the CPA profession as a whole is to perform at optimum efficiency.

The CPA is obligated to the public professionally and for the profession's existence. Certified statements are utilized to satisfy creditors, banks, investors, government agencies, and all other interested parties as to the reliability of the clients' representations. If there were no need to report to these groups, the value of the CPA would be greatly diminished. He is professionally obligated to the public because of the reliance and faith placed in his unbiased opinion. The _CPA Handbook_ states:

> Independence is an essential auditing standard because the opinion of the independent accountant

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[25]"Independence of the Certified Public Accountant," _op. cit._, p. 52.

> is furnished for the purpose of adding justified credibility to financial statements which are primarily the representations of management. If the accountant were not independent of the management of his client, his opinion would add nothing. Those who rely on the credibility he furnishes are apt to be creditors or investors. . . . It is for their assurance that the independent expert opinions are provided, and the accountant incurs a profoundly professional obligation to this unseen audience. . . .[26]

Thus, independence is important to the CPA because of the unique position he occupies in the economy. He adds credibility to financial reports and facilitates our economic system of credit and investment. The CPA's position will increase in importance as business continues to grow. As a professional man, occupying a position of extreme trust, the CPA owes to all those who rely on his certification, unfaltering independence.

Need for objective standards. More than maintaining an independent attitude and position, the CPA must communicate this fact to all those who may have use for certified reports. One excellent method of spreading this knowledge, while at the same time preventing the presumption of a loss of independence and furnishing guideposts for the CPA to follow, is to employ objective standards. These objective standards should enumerate the situations which are presumptive of a lack of independence.

The AICPA has stated:

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[26]Edward Wilcox, "Professional Standards," CPA Handbook, Robert L. Kane, editor (New York: American Institute of Accountants, 1952), Chp. 13, p. 8.

> As a code of ethics the profession has gradually compiled through the AIA's Rules of Professional Conduct and the similar pronouncements of its state bodies, precepts and conditions to guard against the presumption of a loss of independence.[27]

The Institute stresses presumption because it feels that independence is a state of mind, and as such cannot be measured objectively. However, the Institute feels that rules of conduct are necessary to prevent the appearance of a lack of independence.

John L. Carey, on the other hand, feels that ethical codes are useful as guideposts for the CPA as well as to foster confidence among the public. He states:

> The ethical code also serves the purpose of providing members of the profession with guides to the types of behavior which the historical experience of the group as a whole has indicated is most likely to attract the confidence of the public.[28]

Carey further lists three primary uses for a professional code of ethics:

> 1. They show the practitioner how to maintain a professional attitude which experience indicates will help him to succeed.
> 2. They give clients and potential clients a basis for confidence that CPAs sincerely desire to serve them well and place service ahead of reward.
> 3. They give third parties who may rely on financial statements a basis for confidence that the CPA has done his work in conformity with objective standards, and is independent in expressing his opinion.[29]

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[27] _Generally Accepted Auditing Standards, Their Significance and Scope_, _op. cit._, p. 21.

[28] Carey, _op. cit._, p. 4. [29] _Ibid._, p. 6.

Rules of ethics and objective standards are instrumental in developing the proper attitude in CPAs and building confidence among the public.

Mr. Edward Wilcox while agreeing with Mr. Carey that rules of conduct serve a dual function, feels that the basic function of such rules is to guard against the appearance of a loss of independence. Wilcox says:

> Without going into the specific paragraphs in the Rules of Professional Conduct of the American Institute of Accountants which deal with the concept of independence, the point emerges that the rules are designed first to guard against an appearance or presumption by others that there has been a loss of independence by the accountant, and only secondarily to require conduct conducive to independence or at least not conducive to its absence.[30]

Mr. William W. Werntz feels that one of the requirements necessary for the public to recognize a human activity as a profession is a group of objective standards to which the performers of such activity are expected to adhere.[31]

An editorial in the Journal of Accountancy has this to say: "Nevertheless, because even the appearance of prejudice should be avoided, objective standards are often useful."[32]

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[30] Wilcox, op. cit., Chp. 13, pp. 8-9.

[31] William W. Werntz, "What the Professional Responsibility of the CPA Means to the Public," Journal of Accountancy, Vol. 86 (October, 1948), pp. 304-305.

[32] "Editorial," Journal of Accountancy, Vol. 97 (June, 1954), p. 673.

While all these opinions justify the present Rules of Professional Conduct, there are also indications that the present rules need revision, expansion, and publicity. An article by Maurice Stans quoted a survey which reported that forty-five per cent of the public believes that reported profits of corporations are deliberately understated.[33] Mr. Thomas Higgins, a member of the Institute's Committee on Professional Ethics has this recommendation:

> Tackle a complete restatement of the rules as soon as the proposed changes now before the committee are resolved. The rules have developed by evolutionary process over a period of some forty years. The time has come when they should be grouped in some logical order. . . . The suggested revision should present a good opportunity to publicize them and to emphasize their importance. . . .[34]

The survey presented in Chapter III presents further evidence of the possible need for additions to and revision of the Rules of Professional Conduct, as well as the need for objective standards and publicity.

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[33]Maurice Stans, "How New Standards of Financial Reporting Grow from Social Responsibility of Accountants," Journal of Accountancy, Vol. 86 (August, 1948), p. 101, quoting "The Public Acceptance of the Facts and Figures of Business Accounting."

[34]Thomas G. Higgins, "Professional Ethics and Public Opinion," Journal of Accountancy, Vol. 106 (November, 1958), p. 39.

CHAPTER II

HISTORY OF INDEPENDENCE

There were many important documents, from the British Companies Clauses Act-1845 to the first rules of conduct of the AICPA, and events, from the 1907 meeting of the American Association of Public Accountants[1] to the formation of the SEC, that played prominent parts in the evolution of independence in the CPA profession. A brief review of these documents and events is presented here as a background for the results of the survey presented in Chapter III.

I. BRITISH COMPANIES ACTS

Companies Clauses Act-1845. The members of the CPA profession owe a great debt to their English brethren. English accountants, such as Edwin Guthrie and James T. Anyon, played important parts in the establishment of the accounting profession in the United States,[2] which is structured after the British profession. It is no wonder,

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[1]Hereafter referred to as the AAPA.

[2]American Institute of Accountants, "A History of the American Institute of Accountants," Fiftieth Anniversary Celebration 1937 (New York: American Institute of Accountants, 1938), p. 3.

therefore, that the first official reference to the independent auditor is to be found in the British Companies Clauses Act of 1845.[3] The act does not specifically mention the independent auditor, but it does state:

> While no other qualification shall be prescribed by the special act, every auditor shall have at least one share in the undertaking; and he shall not hold any office in the company, nor be in any other manner interested in its concerns, except as a shareholder.[4]

The term auditor referred to in this act did not have the same connotation as the term auditor is commonly understood to have today. It designated a shareholder appointed by the directors to examine the books of account on behalf of all the shareholders. However, the importance of a degree of independence to such an auditor was recognized, since he could not be an officer or director, nor have any other interest in the corporation. Thus, it was felt that as shareholders, the auditors would have the interest of all shareholders foremost in mind. This section of the act was an attempt to assure all the shareholders that their interests would not be subordinated to any selfish interests of the directors or officers.

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[3] Company Clauses Act-Sec. 102, as reprinted in *The Accountants Diary for 1915*, The Accountant Office (London: Gee and Co., Ltd., 1915), p. 200.

[4] *Ibid.*

Companies Act-1908. At about the same time that independence was becoming an important issue in the United States, the British Companies Act of 1908 became law. As far as public accountants were concerned, the significant portions of this act were parts 1 and 3 of section 112 which read:

> (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.
> (3) A director or officer of the company shall not be capable of being appointed auditor of the company.[5]

Unlike the act of 1845, the act of 1908 no longer required the auditor to be a stockholder of the corporation. He could be an independent public accountant, similar to the CPA of today. He still could not be an officer or director of the corporation under examination.

II. AAPA AND AICPA REGULATIONS

AAPA By-Laws-1897. In the United States the first official rule governing independence can be found in the 1897 by-laws of the AAPA, organized in 1887. Rule 2 stated:

> No member shall directly or indirectly pay to any attorney, broker, or agent, any portion of his professional charges, nor receive, nor accept any portion of the fees of any attorney, broker, or agent, who may be concerned in any professional work in which such member is engaged.[6]

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[5] Ibid., p. 204.

[6] American Association of Public Accountants, American Association of Public Accountants-Constitution and Bylaws, with Amendments, January 19, 1897 (New York: Press of Brooklyn, 1897), p. 8.

AAPA By-Laws-1907. No further rules relating to independence were introduced into the Bylaws until 1907, when an article was devoted specifically to the rules of professional ethics. This was article VII, the first code of ethics of the accounting profession in the United States.[7] Two rules of this article dealt with independence:

> 2. No member shall directly or indirectly allow or agree to allow a commission, brokerage, or other participation by the laity in the fees or profits of his (the member's) professional work.
> 3. No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the board of trustees is incompatible or inconsistent therewith.[8]

If a CPA were to become involved in fee splitting with a member of the laity, the non-CPA could demand a voice in the affairs of the CPA, thus affecting the CPA's freedom of decision and unbiased attitude. Just as the CPA must be free from financial dealings with his clients, he must be free of such dealings with third parties where his professional work is involved. Rule three has a number of purposes. One is to prevent the auditor from becoming involved in any financial activity that might possibly impair his independence. For example, a CPA who is also involved in the financing business might be tempted to

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[7]American Association of Public Accountants, American Association of Public Accountants-Constitution and Bylaws, 1907 (New York: A. H. Kellogg Company, 1908), p. 238.

[8]Ibid.

prepare a report contrary to fact, for a client to whom he has lent money. The CPA's opinion, which should be unbiased, may be affected in such a situation. Rules two and three were the only rules pertaining to independence in 1907, and remained unchanged until 1917.

AIA Rules of Professional Conduct-1917. In 1916 the AAPA was dissolved and the AIA organized, with all the AAPA members listed as charter members of the AIA. The name of the new society was not officially adopted until 1917.

At the regular semi-annual meeting of the council of the AICPA held on Monday, April 9, 1917, in the office of the Institute, 20 Vesey Street, New York City, a report of the committee on professional ethics was read.[9] This report lead to the adoption of the rules of professional conduct, as a body of rules separate and distinct from the constitution and bylaws of the Institute. From 1897 through 1915, the rules of professional conduct were incorporated in the bylaws. In 1916, the rules were completely omitted from the bylaws. The code adopted in 1917 was an expansion of the rules found in the 1915 bylaws. The members of the 1917 committee on professional ethics were: Chairman, Carl H. Nau; J. D. M. Crockett; J. Porter Joplin;

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[9] "AIA Council Meeting," Journal of Accountancy, Vol. 23 (May, 1917), p. 374.

Herbert G. Stockwell; and Ralph D. Webb.[10] The 1917 rules of professional conduct included the following rules on independence:

> 2. The preparation and certification of exhibits, statements, schedules, or other forms of accounting work, containing an essential mis-statement of fact, or omission therefrom, of such a fact as would amount to an essential mis-statement, shall be ipso facto, cause for expulsion or for such other discipline as the council may impose, upon proper presentation of proof that such mis-statement was either wilful or was the result of such gross negligence as to be inexcusable.
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> . . . .
>
> 4. No member shall directly or indirectly allow or agree to allow a commission, brokerage, or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage, or other participation for professional or commercial business turned over to others as an incident of his services to clients.
> 5. No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the board of trustees is incompatible or inconsistent therewith.
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> . . . .
>
> 11. No member shall render professional service, the anticipated fee for which shall be contingent upon the results or findings thereof.[11]

The new rules were two and eleven. Rule two was probably the most significant of the four rules. It put all CPAs and the public in general, on notice that the Institute

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[10]American Institute of Accountants, American Institute of Accountants Yearbook-1916 (New York: The Ronald Press Company, 1917), p. 56.

[11]Rules of Professional Conduct, as reproduced in the American Institute of Accountants Yearbook-1919 (New York: W. H. Hewitt Press, 1919), p. 139.

would stand for no unscrupulous members, no shirkers, or no members who were unwilling to disclose all that was necessary to make the financial report valuable. Rule two meant that a CPA was duty bound to disclose all the essential facts, regardless of the consequences, and in the face of the possible loss of a client.

Rule eleven was adopted to prevent the promise of financial reward from acting as a pitfall in the road that leads the CPA to the fulfillment of his obligations to his profession, the public, and his clients. The rule also prevented situations which might give the appearance of a lack of independence. If the CPA's fee is dependent upon his findings and the outcome of his work, he may possibly prepare a report which brings him the greatest financial reward, even if such a report is not justified.

In 1919 an amendment was added to rule eleven, stating that the rule only applied to situations where the accountant's expert opinion might be influenced by considerations of personal gain.[12] In 1936 this amendment was changed to exclude from the contingent fee rule those fees which were contingent upon the findings of the tax or similar authorities.[13] The belief was that in situations where the

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[12] *Ibid.*

[13] *Rules of Professional Conduct*, as reproduced in *American Institute of Accountants Yearbook-1936* (New York: American Institute of Accountants, 1937), p. 504.

contingent fee did not depend upon the CPA's results, there were no temptations created by such fees, since the CPA could not influence them.

1934 Resolution. The rules of professional conduct remained unchanged from 1920 to 1934, when the following resolution was adopted:

> Resolved that no member or association shall certify the financial statements of any enterprise financed in whole or part by the public distribution of securities, if he is himself the actual or beneficial owner of a substantial financial interest in the enterprise, or if he is committed to acquire such an interest.[14]

This rule, like the contingent fee rule, was enacted to prevent the CPA from encountering a situation where he could foster his own financial interests to the possible detriment of the public, his profession, and his clients. Rules such as these are necessary even if only a mere handful of CPAs place monetary reward above all else. These rules also prevent the appearance of a lack of independence.

In 1940, the committee on professional conduct recommended a general revision of the rules of professional conduct. The revised rules were officially adopted on January 6, 1941. The rules pertaining to independence were substantially the same as today's rules, which are presented in Appendix A.

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[14] Rules of Professional Conduct, as reproduced in American Institute of Accountants Yearbook-1935 (New York: American Institute of Accountants, 1936), p. 354.

III. EARLY LITERATURE AND PROMINENT FIGURES

"Editorial," Journal of Accountancy, 1905. While the rule dealing with contingent fees was not adopted until 1917, and the rule dealing with stock ownership was not adopted until 1934, the Journal of Accountancy of 1905 contained an editorial dealing with these subjects. It states:

> The attorney whose duty it is to protect and advance the interests of his clients by every lawful method may undertake work for a contingent fee; whereas the accountant whose reputation does not depend upon winning a case, but upon the truthfulness of his reports, must not allow his professional integrity to be impugned by becoming a participant in the profit of any cause or undertaking whose accounts are brought under his investigation.[15]

St. Paul AAPA Convention-1907. The bylaws and rules of professional conduct discussed in previous sections were the results of the efforts of many public accountants. Perhaps the two men who were most influential in bring about an awareness of the importance of a code of ethics, were Joseph E. Sterrett, who campaigned in the east, and John A. Cooper, who campaigned in the Midwest for such a code.[16]

At the annual meeting of the Association held in St. Paul, Minnesota, in 1907, these two men, together with

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[15] "Codification of Accounting Ethics," Journal of Accountancy, Vol. 1 (December, 1905), pp. 139-141.

[16] Ernest Reckitt, "Professional Ethics," Journal of Accountancy, Vol. 17 (August, 1926), pp. 188-196.

Robert H. Montgomery and Franklin Allen, were the leading speakers at a special session devoted to the study of ethics.[17] Mr. Sterrett was the first speaker and his speech has come to be regarded as a classic in the field of ethics of accountants. Therefore, various segments of this speech will be quoted.

Mr. Sterrett touched upon a point that is often overlooked. An independent attitude is a duty of the CPA to his clients. One of the CPA's most important services is the expression of an opinion as to the credibility of his clients' financial statements. If the CPA is not recognized as being independent by stockholders, creditors and prospective creditors, government agencies, and the public in general, his opinion is worthless.

It is also the duty of a CPA to speak up when his client embarks on some tainted activity. As Mr. Sterrett states:

> The third duty toward the client, which I would suggest, is courage. If our client is in the wrong, it is certainly our duty to disclose to him his false position. He may be determined upon a course of action which we do not approve, and from which it often times becomes our duty to dissuade him. In an active practice, matters are constantly arising which involve differences of views, that are sometimes of a very serious nature, and under these circumstances it is likely to become our duty, and it may be a very unpleasant duty, to endeavor to guide our client into lines consistent with sound principles of right.[18]

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[17]*Ibid*.

[18]Joseph E. Sterrett, "Professional Ethics," *The Accountant*, Vol. 5 (November 16, 1907), p. 620.

(Although a CPA does perform management services he <u>must</u> <u>not</u> participate in the final decisions of management.)

The CPA who has the internal strength to speak up when he believes his client to be wrong does both his client and himself a great service. Neither of them can long benefit from an association with a tainted activity, be it deliberate and unprincipled, or merely an honest mistake.

As early as 1907, Mr. Sterrett realized that an independent attitude is a duty of the CPA to the public, as well as to his clients. The creditors, government, and investing public rely on his statements and make his existence necessary. As Mr. Sterrett so aptly states:

> In many instances the accountant's real client is the public. For example, an accountant is appointed auditor of a company, the appointment being made solely by the board of directors, who are the owners of a majority of the stock. It is only human nature that the accountant should desire to retain the goodwill of these directors, but he has a duty towards the minority stockholders not represented on the board; and this requires that he shall guard their interests as zealously as he does those of the majority.[19]

In order to guard the affairs of all interested parties, the CPA must be absolutely impartial. The CPA who has a financial interest in his clients' affairs, may be sorely tempted to act in a partial manner. Mr. Sterrett recognized this, and his following comment on contingent fees must certainly have influenced the committee that formulated the rules of professional conduct in 1917. He said, when

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[19] <u>Ibid</u>., p. 621.

referring to the various functions of a CPA:

> In order that he may assume this impartial attitude, it is perhaps unnecessary to observe that he should not in any way be an interested party. If his fee is contingent upon the successful flotation of an issue of securities, or upon the completion of a proposed consolidation, it will not be strange if he is desirous to see the transaction consumated. In cases of this character, the magnitude of the amount involved renders it imperative that the accountant should allow nothing to befog his vision, and it is in just such matters that the temptation to yield to the lure of contingent gain is especially strong.[20]

The meeting in St. Paul took place almost fifty-two years ago. Yet, the speech by Joseph E. Sterrett could be made today, and appear appropriate. Its content would follow present day thinking very closely. It is no wonder that this speech is considered a classic.

Neither Mr. Allen nor Mr. Montgomery referred to independence in their speeches. Mr. Cooper, however, formulated certain principles of ethics, among which were the following:

1. To perform accounting work, payment for which is by arrangement upon the contingency of the result of litigation or other form of adjustment is unprofessional.
2. The acceptance of any part of the fees of a lawyer or any commercial brokerage, bonus, or commission as an incident arising out of a practitioners service is wrong.
3. The practitioner should whenever possible avoid acting as a trustee of special funds or pools as an incident of his calling.
4. A practitioner should avoid serving as a director in corporations in which he is professionally employed.[21]

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[20]*Ibid.*, p. 621.

[21]John A. Cooper, "Professional Ethics," *Journal of Accountancy*, Vol. 5 (December, 1907), p. 84.

The material presented at the 1907 meeting on professional ethics provided the foundation for the later rules of professional conduct.

1907-1917. From 1907 until 1917 there were no outstanding developments in the field of accountants' ethics. However, there were many individuals who took an active interest in this problem. Among these people were J. Porter Joplin and William Whitfield. Both these men explored the necessity for independence. Joplin, who was president of the AAPA from 1914 through 1916, wrote:

> Aside from the responsibility of the accountant to his client, there is his relation to the general public to be considered, and it should be remembered here that his duty to the public is perhaps even greater, if possible, then to the client, when certifying to the accounts of a company under examination.[22]

Whitfield, writing on another need, said:

> The main underlying principle of ethics is the engendering of a feeling of confidence in the accountant--both as to his moral integrity and his ability--in every possible direction; this should be encouraged, as its dissemination can never be too great.[23]

As far back as 1914, these men recognized the essential need for independence and a code of ethics. Joplin realized

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[22] J. Porter Joplin, "The Ethics of Accountancy," Journal of Accountancy, Vol. 17 (March, 1914), p. 365.

[23] William Whitfield, "Ethics," Journal of Accountancy, Vol. 17 (May, 1914), p. 187.

that the CPA is professionally obligated to the public which relies on the certified statement. To meet this obligation the CPA has to be completely independent. Whitfield understood that a primary purpose of the professional code of ethics is to build and maintain confidence in the CPA profession, which is essential if the public is to rely on certified reports.

IV. THE SEC AND INDEPENDENCE

Early Government--CPA cooperation. During the early period of the accounting profession, the AAPA and later the AICPA actively cooperated with various government bodies, and this cooperation has continued to the present. Various Institute committees have been assigned to work closely with governmental agencies. The first of these committees was the 1907 committee on departmental methods of the government which the Secretary of the Treasury consulted on many topics including cost keeping in the government service, auditing disbursing officers' accounts, and Treasury bookkeeping.[24]

In 1917 the Federal Trade Commission requested the Institute to prepare a memorandum on balance sheet audits. This memorandum was published in the April, 1917, issue of the Federal Reserve Bulletin. In 1918, it was printed as

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[24] Andrew Stewart, "Accounting and Regulatory Bodies in the United States," Fiftieth Anniversary Celebration 1937 (New York: American Institute of Accountants, 1938), p. 135.

a pamphlet entitled "Approved Methods for the Preparation of Balance Sheet Statements."[25] Thus, began the tremendously fruitful cooperation between the Institute, the Federal Trade Commission, and later the SEC.

SEC--AICPA cooperation. In 1933, the Securities Act was passed, and in 1934 the Securities Exchange Act was passed and the SEC was organized. The two acts required all listed corporations and all registrants to submit statements certified by an independent public or certified public accountant. Rather than causing joy among CPAs, these laws caused a great deal of consternation. The profession was dismayed at the tremendous powers conferred upon the SEC. The fears of the profession were allayed, however, when the SEC asked the Institute to appoint a committee for cooperation with the commission. Since then the Institute and the SEC have worked together quite harmoniously.[26]

Rule 2-01 of Regulation S-X. Regulation S-X of the SEC was the first attempt, by any organized body in the United States, to set some criteria by which independence could be measured. Rule 2-01, subsections "b" and "c" read as follows:

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[25] Generally Accepted Auditing Standards, Their Significance and Scope, op. cit., p. 7.

[26] Stewart, op. cit., pp. 136-137.

b. The commission will not recognize any certified accountant or public accountant as independent who is not in fact independent. For example, an accountant will not be considered independent with respect to any person in whom he has any substantial interest, direct or indirect, or with whom he is, or was during the period of report, connected as a promoter, underwriter, voting trustee, director, or employee.

c. In determining whether an accountant is in fact independent with respect to a particular registrant, the Commission will give appropriate consideration to all relevant circumstances, including evidence bearing on all relationships between the accountant and that registrant, and will not confine itself to the relationships existing in connection with the filing of reports with the commission.[27]

It remained for a governmental body to attempt to officially define independence objectively. Would it not have been better for the profession itself to set objective criteria for independence? There might then have been no need for the government to give the SEC such sweeping powers.

In 1950, Rule 2-01, subsection "b" was amended to state that an accountant will not be regarded as independent if he has <u>any</u> financial interest in the registrant. The parallel Institute ruling states that a CPA shall have no <u>substantial</u> interest in a client. Only the State Society of Illinois has adopted the SEC ruling.[28] In 1959 the SEC modified their amendment somewhat by stating that a CPA may have an <u>indirect</u> interest if it is not substantial. <u>Any</u>

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[27]United States Securities Exchange Commission, <u>Regulation S-X, Form and Content of Financial Statements</u> (Washington, D. C.: U. S. Government Printing Office, 1954), p. 3.

[28]Carey, <u>op. cit</u>., p. 37.

direct interest is still prohibited.[29]

Subsection "b" also states that an auditor can not be an officer or director of a corporation upon whose financial statements he expresses an opinion. The Institute does not have a similar rule in its Rules of Professional Conduct, although the Institute's committee on professional ethics has expressed the opinion that an auditor should not be an officer or director of a client corporation.[30] The New York State Society of CPAs has adopted a rule that states if a member of a CPA firm serves as an officer or director of a firm, such fact must be disclosed in the CPA's report.[31]

Accounting Series Release #81. The SEC has followed the policy of publishing a series of opinions on accounting principles and standards, to supplement Regulation S-X, and to help foster the development of uniform accounting standards.

A number of these releases deal with independence. They are Nos. 2, 22, 28, 37, 44, 47, 48, 68, 79,[32] and 81.[33]

29"News Report," Journal of Accountancy, Vol. 107 (January, 1959), p. 8.

30Higgins, op. cit., p. 25.

31New York State Society of Certified Public Accountants--By-Laws, as amended 6/51, Article 18, Rule 7.

32Securities Exchange Commission, Accounting Series Releases #1-77 (Washington, D. C.: U. S. Government Printing Office, 1956).

33Securities Exchange Commission, Accounting Series Release #81 (Washington, D.C.: U. S. Government Printing Office, 1958).

Release #81 issued on December 11, 1958, summarizes a number of findings under Rule 2-01. These decisions present specific situations which have been deemed to be indicative of a lack of independence, or which have been deemed not to be indicative of a lack of independence.[34] Here is another instance where the Institute could have taken the initiative, and built up its own file of case situations to aid CPAs in staying on the right side of the tenuous line between independence and lack of independence. Some of the situations presented in Release #81 follow:

<u>Situations Where The CPA Was Not Independent</u>.

A. Financial Interest.
1. An accountant took an option for shares of his clients common stock in settlement of his fee. The option subsequently appreciated in value. The question of independence arose in connection with a proposed merger and application for listing on a national exchange.
2. Using their own funds, the wives of partners in an accounting firm purchased stock in a client of the firm immediately prior to registration.

B. Director, Officer, Employee.
1. A partner in an accounting firm acted as a controller and exercised some supervisory powers with respect to the proposed registrant's accounting procedures.

C. Other Relationships.
1. Two of the partners of the accounting firm certifying the financial statements of a registrant were also partners of a law firm engaged by the registrant to pass upon the legality of the securities which were being registered.

<u>Situations Where The CPA Was Considered Independent</u>.

A. Financial Interest.
1. Members of an accounting firm acquired shares of stock of a company controlled by one of their

[34] *Ibid*.

clients, an individual. The accounting firm had never done work for the company. Upon being engaged to certify financial statements of the company in connection with a proposed registration, they immediately sold their holdings.

B. Director, Officer, Employee.

1. A partner of an accounting firm was a director and member of the executive committee of a company for six years. In the year following his resignation the firm was engaged to certify the company's financial statement, but the audit did not cover any of the time during which the accountant served as a director.

C. Other Relationships.

1. Due to the unexpected resignation of registrant's comptroller at the end of the year, the accountant was called upon to provide assistance in closing the books for the year. The work performed did not involve making decisions on a managerial level.[35]

Like a tree on a great open expanse, a specific situation can act as a frame of reference in the field of independence.

V. SUMMARY

In the field of accounting, as in many other fields, the United States owes a great debt to England. In its early stages the accounting profession made its greatest strides in Great Britain. The first reference to independence can be found in the British Companies Acts. It was the English accountants who helped create the AAPA. As early as 1897 this organization included certain rules in its bylaws which pertained to ethics and independence.

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[35] *Ibid.*, pp. 4-9.

It was not until 1917, however, after the AAPA had become the AIA, that the first Rules of Professional Conduct were issued as a separate body of rules. From then until 1941, changes and additions were made in these rules. The rules relating to independence adopted in 1941 were substantially the same as the rules relating to independence today.

There were many men who played important parts in the development of the ethics of the accounting profession. Perhaps, the most influential of these men were Joseph E. Sterrett and John A. Cooper. The speech delivered by Mr. Sterrett at the annual meeting of the AAPA, held in St. Paul, in 1907, has come to be regarded as a classic.

Another very influential force in the field of professional ethics is the SEC, which was organized in 1934. This commission took the initiative in a number of areas where the Institute should have been the spearhead, rather than the consultant. Regulation S-X and the Accounting Series Releases contain many decisions on the independence of the CPA. The profession can not afford to become complacent. It must continually strive for higher ethical standards.

CHAPTER III

QUESTIONNAIRE RESULTS

This chapter contains the results of a survey conducted to obtain the answers of CPAs, banks, and industrial corporations to the following questions:

1. How aware are these groups of the tremendous importance of independence to the CPA?
2. What is considered to be the most important quality of the CPA?
3. Are more objective standards considered necessary?
4. Do banks and CPAs know what the present AICPA rules on independence are?
5. Is there a distinction made between the CPA with the large practice and the CPA with the small practice?

If the business world and the public in general are not fully cognizant of the independent position of the CPA, then the CPA cannot utilize his other attributes with optimum effectiveness.

I. BACKGROUND

Response. One hundred questionnaires were sent to each of the following groups: CPAs, banks, industrial corporations. The questionnaire sent to each group varied slightly from those sent to the other groups. The questionnaires are reproduced in Appendix B.

A total of 126 replies were received. The majority came from the large banks and corporations.

Limitation. The survey is limited by the smallness of the sample. Although no definite, statistically valid conclusions can be drawn from the small sample taken, many significant facts were discovered. The list of banks and corporations was chosen from Moody's Industrial Manual--American and Foreign[1] and the list of CPA firms was chosen from the AICPA Membership List.[2]

Subgroups. In the survey, CPA firms are classified into national and local firms. The local firms are further categorized by number of employed persons including partners. Such a classification was considered adequate and appropriate because of the different problems encountered by CPAs and the different situations CPAs are in because of the size of their firms and the nature and extent of their clientele.

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[1]John S. Porter (ed.), Moody's Industrial Manual--American and Foreign (New York: Moody's Investment Service, 1958).

[2]American Institute of Accountants, American Institute of Accountants Officers and Committees, Membership List, Reports, and By-Laws (New York: American Institute of Accountants, 1955).

Banks are classified into four subgroups according to their gross assets. Industrial corporations are classified into four subgroups according to their gross sales. The class limitations employed in both cases were deemed adequate because each subgroup can be expected to face slightly different problems and demands and to have different relationships and degrees of contact with CPAs.

Answers. All of the respondents did not answer all of the questions and some respondents gave more complete answers than others. Some of the questions required more than a "yes" or "no" answer in order to clarify the responses and to permit the respondents to express their opinions and to qualify their answers. The comments included by a good many of the respondents proved to be quite engrossing and illuminating. Some of these comments are included in this chapter.

Industrial corporations provided the greatest response, followed by banks and then CPA firms. A classification by the major groups and subgroups is presented in Table I. The majority of the replies were received from the economically larger firms of each major group.

II. INDUSTRIAL CORPORATION RESPONSE

Size of respondents. From the one hundred questionnaires sent out, forty-nine replies were received. Thirty-eight replies were received from industrial corporations

TABLE I

NUMBER OF REPLIES FROM SUBGROUPS
OF EACH MAJOR GROUP SURVEYED

Subgroups	Number of Replies Major Group	Number of Replies Subgroup	% of Subgroup Respondents
CPAs	30		
National firm		6	20
Local firm			
20 or more employed		7	23
11 - 20 employed		6	20
6 - 10 employed		5	17
5 or less employed		6	20
INDUSTRIALS	49		
Gross revenue			
over $7,000,000		38	78
$2,500,000-7,000,000		6	12
500,000-2,500,000		5	10
under $500,000		0	0
BANKS	47		
Gross assets			
over $100,000,000		20	43
$50,000,000-100,000,000		15	32
25,000,000-50,000,000		5	10
under $25,000,000		7	15
TOTAL	126	126	

with gross revenue of over seven million dollars,[3] six from industrial corporations with gross revenue of $2,500,000--$7,000,000, inclusive,[4] and five from industrial corporations with gross revenue of $500,000 to $2,500,000.[5]

[3]Hereafter referred to as Subgroup I industrials.

[4]Hereafter referred to as Subgroup II industrials.

[5]Hereafter referred to as Subgroup III industrials.

Uses made of certified statements. Every respondent said that at least once a year they prepared financial statements upon which a CPA expressed his written opinion. These statements were most often used by Subgroups I and II industrials for: (1) presentation to the SEC and the various security exchanges, (2) stockholders reports, (3) obtaining bank loans, (4) obtaining credit. Subgroup III industrials used certified statements most often for: (1) obtaining bank loans; (2) presentation to the SEC, stockholders reports, and obtaining credit. Table II presents a complete list of the uses made of certified reports.

The figures presented in Table II indicate that a great many groups use the certified statement to furnish them with the information necessary for decision making.

Reasons for such use. The answers to the question "Why do you feel certified statements are required or used for the above purposes?" (SEC reports, obtain credit, et cetera), substantiate the contention that the CPA's opinion is relied upon because of his independent position. For example, one Subgroup I industrial respondent replied, "Certification provides added assurance of integrity and consideration of the interests of readers of the statements." Another respondent familiar with accounting terminology said certified statements were employed "to obtain an independent opinion that the financial statements are presented in accordance with generally accepted accounting principles."

TABLE II

USES MADE OF CERTIFIED FINANCIAL STATEMENTS BY INDUSTRIAL CORPORATIONS

Use	All Sub-Groups	Per[1] Cent	Subgroups: Gross Revenue Over $7,000,000	Subgroups: Gross Revenue $2,500,000--$7,000,000	Subgroups: Gross Revenue $ 500,000--2,500,000
Report to SEC and various exchanges	43	88	36	4	3
Annual report to stockholders	37	76	30	4	3
Obtain credit	10	20	7	0	3
Obtain bank loans	20	40	13	3	4
Prospectus report	3	6	3	0	
Bondholders trustee report	7	14	5	2	
Tax and other government requirements	5	10	4	1	
Report to directors	3	6	3	0	
Report to long term note holders	1	2	1	0	
Contractual agreement reports	1	2	1	0	
Good business practice	1	2	1	0	
Merger reports	1	2	1	0	
Obtain insurance company loans	3	6	3	0	
Reports for management and internal review	6	12	4	2	
TOTAL	141		112	16	13

[1]Per cent of total group questionnaire replies received.

A third respondent presented a very pragmatic reason for the use of certified statements when he answered, "Independent opinions as to a corporation's financial condition are more readily accepted than are the opinions of persons closely connected with the business." A CPA's existence can be justified because his independent position facilitates the dispensing of vital information.

All the respondents, however, did not consider an independent attitude to be the reason for the use of certified reports. One reply stated simply, "Business Practice." The same respondent understood independence to mean, "No affiliation with a nationally known accounting firm." The tone of this respondent's answers made it apparent that he was not familiar with the concept of the independent CPA as defined in Chapter I.

A pragmatic view of the reason for the use of certified statements was expressed by another respondent who said, "Initially required by the SEC. Used for other reporting purposes since it provides uniform report releases and eliminates the need for lengthy explanations, qualifications, and reconciliations that might otherwise be necessary."

Of the thirty-eight respondents in Subgroup I, nineteen made some reference to the CPA's independent position being responsible for the utilization of certified statements for the many uses presented in Table II, page 41.

Twelve respondents felt certified statements are used because they are required. Only one respondent in Subgroups II and III referred to the CPA's independent position as the underlying reason for the widespread use of certified statements. Four members felt certified statements are used because they are required. Due to the small number of respondents no conclusion can be drawn from the discrepancy in replies between Subgroup I industrials and Subgroup II and III industrials, although it is interesting to note this discrepancy.

Most important quality of a CPA. Each respondent was asked to list and define the quality or trait he deemed most important for the CPA to possess. The purpose of this question was to determine how many corporations considered independence to be the most important quality of a CPA, with all other qualities secondary.

The respondents were asked to define the quality they deemed most important, so that every listed quality which encompassed the concept of independence as defined in Chapter I would be properly classified. Almost all the respondents who employed the terms honesty and integrity defined them with the characteristics of independence. In every case where honesty and integrity were so defined they are included with independence in Table III which presents the results of the question discussed in this section.

TABLE III

INDUSTRIAL RESPONDENTS' CHOICES OF THE MOST IMPORTANT QUALITY OR TRAIT OF THE CPA

Quality	All Sub-Groups	Per Cent[1]	Subgroups: Gross Revenue Over $7,000,000	Subgroups: Gross Revenue $2,500,000--$7,000,000	Subgroups: Gross Revenue $ 500,000--$2,500,000
Independence	28	57	22	2	4
Technical ability	22	43	17	5	
Experience	2	4	2		
Judgment	5	10	5		
Care	4	8	4		
Personality	1	2	1		
Imagination	3	6	3		
Confidential	2	4	2		
Desire to assist	2	4	1		1
All qualities must be taken together	1	2	1		
TOTAL	70		58	7	5

[1]Per cent of total group questionnaire replies received.

Independence was mentioned by slightly over one-half of the respondents as the most important quality or one of the two most important qualities of the CPA. Technical ability was considered to be the most important quality or one of the two most important qualities by slightly over two-fifths of the respondents. Over one-fourth of the respondents considered independence and technical ability to be equally important. All other qualities lagged far behind these two.

The Subgroups I and III industrials placed independence first in importance for CPAs, while the Subgroup II industrials placed technical ability first.

<u>Concepts and comments regarding the most important quality</u>. After listing the most important attribute of the CPA, the respondents were asked to comment upon or define that quality. The typical concept of integrity was the "determination to render an honest opinion even when such opinion displeased the client." One respondent felt that without independence "the CPA's certificate is worthless." Another respondent felt that if the CPA was not independent "you might as well not employ him." These comments can be contrasted with the approximately forty per cent of the industrial respondents who did not list independence as the most important quality.

Concepts of independence. The respondents were next asked to present their concepts of the independent CPA. Over eighty-five per cent of the industrial corporations listed one or more of the characteristics of independence. Virtually all the respondents comprising this eighty-five per cent said the CPA should not subordinate his opinion to that of his client. Slightly over one-half of the respondents made no mention of the fact that the CPA should have no substantial financial or personal interest in his clients.

Of the thirty-eight Subgroup I industrials, thirty-three listed one or more characteristics of the independent CPA, four did not answer the question, and one felt that the independent CPA had no affiliation with a national firm. Four Subgroup II industrials listed one or more characteristics of the independent CPA and two respondents of this Subgroup did not answer the question. The corresponding figures for Subgroup III were three and one. The fifth member of this subgroup considered the independent CPA to be one who is not associated with a CPA firm.

The concepts of the independent CPA varied somewhat among the respondents. One group of respondents characterized the independent CPA as one who is fair to all interests and is not influenced by pressure from the client. This concept can be summed up by the reply of the respondent who said, the CPA must show "an unqualified willingness to incur the displeasure of a client in the event a decision is reached adverse to the apparent interests of the client."

A second group of respondents felt the independent CPA should have no financial or personal interest, or no substantial financial or personal interest in his clients. Typical of the replies of this group is, "The CPA should be without personal or financial interest of any kind, in the organization being audited."

To a third group of respondents independence was displayed by "reporting in accordance with generally accepted accounting principles." It was evident from the answers to this and other questions that the great majority of the respondents grasped the concept of independence.

Importance of independence. The next step, after ascertaining that most of the respondents had a fair grasp of the concept of independence, was to learn whether or not independence was deemed to be an important quality of the CPA. Forty-seven respondents answered the question, "Do you consider independence to be an important quality of the CPA?" All but one considered independence to be important. This one respondent understood independence to mean no affiliation with a national firm.

Some of the respondents were quite emphatic about their answers. Comments ranged from, "his independence is his only excuse for being," to "very definitely, otherwise a lack of independence would tend to destroy the willingness of public to accept their opinion." There were also such comments as, "without independence, a CPA's opinion would be worthless," and "it is the essence of his professional worth." It is quite apparent that most industrial corporations consider independence to be an essential attribute of the CPA.

Objective standards. Independence is a subjective quality.[6] However, there are objective manifestations of this subjective quality. Rules have been adopted by the AICPA,[7] the various state societies,[8] and the SEC,[9] which incorporate these objective manifestations. Such rules deal with financial interests, contingent fees, presentation of all material facts, participation in management, and personal relationships. These rules are necessary for three basic purposes: (1) to insure compliance with the concept of the independent CPA, (2) to provide guideposts for the CPA to follow in living up to his obligations, and (3) to provide evaluative criteria for the public to determine how well the CPA has lived up to his obligation.

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[6]Higgins, op. cit., p. 36.

[7]Bylaws and Rules of Professional Conduct, 1958, op. cit., pp. 14-15.

[8]Bylaws of the New York State Society of Certified Public Accountants, as amended to June, 1951, Article 18, op. cit.

[9]Regulation S-X, Form and Content of Financial Statements, 1954, op. cit., p. 3.

A question was directed at the industrial corporations to determine if they felt more objective standards were advisable, to better serve each of the latter two purposes. The results are presented in Table IV.

Subgroup I industrials felt there should not be more objective standards either to provide guideposts for the CPA or to provide evaluative criteria for the public. The other two subgroups' members felt there should be more objective standards for both purposes.

Percentagewise, Subgroup I industrials felt more objective standards were not needed by the small margins of fourteen per cent and five per cent. On an over-all basis the three subgroups felt there need be no more objective standards to guide CPAs, but there should be more objective standards to provide evaluative criteria for the public.

In neither case was there a preponderance of opinion for the majority. However, the strong minority in favor of more objective standards to guide CPAs and the slight majority in favor of more objective standards to provide evaluative criteria for the public should definitely be given consideration. Any possibility of improving the status of the profession by either strengthening its independent nature, or increasing public awareness of the independent position of the CPA, must be explored. The replies to this question indicate the area of objective

TABLE IV

ATTITUDES OF INDUSTRIAL RESPONDENTS TOWARD HAVING MORE OBJECTIVE STANDARDS TO PROVIDE GUIDEPOSTS FOR THE CPA AND EVALUATIVE CRITERIA FOR THE PUBLIC--REGARDING INDEPENDENCE

Subgroup	Provide Guideposts for CPAs				Provide Evaluative Criteria for the Public			
	More Objective Standards	Per Cent[1]	No More Objective Standards	Per Cent[1]	More Objective Standards	Per Cent[1]	No More Objective Standards	Per Cent[1]
Gross revenue over $7,000,000	10	26	15	40	12	32	14	37
Gross revenue $2,500,000--$7,000,000	3	50	1	17	3	50	1	17
Gross revenue $ 500,000--$2,500,000	2	40	1	20	4	80	0	0
All subgroups	15	31	17	35	19	39	15	31

[1]Per cent of total subgroup questionnaire replies received.

standards is worthy of study to ascertain if more objective standards are feasible and whether they will bring about one or both of these possibilities.

General comments. Some of the respondents indicated procedures by which they felt the independent nature of the CPA could be strengthened, while others volunteered additional comments. One suggestion is to educate the business world to the need for the CPA and the function he can serve if his independence is not impaired. One respondent phrased the suggestion in the following manner, "The CPA should personally resist any attempt to prostitute his profession, and a program should be instituted to educate all segments of business to refrain from exerting pressure of any kind on any question." A second reply in the same vein, but with a slightly different emphasis said, "Raising the standards of the profession, and educating the public to the need and usability of the CPA, is the best way to insure the CPA's independence."

Another plan which is neither feasible nor desirable at the present time was made by another respondent. This plan does, however, deserve mention and consideration. The suggestion states, "Where the accountant's fee is paid by the company being audited, the accountant has a financial interest in that company, especially if the fee represents a large percentage of the accountant's income. Perhaps all companies should be audited by CPAs who are hired by the government."

A third suggestion proffered is to enforce strong punitive measures such as revoking the certificate in case of an infraction.

Two respondents felt that no additional measures are needed to safeguard the CPA's independent position. One said, "In our opinion, and from our experience the CPA's independence is unquestionable." The other respondent was not as emphatic. He replied, "Believe the concept of independence is pretty well defined and accepted in both business and professional circles. This is true for the larger firms of CPAs who handle the larger accounts. There may be differences of opinion in the case of the small business and the small practitioner. The small practioner will generally be under greater pressure to relax his standards. The better men won't do it." This respondent made a distinction between the CPA with the large practice and the CPA with the small practice (which should not be overlooked whether or not it is warranted). This distinction will be explored later in this chapter.

Summary. Replies were received from forty-nine industrial corporations, thirty-eight of whom had gross revenue of over seven million dollars. The certified reports of these companies were most often used for: (1) presentation to the SEC, and (2) stockholders reports. Over one-half the respondents considered independence to be the most important quality of the CPA. Many felt technical ability was most important, while some respondents considered independence and technical ability to be equally important.

Over eighty-five per cent of the respondents exhibited at least a partial understanding of the concept of the independent CPA. Forty-six of the forty-nine respondents considered independence to be an important quality of the CPA. Two respondents expressed no opinion on this question.

A slight majority of the respondents felt that no more objective standards were needed to guide CPAs in living up to their duty of maintaining an independent position, while a slight majority felt that more objective standards are necessary for use as evaluative criteria by the public to judge a CPAs independence. There were enough respondents in favor of objective standards for both purposes to warrant further study.

Some respondents felt that the profession should incorporate strong punitive measures in its code of ethics. Other respondents felt that the public should be educated in the great service the CPA can perform if his independence is not impaired.

Conclusions. Two conclusions appear to be warranted from the replies of the industrial group. First, measures must be taken to increase public awareness of the importance of independence to the CPA. The public must be informed of the great service the CPA can perform if he is able to maintain his independent position. The dissemination of this information can very likely lead to an increase in stature for the profession. If the public is fully cognizant of the CPA's position and what he can accomplish if this position is maintained, respect for the profession will increase, and cooperation between the CPA and the public may improve.

The possibility of establishing new objective standards to guide CPAs in living up to their obligation of independence and to act as evaluative criteria for the public should definitely be studied. The possibility of using these standards as a means of appraisal is most important. If the public has such criteria to follow they are more apt to satisfy themselves that the CPA is truly independent (providing, of course, that the CPA is able to meet the test of these criteria).

III. BANK RESPONSE

Size of respondents. From the one hundred questionnaires mailed, forty-seven replies were received. There were twenty replies from banks with over one hundred million dollars gross assets,[8] fifteen replies from banks with

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[8]Hereafter referred to as Subgroup I banks.

gross assets of $50,000,000 to $100,000,000, inclusive,[9] five replies from banks with gross assets of $25,000,000 to $50,000,000,[10] and seven replies from banks with gross assets under $25,000,000.[11] A complete classification of respondents can be found in Table I, page 39.

Certified or noncertified statements. As a preliminary question the banks were asked for what purposes they required the presentation of financial statements. Common responses were, for loans above a certain amount, for mortgage loans, from guarantors, and to assist in reaching decisions on the extension of credit. Next, the bankers were asked what type of statements they considered to be most reliable for the above purposes. The results are presented in Table V.

The respondents almost unanimously considered the certified statement to be most reliable. Only one respondent considered a statement prepared by the prospective borrower to be most reliable. This respondent was a Subgroup IV bank. Forty-four respondents considered the certified statement to be most reliable. One respondent considered the certified statement and the statement prepared by the accountant who is not a CPA to be equally reliable.

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[9]Hereafter referred to as Subgroup II banks.

[10]Hereafter referred to as Subgroup III banks.

[11]Hereafter referred to as Subgroup IV banks.

TABLE V

BANK RESPONDENTS' OPINIONS AS TO THE RELIABILITY OF
A. STATEMENT PREPARED BY PROSPECTIVE BORROWER HIMSELF
B. STATEMENT PREPARED BY AN ACCOUNTANT WHO IS NOT A CPA
C. STATEMENT PREPARED BY A CPA
RATED MOST RELIABLE, NEXT MOST RELIABLE, LEAST RELIABLE, OR EQUAL

Subgroup	A. Statement Prepared by Prospective Borrower				B. Statement Prepared by a Non-CPA				C. Statement Prepared by a CPA		
	Most Rel.	Next Most Rel.	Least Rel.	A & B Equal as Next Most Rel.	Most Rel.	Next Most Rel.	Least Rel.	B & C Equal as Most Rel.	Most Rel.	Next Most Rel.	Least Rel.
Gross assets over $100,000,000			13	4		12		1	19		
Gross assets $50,000,000--$100,000,000			6	2		6			15		
Gross assets $25,000,000--$50,000,000			1			4			4		
Gross assets under $25,000,000	1		4			1			6	1	
ALL SUBGROUPS	1	0	24	6	0	23	0	1	44	1	0

Reasons for faith in reliability of certified statements. When queried as to why they considered the certified statement to be most reliable, the respondents gave many different answers. One segment felt that the CPA's independent position and technical ability made his opinion most reliable. Eleven Subgroup I banks, three Subgroup II banks, and two Subgroup IV banks composed this segment. Their view can be summed up by the respondent who said the "Competence and integrity of the CPA is usually superior. Experience has shown that reliance can be placed on a CPA's certificate." Two members of Subgroup I, four members of Subgroup II, three members of Subgroup III, and two members of Subgroup IV, considered independence alone to be the factor that made certified statements most reliable. Two Subgroup I banks considered technical ability alone to be the reason for placing reliance in certified statements.

Another cluster of banks considered certified reports to be most reliable because of the CPA's ability to prepare well structured, properly valued statements. One member of this group felt that "very few applicants, even highly successful businessmen know anything about statement structure and asset appraisal."

One respondent did not consider the certified report to be most reliable. He said, "Having a personal statement prepared by other than the customer adds no value since it is always predicated on information furnished by the customer, and might lose some value in the translation." This respondent seems to have forgotten that the CPA performs the all important function of expressing his opinion as to the fairness of the clients figures and report.

Most important quality of a CPA. The banks were asked what quality they considered to be most important for a CPA. The results presented in Table VI are similar to those discussed in the previous section.

Independence was mentioned over three-fourths of the time as the most important quality or one of the two most important qualities of the CPA. Technical ability was listed by almost one-half of the respondents as the most important quality or one of the two most important qualities of the CPA. Every Subgroup I bank which listed technical ability, listed it jointly with independence. Four Subgroup II banks, two Subgroup III banks, and two Subgroup IV banks also listed the qualities together. Only among Subgroup III banks was technical ability listed as the most important quality by a majority of the respondents. Among the bank subgroups, as among the industrial subgroups, the majority of the members of the smaller economic subgroups considered technical ability to be more important than or as important as independence.

From the replies presented in this section and the previous section it appears as if the full significance of

TABLE VI

QUALITIES BANK RESPONDENTS CONSIDER TO BE MOST IMPORTANT FOR THE CPA

Quality	All Sub-Groups	Per[1] Cent	Subgroups: Gross Assets Over $100,000,000	Gross Assets $ 50,000,000-$100,000,000	Gross Assets $25,000,000-$50,000,000	Gross Assets Under $25,000,000
Independence	37	80	20	11	3	4
Technical ability	22	47	8	6	4	4
Other	2	4		2		

[1]Per cent of total group questionnaire replies received.

independence to the CPA is not recognized. It is true that over one-half of the respondents mentioned the CPA's independent position as one of the factors responsible for the high degree of reliance placed in certified statements and over three-fourths of the respondents considered independence to be the most important quality or one of the two most important qualities of the CPA. However, the fact that approximately one-third of the respondents considered technical ability to be equally as responsible as independence for the high degree of reliance placed in certified statements and the fact that almost one-half the respondents considered technical ability to be the most important or one of the two most important qualities of the CPA, indicate the lack of awareness of the full significance of independence as the prime requisite of the CPA.

A CPA who is a member of the staff of an industrial firm or the non-certified public accountant may possess the same ability as the CPA, per se. However, neither is required to possess the same independent attitude as the CPA. There are CPAs and competent non-certified accountants on the staffs of many industrial corporations. But, the CPA is still retained to render his independent opinion as to the reliability of management's representations. Possession of a high degree of technical ability plus independence is necessary before a CPA can certify a statement. The prime distinguishing characteristic between the

CPA who is an employee of an industrial firm and the independent CPA who is retained by the industrial firm to certify the financial statements, is the latter's independence.

<u>Concepts of independence</u>. Over ninety per cent of the respondents listed one or more of the characteristics of independence. Three Subgroup I banks, three Subgroup II banks, and three Subgroup IV banks considered an independent CPA to be one who is not influenced by his clients. There were twelve members of Subgroup I, three members of Subgroup II, four members of Subgroup III, and three members of Subgroup IV who felt that an independent CPA did not have any financial or personal interest in his clients. Three Subgroup I banks and five Subgroup II banks felt that the independent CPA should not be influenced by his clients, and should have no financial or personal interest in them.

A good impression of the respondents' answers can be obtained by quoting a number of them. A respondent, who felt that the CPA should not subordinate his opinion to that of his client, felt it is the duty of the CPA "to present the statement in an objective manner, free from any influence of the client. The CPA should present things as he sees them not as he is instructed." The typical response of those who felt that the absence of a financial or personal interest in the client is characteristic of the independent CPA, stated the CPA "has no direct financial interest in the business and is not an officer or member of the board of directors. Also, he is not a relative of the principal." The responses of those who felt the CPA should not be influenced by his client and should have no financial or personal interest in his client, are typified by the following statement: "The accountant has no connection with the company he is auditing either as an employee, officer, or stockholder, nor does he have any social contact with his clients, and he cannot be influenced by them." The bank respondents, like the industrial respondents, grasped the concept of the independent CPA. Therefore, three of the responses examined in the next section are surprising.

Importance of independence. Forty-three respondents answered the question, "Do you consider independence to be significant for the CPA?" The results are presented in Table VII.

Thirty-nine of the forty-three respondents considered independence to be significant. However, four respondents did not consider independence to be an important quality of the CPA. Two are Subgroup I banks, one is a Subgroup II Bank, and one is a Subgroup IV bank. The member of Subgroup II did not express his opinion of the independent CPA. The others expressed their opinions and indicated an understanding of the concept of independence. Despite this understanding, these respondents did not consider independence to be significant for the CPA.

TABLE VII

BANK RESPONDENTS' OPINIONS AS TO THE SIGNIFICANCE OF INDEPENDENCE FOR THE CPA

Subgroup	Significant	Per Cent[1]	Not Significant	Per Cent[1]
Gross assets over $100,000,000	18	90	2	10
Gross assets $ 50,000,000--$100,000,000	13	87	1	7
Gross assets $25,000,000--$50,000,000	3	60	0	0
Gross assets under $25,000,000	5	71	1	14
ALL SUBGROUPS	39	83	4	9

[1]Per Cent of total subgroup questionnaire replies received.

While three out of forty-three is a very small minority, it is nevertheless notable. These three respondents, who understood the concept of independence, did not realize the primacy of this concept. As long as this situation exists, the CPA profession can not be satisfied with its achievements.

Most CPAs are independent. The respondents overwhelmingly felt that independence is important to the CPA. Therefore, it is imperative that the respondents believe that the CPA lives up to this concept of independence. The banks were asked if they believed all, most, or some, CPAs live up to their concept of independence. The results are presented in Table VIII.

Three respondents felt that all CPAs are independent and three respondents felt that some CPAs are independent. Thirty-six felt that most CPAs are independent. There were no striking variations in the responses of the various subgroups.

Significantly, the vast majority of the respondents felt that most, rather than all CPAs, are independent. The assumption must not be made that the respondents arrived at their decisions capriciously, but rather that the decisions were based on knowledge and experience; experience that has led the respondents to believe that all CPAs are not independent. Thus, further weight is added to the contention that more objective standards are needed to provide guideposts for the CPA to follow in living up to his obligations and to provide evaluative criteria to enable the public to determine how well the CPA has lived up to his obligation; or else the present standards must be more strictly enforced. The answers to this question also indicate the need for an

TABLE VIII

BANK RESPONDENTS' BELIEFS AS TO WHETHER ALL, MOST, OR SOME CPAs LIVE UP TO THE CONCEPT OF INDEPENDENCE

Subgroup	All CPAs are Independent	Per Cent[1]	Most CPAs are Independent	Per Cent[1]	Some CPAs are Independent	Per Cent[1]
Gross assets over $100,000,000	2	10	18	90	0	0
Gross assets $ 50,000,000--$100,000,000	1	7	10	67	1	7
Gross assets $25,000,000--$50,000,000	0	0	2	40	1	20
Gross assets under $25,000,000	0	0	6	86	1	14
ALL SUBGROUPS	3	6	36	77	3	6

[1]Per cent of total subgroup questionnaire replies received.

investigation into the actual independent position of the CPA to determine if any shortcomings exist within the profession.

<u>Economic size of CPA firm and independence</u>. At the time the questionnaire was prepared the writer assumed that some of the respondents would believe that most, rather than all, CPAs were independent. Therefore, the respondents were asked whether they believed the CPA with the large practice, the medium practice, or the small practice, most often lived up to the concept of independence. Table IX presents the results of this query.

A substantial majority of the respondents who answered the question felt that the CPA with the large practice most often lives up to the concept of independence. Only in Subgroup IV was it felt that the CPA with the medium practice, rather than the CPA with the large practice, is the one who most often lives up to the concept of independence. One Subgroup I banker felt that the CPA with the small practice is most often independent, and five Subgroup I bankers felt that all firms are equally independent.

Some of the comments indicated the respondents did not believe the size of the practice had any bearing on the CPAs independence. The replies ran from, "we hardly think that the size has anything to do with independence," to, "size has nothing to do with the concept of independence." Other

TABLE IX

BANK RESPONDENTS' OPINIONS AS TO THE ECONOMIC SIZE OF THE CPA PRACTICE AND ITS EFFECT UPON INDEPENDENCE[1]

Subgroup	All Equal	Large Practice CPA			Medium Practice CPA			Small Practice CPA		
		1	2	3[1]	1	2	3[1]	1	2	3[1]
Gross assets over $100,000,000	5	11	1		1	7	1			11
Gross assets $ 50,000,000-- $100,000,000	0	7	0		0	4	1			4
Gross assets $25,000,000-- $50,000,000	0	2	0	1	0	2	0	1		1
Gross assets under $25,000,000	0	1	0	0	3	0	0			0
ALL SUBGROUPS	5	21	1	1	4	13	2	1		16

[1]Firms were rated first (1), second (2), third (3), or equal by the respondents as to the order in which they felt the CPA firms live up to the independence concept. Every respondent did not rate each size CPA firm. Some respondents merely indicated their first selection.

comments indicated the respondents held the opposite belief that the size of the practice has a definite bearing on independence. Comments ran from, "a person with a small practice may not want to lose a client, and accordingly cuts corners," to, "in our area we have seen deviations more from the so-called one man firms than in any other designated group."

Again the assumption must be made that the opinions expressed are based on knowledge and experience. However, even if there is no objective basis, the opinions cannot be disregarded. These opinions represent integral components of the beliefs of the respondents and affect the CPA. Action must be taken to change these convictions if the profession is to continue its growth and progress.

If these beliefs are based on fact, measures must be taken to re-educate the members of the profession, especially the small practitioner. If the beliefs are not based on fact, measures must be taken to re-educate the public and to provide evaluative criteria for the public to determine how well the CPA has lived up to his obligation.

Objective standards. Many accountants consider independence to be a state of mind.[12] Therefore, a comprehensive compilation of objective standards to measure

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[12] Higgins, op. cit., p. 36.

independence is meaningless and impossible. The bank respondents were asked if they would place more reliance in CPAs if their independence were readily measured objectively. The results presented in Table X appear to indicate the need for a revision in the thinking of a good many CPAs. Every effort should be made to establish such a set of standards since they may be instrumental in rectifying the situation indicated in the previous two sections.

TABLE X

BANK RESPONDENTS' REPLIES TO THE QUESTION "WOULD YOU PLACE MORE RELIANCE IN CPAs IF THEIR INDEPENDENCE WERE READILY MEASURED OBJECTIVELY?"

Subgroup	Yes	Per Cent[1]	No	Per Cent[1]
Gross assets over $100,000,000	13	65	4	20
Gross assets $ 50,000,000-- $100,000,000	8	53	4	27
Gross assets $25,000,000-- $50,000,000	2	40	1	20
Gross assets under $25,000,000	2	29	2	29
ALL SUBGROUPS	25	53	11	23

[1]Per cent of total subgroup questionnaire replies received.

Thirty-six respondents answered the question summarized in Table X. Twenty-five said they would place more reliance in CPAs if their (CPAs) independence were readily measured objectively, and eleven said they would place no more reliance in CPAs if their independence were readily measured objectively. This majority of over two to one indicates that the possibility of establishing a comprehensive set of objective standards warrants further study. The stature of the CPA profession will increase if banks are willing to place more reliance in certified statements.

The replies presented in the next section may deter from the results presented in this section, although not necessarily.

Knowledge of AICPA position on independence. While the establishment of a comprehensive set of objective standards requires future research, planning, and development, there are, at present, rules of professional conduct relating to independence.[13] Less than one-third of the bank respondents knew what the present position of the AICPA is on independence. The results of the question pertaining to this point are presented in Table XI.

Thirteen respondents knew and twenty-seven respondends did not know what is the present position of

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[13]American Institute of Certified Public Accountants, Bylaws and Rules of Professional Conduct, 1958, op. cit., pp. 14-15.

the AICPA on independence. Only in Subgroup I did the majority of the respondents have such knowledge. Just one respondent of the other three subgroups knew what this position is. The results of this question appear to indicate the need for the dessemination of information to the public regarding the AICPA rules.

TABLE XI

BANK RESPONDENTS'KNOWLEDGE OF THE PRESENT AICPA RULINGS ON INDEPENDENCE

Subgroup	Knew	Per Cent[1]	Did Not Know	Per Cent[1]
Gross assets over $100,000,000	12	60	8	40
Gross assets $ 50,000,000--$100,000,000	1	7	9	60
Gross assets $25,000,000--$50,000,000	0	0	5	100
Gross assets under $25,000,000	0	0	5	71
ALL SUBGROUPS	13	28	27	58

[1]Per cent of total subgroup questionnaire replies received.

Rules of professional conduct are necessary for the proper internal functioning of the profession. These rules receive their greatest utilization when the public is aware of them. The rules provide a basis for the public to have confidence in the CPA.

Respondents' suggestions. Suggestions were made as to steps that can be taken to aid CPAs in living up to the concept of independence. Three suggestions were made by approximately one-tenth of the respondents. The suggestions pertain to education, discipline, and the accountant's report.

The first suggestion can be summarized by the following reply: "Emphasize responsibility assumed by the CPA when an independent opinion is expressed, both within the profession and to others affected thereby." The second suggestion necessitates "stricter enforcement of the code of ethics by the accounting societies." The suggestion pertaining to the accountant's report revolves around the point that the "CPA could incorporate in the report a statement that he has no 'interests' in the client whose statement he is certifying."

Summary. Forty-seven banks replied to the questionnaire. Of these respondents, thirty-five had gross assets of over $50,000,000. The respondents almost unanimously considered the certified statement to be more reliable than any other statement for use in decision making. The CPA's independent position and technical ability were most often given as the reasons for the high reliability of certified statements. Thirty-seven respondents considered independence and twenty-two respondents considered technical ability to be the most important quality or qualities of the CPA.

Over ninety per cent of the respondents understood the concept of the independent CPA. Thirty-nine considered independence to be an important quality of the CPA, while four did not. Thirty-six felt that most CPAs are independent, and only three felt that all CPAs are independent. The great majority of the respondents felt that it is the CPA with the large practice who most often lives up to the concept of independence. Slightly over one-half the respondents said they would place more reliance in CPAs if their independence were readily measured objectively. Less than one-third of the respondents knew what the present position of the AICPA is on independence.

Some respondents felt that a program of education should be undertaken to increase the awareness of the public and CPAs of the importance of independence. Others felt that more stringent enforcement of the rules of professional conduct is necessary. A third group of respondents felt that CPAs should state in their reports that they have no "interests" in their clients.

Conclusions. Certain findings are indicated from the responses. First, it appears that the importance of independence to the CPA and the public is not as widely recognized as it should be. Second, many banks draw a distinction between large practice CPAs and small practice CPAs. Whether or not this distinction is warranted, corrective measures must be taken. Third, it is the overwhelming opinion that not all CPAs are independent. Fourth, there is a substantial lack of knowledge on the part of banks as to the position of the AICPA on independence. A knowledge of the rules of professional conduct can aid in the establishment of a climate of faith for the CPA.

All of these indications can be summed up by the comment of one respondent, "I do not agree that the CPA has yet attained the dignity or consistency of either the legal or medical professions. A CPA must be a competent accountant and auditor, and have a high degree of integrity in his work. Unfortunately the need for income too often causes him to fall below professional standards."

Three conclusions may be warranted from these indications. Two are similar to the conclusions drawn from the industrial questionnaire. Furthermore, an investigation of the profession may be warranted to determine if the distinction drawn between the CPA with the small practice and the CPA with the large practice is justified. If the distinction is justified the offending members causing this distinction must be singled out and dealt with as the Institute sees fit. If the distinction is not justified, the public must be made aware of the fact that all CPAs deserve the highest professional regard.

IV. CPA RESPONSE

Size of respondents. From the one hundred questionnaires mailed, thirty replies were received. Six were from national firms,[14] seven from local firms employing twenty or more persons,[15] six from local firms employing eleven to twenty persons,[16] five from local firms employing six to ten persons,[17] and six from local firms employing five persons or less.[18] A complete classification of respondents can be found in Table I, page 39.

Most important quality of a CPA. A CPA, like the industrial corporations and the banks, was asked what the most important quality of the CPA is. The results are presented in Table XII.

The great majority of the respondents mentioned independence as the most important quality or one of the two most important qualities of the CPA. Two-thirds of the CPAs mentioned independence. Slightly less than one-half listed technical ability. Approximately one-sixth listed

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[14]Hereafter referred to as Subgroup I CPAs.

[15]Hereafter referred to as Subgroup II CPAs.

[16]Hereafter referred to as Subgroup III CPAs.

[17]Hereafter referred to as Subgroup IV CPAs.

[18]Hereafter referred to as Subgroup V CPAs.

TABLE XII

CPAs' CHOICES OF THE MOST IMPORTANT QUALITY OF A CPA

Quality	All Subgroups	National Firms	Local Firms 20 or More Employees	Local Firms 11 to 20 Employees	Local Firms 6 to 10 Employees	Local Firms 5 or less Employees
Independence	20	6	4	4	2	4
Technical ability	13	3	1	3	3	3
Other	2		2			

both independence and technical ability. Due to the smallness of the sample, the slight variation in replies among the subgroups is inconclusive.

Concepts of and comments on this quality. The concepts presented by the CPAs are similar to those presented by the other groups. Therefore, a few examples will suffice. One respondent felt that independence is exemplified by "an insistence on the recognition of conclusions reached from facts evaluated regardless of the consequences, however unpleasant."

A respondent who considered competence to be the most important quality of a CPA felt that "all other qualities are unimportant if professional competence is lacking." This respondent places independence in a subordinate position, although it is the one characteristic that distinguishes the CPA from the non-certified public accountant, or the accountant who is an employee of the CPA's client. The position of this CPA can be contrasted with that of the CPA who felt that "technical qualifications are presumed, but personal diligence 'makes' the CPA."

A comment that appears to bear out the distinction made between the large and small practitioner, by the bank respondents, was made by a Subgroup IV CPA who said, "We work for the client. A small practitioner has more trouble trying to present a statement in which his client has no say. The client seems to always have a say on what to present and how." While the preceding situation might be unusual, the facts of the case can not be ignored. From all the indications of this questionnaire a study of the relationship between the small practitioner and his client appears warranted.

Concepts of independence. Three respondents did not express their concept of independence. Every other respondent understood what the independent CPA stands for. The opinions expressed agreed with those of the industrial and banking groups.

One comment, however, is definitely worthy of presentation. A Subgroup I respondent said, "There is no strictly independent CPA--a few are relatively independent--many are not at all independent." This respondent is just one out of thirty, but his comment should be noted. It may very well be symptomatic of an underlying defect of the CPA profession. At any rate, this comment taken in conjunction with all the other signs brought out by this survey, indicates a need for an examination into the ethical practices of the profession. If such an examination discovers only isolated cases of lack of independence, the examination will have been justified. A mere handful of malpractices is sufficient to blight the profession. If the examination turns up no malpractices, the examination will still be justified. It will then indicate the need for a program designed to instill a higher regard for confidence in the profession, aimed at both CPAs and the public.

Objective standards. There are indications in this survey that one component of such a program should be the establishment of more objective standards. The CPAs were queried as to whether or not they felt there should be more objective standards to guide themselves in living up to their obligations, and to act as evaluative criteria for the public to determine how well the CPA has lived up to his obligations. The results are presented in Table XIII.

Sixty per cent of the respondents felt there should be more objective standards to act as evaluative criteria for the public, and forty per cent of the respondents felt there should be more objective standards to act as guide-posts for the CPA. There were large variations percentage-wise in the replies of the subgroups. However, the number of respondents is so small as to nullify the significance of these variations. The national firms and the small local firms favored more objective standards, while the medium sized local firms did not.

Adequacy of present AICPA rules. Although approximately one-half of the respondents felt there should be more objective standards pertaining to independence, the great majority felt the present AICPA rules relating to

TABLE XIII

ATTITUDES OF CPAs TOWARD HAVING MORE OBJECTIVE STANDARDS TO PROVIDE GUIDEPOSTS FOR CPAs AND EVALUATIVE CRITERIA FOR THE PUBLIC--REGARDING INDEPENDENCE

Subgroups	Guideposts for CPAs				Evaluative Criteria for Public			
	More Objective Standards	Per Cent[1]	No More Objective Standards	Per Cent[1]	More Objective Standards	Per Cent[1]	No More Objective Standards	Per Cent[1]
National firm	4	67	2	33	5	83	1	17
Local firm 20 or more employees	2	29	3	43	2	29	3	43
Local firm 11 to 20 employees	1	17	5	83	3	50	3	50
Local firm 6 to 10 employees	4	80	1	20	5	100	0	0
Local firm 5 or less employees	1	17	4	67	3	50	1	17
ALL SUBGROUPS	12	40	15	50	18	60	8	27

[1]Per cent of total questionnaire replies received.

independence are adequate. Table XIV presents the opinions of the respondents on this topic.

TABLE XIV

CPAs' OPINIONS AS TO THE ADEQUACY OF PRESENT AICPA RULES ON INDEPENDENCE

Subgroup	Adequate	Per Cent[1]	Not Adequate	Per Cent[1]	Do Not Know Rules	Per Cent[1]
National firm	3	50	1	17	0	0
Local firm 20 or more employees	6	86	1	14	0	0
Local firm 11 to 20 employees	4	66	1	17	1	17
Local firm 6 to 10 employees	3	60	0	0	1	20
Local firm 5 or less employees	6	100	0	0	0	0
ALL SUBGROUPS	22	73	3	10	2	7

[1]Per cent of total subgroup questionnaire replies received.

Ten per cent of the respondents did not consider the present AICPA rules to be adequate. There appears to be a discrepancy between the responses presented in Tables XIII and XIV. However, this discrepancy can be resolved if it is understood that the objective criteria are supplementary to the rules of professional conduct. The objective standards should be utilized to aid CPAs in living up to the rules of professional conduct, and their obligation to maintain an independent position. The objective standards are not meant to replace the rules of professional conduct, but to supplement them.

Although the great majority of the CPA respondents are satisfied with the present rules of conduct, the results of the rest of the survey indicate a need to study the possibility of supplementing the rules with more objective standards. The fact that two CPAs did not know what the present AICPA rules on independence are, appears to necessitate an enlightenment program within the profession. There is no excuse for a CPA to be ignorant of the AICPA rules of professional conduct.

CPA recommendations for improvement. The initiation of a series of conferences and articles dealing with independence was one of the recommended methods of improving the profession, suggested by the respondents. Also suggested are more stringent enforcement of the rules of professional conduct, and more careful selection of future CPAs.

Summary. Thirty replies were received from CPAs. Two-thirds of the respondents considered independence to be the most important quality or one of the two most important qualities of a CPA. Approximately one-half of the respondents felt that there should be more objective standards pertaining to independence, while over two-thirds of the respondents considered the present AICPA rules pertaining to independence to be adequate. One member of the profession felt there is no truly independent CPA.

Conclusions. Certain conclusions appear to be warranted from the replies to the CPA questionnaire. Definite instruction is needed within the profession. The possibility of establishing more objective standards pertaining to independence should be explored. These two conclusions are in accord with the conclusions drawn from the industrial and bank questionnaires. A third conclusion warranted from the comments of some of the respondents is the need for an investigation into the ethical practices of the profession.

V. COMPARISON OF RESPONSES OF ALL GROUPS

Some of the questions asked of each group of respondents were similar. The more important questions and answers are examined here.

Most important quality. Each group member was asked his opinion of the most important quality or trait of the CPA. The replies are presented in Table XV.

TABLE XV

ALL MAJOR GROUPS' CHOICES OF THE MOST IMPORTANT QUALITY OR TRAIT OF THE CPA

	Respondents							
Quality	Total	%[1]	Industrial	%[1]	Bank	%[1]	CPA	%[1]
Independence	85	67	28	57	37	78	20	67
Technical ability	57	45	22	45	22	46	13	43
Judgment	5	3	5	10				
Care	4	3	4	8				
Imagination	3	2	3	6				
Other	12	10	8	16	2	4	2	7

[1]Per cent of total group questionnaire replies received.

Two-thirds of all the respondents considered independence to be the most important quality or one of the two most important qualities of the CPA. A little more than two-fifths of all the respondents considered technical ability to be the most important quality or one of the two most important qualities of the CPA. All other qualities lagged far behind these two qualities.

<u>Importance of independence</u>. Ninety out of the ninety-five respondents in the industrial and bank groups answered the question "Do you or do you not consider independence to be significant for the CPA?" Only one industrial

respondent and four bank respondents felt that independence was not significant. Three of these five stated that they were familiar with the concept of the independent CPA. The results of the question are presented in Table XVI.

TABLE XVI

INDUSTRIAL CORPORATIONS' AND BANK RESPONDENTS' OPINIONS AS TO THE SIGNIFICANCE OF INDEPENDENCE FOR THE CPA

Group	Independence Is Significant	Independence Is Not Significant
Industrial corporations	46	1[a]
Bank	39	4
TOTAL	85	5

[a]This respondent understood indepencence to mean freedom from partnership in a CPA firm.

Objective standards. The industrial respondents and the CPAs were asked the same question regarding objective standards. The results are presented in Table XVII.

One-third of the total respondents felt there should be more objective standards to provide guideposts for the CPA, while two-fifths felt there should be no more objective standards for the same purpose. Forty-seven per cent of the industrial and CPA respondents favored more objective standards to provide evaluative criteria for the public, while twenty-nine per cent were not in favor of objective

TABLE XVII

ATTITUDES OF CPA AND INDUSTRIAL CORPORATION RESPONDENTS TOWARD HAVING MORE OBJECTIVE STANDARDS TO PROVIDE GUIDEPOSTS FOR THE CPA AND EVALUATIVE CRITERIA FOR THE PUBLIC--REGARDING INDEPENDENCE

Group	Guideposts for CPAs				Evaluative Criteria for Public			
	More Objective Standards	Per Cent	No More Objective Standards	Per Cent	More Objective Standards	Per Cent	No More Objective Standards	Per Cent
Industrial corporations	15	31[a]	17	35[a]	19	39[a]	15	31[a]
CPAs	12	40[a]	15	50[a]	18	60[a]	8	27[a]
TOTAL	27	34[b]	32	41[b]	37	47[b]	23	29[b]

[a]Per cent of entire group respondents.

[b]Per cent of entire respondent of both groups.

standards for this purpose. The CPAs were more strongly in favor of objective standards than the Industrials for both purposes. The results presented in Tables XV, XVI, and XVII bear out the conclusions arrived at throughout the rest of this chapter.

The accounting profession has progressed rapidly since the formation of the AAPA in 1887. Perhaps it is now time to investigate the affects of this rapid progress upon the members of the profession and upon the views of the public toward the profession, with an eye toward taking any corrective measures that may be necessary.

CHAPTER IV

SUMMARY AND SUGGESTIONS

I. SUMMARY

Independence is the most important quality of a CPA. While competence is vitally necessary, independence is the one quality which enables the CPA to occupy his unique position in our economy. The certified statement prepared by the independent CPA is relied upon by banks, governmental regulatory bodies, investors, potential investors, and creditors to present credible reports upon which decisions can be based. Certified reports help create an atmosphere of confidence between the CPA's clients and those who deal with the clients. The certified report aids in the smooth functioning of the economic system.

The AICPA and many prominent men in the field of public accounting have frequently expressed the opinion that independence is the underlying strength and guiding light of the profession. The first official reference to the need for independence can be found in the British Companies Acts dating back to 1845. The AICPA adopted rules pertaining to independence as far back as 1897. Since then, these rules have been revised and expanded periodically.

The United States Government, through the SEC has recognized the important function the CPA can perform if his independence is maintained. Thus, the commission demands credible reports from all its registrants. To help safeguard and insure the independence of the CPAs who certify registrants' reports, the SEC has enacted rules and published findings under these rules, pertaining to independence. Many specific situations are enumerated which are indicative of a lack of independence. The SEC and the AICPA have continually consulted each other on matters relevant to the accounting profession and the SEC.

However, the results of the survey presented in this thesis indicate the need for further efforts on the part of the AICPA. Almost one-half of the total respondents considered technical ability to be the most important or one of the two most important qualities of the CPA, rather than considering independence to be the sole most important quality of the CPA. The banks almost unanimously considered most, rather than all, CPAs to be independent. There was one CPA who stated that no CPA is independent. There was also a distinction made between the CPA with the large practice and the CPA with the small practice. There were comments made to the effect that it is often very difficult and sometimes impossible for the CPA with the small practice to maintain his independent attitude. The great majority of the banks felt that it is the CPA with the large rather than the CPA with the small practice who most often lives up to his obligation of maintaining an independent attitude and position.

A good deal of the accounting literature relating to independence states that one of the important functions of the rules of professional conduct is to present some criteria upon which the public can base its confidence in the CPA's independence. Yet, the survey showed that almost sixty per cent of the bank and seven per cent of the CPA respondents did not know the current AICPA rulings pertaining to independence. Ten per cent of the CPAs felt the present rules are not adequate, while over one-half of the industrial respondents favored more objective standards pertaining to independence and over one-half of the banks would place more reliance upon CPAs if their independence were readily measured objectively. The results of the survey show that the business world in general is not sufficiently aware of the importance of independence to the CPA.

II. SUGGESTIONS

Education. As a result of this study certain suggestions appear to be warranted. First, the importance of independence to the CPA must be stressed in the colleges, universities, and business schools. Prospective CPAs must be impressed with the need for and importance of independence, at the very outset of their education in accounting and auditing techniques, procedures, and principles. Independence should be as much a part of the students' thinking as are debits and credits. As John L. Carey said, "A professional attitude must be learned."[1]

Educate CPAs and public. A program of education should also be undertaken both within and without the profession. The CPA should be reminded of his obligation to his clients, the public, and his profession. This is not to say that if the members of the profession are not constantly reminded of their obligation, they will not meet it. However, a periodic reminder of the position of faith and trust occupied by the CPA profession may strengthen the desire of all CPAs to continually maintain their independent position.

The public, including the CPA's clients, should be educated in the unique service the CPA can efficiently perform if his independence is not hampered. The entire business world should be made aware of the benefits of the independent CPA's certified report to the economy. The public should also be informed as to the rules of professional conduct the CPA must comply with. These rules provide a basis for confidence on the part of the public in the CPA profession. The public and clients of the CPA

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[1] Carey, op. cit., p. 5.

should be aware that complete cooperation between the CPA, his clients, and the public, may easily lead to the situation where all CPAs will be independent and their statements will be relied upon with the utmost confidence, thus facilitating the smooth functioning of our credit and investment economy.

More objective standards. One phase of the education program for prospective CPAs, present CPAs, and the entire business world could possibly be the adoption by the AICPA of more objective standards pertaining to independence. While many CPAs consider independence to be a state of mind, there are objective manifestations of this state, or of situations which are conducive to a lack of independence or the appearance of a lack of independence. Any objective manifestations, which can be organized into criteria, contribute to the building and maintenance of confidence in the CPA. Criteria which will help the CPA avoid situations that may lead to a loss of independence or the appearance of a loss of independence are indispensible for the maintenance of the integrity of the profession and the respect of the public for the profession.

The CPA profession has progressed rapidly in the United States since the formation of the AAPA in 1887. It is striving for acceptance as a profession on the same professional level with medicine and law. In order to achieve this complete acceptance deserved by the CPA profession, which occupies such a unique position in the business world, the CPA, his clients, and the public must be fully aware of the importance and significance of an independent position and attitude to the CPA.

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APPENDICES

APPENDIX A

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

RULES OF PROFESSIONAL CONDUCT--1958

PERTAINING TO INDEPENDENCE

RULE NUMBER

(3) Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member.

Commissions, brokerage, or other participation in the fees, charges, or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member.

(4) A member shall not engage in any business or occupation conjointly with that of a public accountant, which is incompatible or inconsistent therewith.

(5) In expressing an opinion on representations in financial statements which he has examined, a member may be held guilty of an act discreditable to the profession if

(a) he fails to disclose a material fact known to him which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; or

(b) he fails to report any material misstatement known to him to appear in the financial statement; or

(c) he is materially negligent in the conduct of his examination or in making his report thereon; or

(d) he fails to acquire sufficient information to warrant expression of an opinion, or his exceptions are sufficiently material to negative the expression of an opinion; or

(e) he fails to direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedure applicable in the circumstances.

(9) Professional services shall not be rendered or offered for a fee which shall be contingent upon the findings or results of such service. This rule does not apply to cases involving federal, state, or other taxes, in which the findings are those of the tax authorities and not those of the accountant. Fees to be fixed by courts or other public authorities, which are therefore of an indeterminate amount at the time when an engagement is undertaken, are not regarded as contingent fees within the meaning of this rule.

(13) A member shall not express his opinion on financial statements of any enterprise financed in whole or in part by public distribution of securities, if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise. A member shall not express his opinion on financial statements which are used as a basis of credit if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise, unless in his report he discloses such interest.

APPENDIX B

Industrial Corporation Questionnaire

Bank Questionnaire

CPA Questionnaire

INDUSTRIAL CORPORATION QUESTIONNAIRE

Questions:

1. Is your gross revenue

   a) under 500,000 ____ c) 2,500,000 - 7,000,000 ______

   b) 500,000 - 2,500,000 __ d) over 7,000,000 _____

2. Do you have a CPA "certify" your financial statements?

   _____ Yes _____ No

2b. How often? ______________.

3. For what purposes are these certified statements used?

   a) ____________________ d) ____________________

   b) ____________________ e) ____________________

   c) ____________________ f) ____________________

3b. Why do you feel certified statements are required or used for the above purposes? ____________________
____
____

4. The members of the CPA profession, like those of the legal and medical professions must possess certain qualities or traits. Which of these qualities do you consider to be the most important quality of a CPA?

   Comment: ____________________

4a. What is your concept of this quality? ____________________
____
____

5. What is your concept of the term "independence" when you think of the Independent CPA?____________________

____

____

5a. Do you or do you not consider independence to be an important quality of a CPA? _____Do. _____ Do Not.

Comment:______________________________________

____

6. Do you feel that CPAs should have more objective standards to

   a) guide themselves in living up to your concept of independence. _____ Yes. _____ No.

   b) guide all those to whom the independence of a CPA is important in judging a CPAs independence.

   _____ Yes. _____ No.

7. Do you have any such objective standards in mind? (please list)______________________________

____

____

8. What measures can be taken to aid all CPAs in living up to your concept of independence?

____

____

____

BANK QUESTIONNAIRE

Questions:

1. Are your total gross assets

   a) under 25 million _____ c) 50-100 million_____

   b) 25-50 million_____ d) over 100 million_____

2. For what purposes do you require the presentation of financial statements?

   a)________________________ d)________________________

   b)________________________ e)________________________

   c)________________________ f)________________________

2b. Which of the following financial statements do you consider to be most reliable for the above purposes? (please rate 1, 2, 3, or equal)

   a) Statement prepared by the prospective borrower himself._____

   b) Statement prepared by an accountant who is not a CPA. ______

   c) "Certified" statement prepared by a CPA.______

2c. Why?____
____
____

2d. Approximately what percentage of the time do you require these statements to be "certified" financial statements prepared by a CPA?____

3. The members of the CPA profession, like the members of the legal and medical professions, must possess certain qualities or traits. Which of these qualities do you consider to be the most important quality of a CPA?
____

Comment:_______________________________________
____
____

3b. What is your concept of this quality?_______________
____
____
____

4. What is your concept of the term "independent" when you think of the independent CPA?_________________
____
____
____

4b. Do you, or do you not consider "Independence" to be significant for the CPA? _____ Do. _____ Do Not.

4c. Do you feel that, All____, Most____, or Some____ CPAs live up to your concept of independence?

4d. Do you feel that the CPA with the, Large practice____, Medium practice____, or Small practice____, most often lives up to your concept of independence? (please rate 1, 2, 3, or equal)

Comment:_______________________________________
____

5. Would you place more reliance in CPAs if their independence were readily measured objectively? ___Yes. ___No.

5b. Have you any standards in mind which will facilitate such measurement? (please list same)____________________

6. What measures can be taken to aid all CPAs in living up to your concept of independence?____________________

7. Do you know what the present position of the AICPA is on independence? ____Yes. _____No.

CPA QUESTIONNAIRE

Questions:

1. Are you a National Firm or a Local Firm?__________Firm.

1a. If local is the total number of employed people (including partners)?

a) 5 or less________ c) 11-20 ____________

b) 6 - 10 __________ d) 20 or more________

2. For approximately what percentage of your clients do you prepare statements upon which you express an opinion? ________%.

3. Why do you feel your clients consider such a statement significant? ____

4. What is the most important quality of a CPA?__________

Comment:____

4a. What is your concept of this quality?____________________

5. What is your concept of "Independent" when you think of the Independent CPA?________________________________

6. Do you feel that CPAs should have more objective standards

   a) to guide themselves in living up to your concept of independencence?

   _______Yes. _______No.

   b) to guide all those to whom the independence of a CPA is important in judging a CPA's independence?

   ________Yes. _______No.

   Comment:____
   ____

6a. What should these standards be?__________________________
____
____
____

7. Do you consider the present AICPA rulings on independence to be adequate?

   _____Yes. _____No. _____Don't know.

   Comment:____
   ____
   ____

8. What measures can be taken to aid all CPAs in living up to your concept of independence?___________________________
____
____
____