



Accounting's Stature Undermined By 'Cookbook' Approach

I am getting more distressed about telltale signs of problems at the core of the accounting profession. There may be no bigger issue facing the future of finance.

The declining number of students in college accounting programs has been well-documented, and fewer students are sitting for the CPA exam. These facts are even more troubling when taken together with the impact of retiring baby boomers and fewer young workers entering the labor market.

Of course, a strong economy, an ever-stronger entrepreneurial environment and the lure of technology-oriented careers makes alternative career paths very appealing to students. Higher compensation in other fields is a problem that accounting firms have to face up to as well.

The AICPA has been trying, in part, to address these realities with its "XYZ" credential. It hopes that a broader business certification will help the profession in the future. Much controversy exists within the AICPA over the proposal, but I applaud the AICPA leadership for not sticking its head in the sand and choosing to stay in the past. While the credential itself may not be the answer, the naysayers need to join their leadership in focusing on the future.

I think the problem rests in the fundamental shift in the nature of the work. Accounting is losing its professionalism. That is, it is losing the role of the individual, practicing the discipline's art and science, who is trained and licensed to exercise his or her judgment on behalf of the client, the employer and the public, and who is able to assess the situation, gather the facts, apply a framework and render an answer.

Increasingly, the profession is being undermined by a cookbook approach to accounting — one in which the rules are so detailed and complicated that the individual practitioner

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becomes nothing but a conduit between the client and a huge book containing all the possible transactions, every possible question and predetermined answers. Many call it a "prescriptive accounting environment" or "standards overload." I call it a regulatory environment that is lazy, undisciplined and lacking in perspective.

Distrust is also at the root of the problem. The SEC has spent the past eight years challenging the accounting profession, financial reporting and corporate management teams. Further, the media loves to write up the "plane crashes" of financial reporting — they make great press and gossipy reading. All told, it is no wonder that the profession is losing its appeal to the next generation.

The environment and the tone must change. The power to give final and definitive accounting answers needs to be returned to the field. The SEC needs to get out of the auditing business. And the FASB needs to write rules at a higher level and leave the creation of detailed answers to the accounting firms and professionals.

Furthermore, we need to recognize that the rate of financial reporting failures is very, very SMALL. Looked at both on the basis of the frequency and the dollar value of market losses, financial reporting and control quality is very, very HIGH. The regulatory and media emphasis on the plane crashes has the potential of grounding the strong financial reporting system that keeps our capital markets aloft.

Importantly, this subject is being talked about everywhere I go, and usually not on my initiative. From the smallest towns to the biggest forums, it is on the radar screens of FEI members everywhere. It's time that the biggest minds in the highest seats stop sloughing it off, look in the mirror and think about the impact 20 years hence unless significant changes are made now.

By Phil Livingston
plivingston@fei.org