Testimony before the Treasury Department Advisory Committee on the Auditing Profession[1]

Human Capital and Its Impact on Audit Quality

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Mr. Co-Chairmen and Advisory Committee Members, thank you for the opportunity to testify and share my perspectives. The issues delineated in the Working Discussion Outline and those addressed in prior testimony before this committee are many. Viewpoints on certain issues clearly vary. I will try not to be redundant, but rather say where I agree or disagree with prior testimony and then move to other areas not previously extensively addressed.

By way of introduction, I have thirty years experience teaching accounting students and nine years experience as Director of the School of Accountancy and Information Management at Arizona State University. I am Past-President of the Federation of Schools of Accountancy (FSA), current Vice-President of the American Accounting Association (AAA) and past and current Vice President of the Accounting Programs Leadership Group (APLG). I serve on the Pre-Certification Education Executive Committee of the American Institute of Certified Public Accountants (AICPA) and the KPMG Educators Advisory Board. I have also served in capacities related to national rules-making respecting collegiate accounting curricula. That is, I served on the committee that wrote current accounting accreditation standards for the premier international business accreditation body, the Association for Advancement of Collegiate Schools of Business (AACSB). I also served on the joint AICPA/NASBA (National Association of State Boards of Accountancy) committee that drafted the initial ill-fated revisions to Rules 5.1 and 5.2 of the Uniform Accountancy Act that set about to mandate the content and pedagogy of collegiate accounting curricula.

[1] These comments are those of Philip Reckers and do not represent an official position of the American Accounting Association.

Issue 1: Current and Prospective Adequacy of the Supply of Highly Qualified Entrants to the Profession of Public Accounting.

Public accounting (auditing) firms are for-profit enterprises and as such it is in their self-interests to keep costs low, without compromising quality. One of those costs is the salaries of the thousands of young accounting graduates they hire each year. Keeping costs low is an end advanced by securing a very large supply of talent. Scarce commodities cost more; plentiful commodities cost less. Large supplies are especially attractive if you do not pay for the production costs of the commodity (in this case the education of accounting graduates). This reality has never been lost in the mind of leaders of the practicing profession. Over my thirty-plus years as an educator, leaders of the practicing profession have always complained that there are too few accounting graduates. And, that our 21 year old graduates lack the maturity and business acumen of… say their 35 year-old managers. So, current cries of an undersupply, especially by "buyers" of accounting graduates, are immediately suspect; we have heard it before, frequently.

In addition, the facts do not generally support contentions of a current undersupply. One would expect to have seen starting salaries for accounting graduates increase sharply over the last decade if there was truly a shortage. Those who have testified before me have cited evidence that salaries have not increased significantly. In fact, in real-value terms and relative to other professions (e.g., law, medicine) and other business disciplines (e.g., finance, marketing), starting accounting salaries have diminished. (Indeed, I find it amazing that the number of accounting graduates at our schools has increased as much as it has in recent years given stagnant starting salaries, compared to other business disciplines.) Further, if supply had diminished sharply one would expect to see the large public accounting firms recruiting at more universities, and greater attention directed to staff retention. What we see is that the large firms interview at fewer (target) schools than they did in the past. (It is more economically efficient to interview at fewer schools.) And, retention rates have not improved over historical rates.

This is not to say that employers may not need still more graduates in the future. That is an open question. If employers need still more graduates in the future because of increased demands from society, basic economics would suggest that one place to start would be higher starting salaries…and, greater attention to the work/life-style demands of the current generation. Money and work/life style balance matters do make a difference. They do play into students' career decisions.

The other "constant" that I have experienced is the profession's fear that the accounting profession, and thus their firms, are not getting their *share* "of the best and the brightest" college students (i.e., too many are selecting other majors) and/or that the quality of accounting students has diminished over the last decade. Professor Ira Solomon testified that, to the contrary, based on data available to him, the quality of students at the University of Illinois, in fact, has been increasing. I perceive the same phenomenon at Arizona State University. I disagree with contentions that the quality of accounting students has diminished. When addressing whether their *share* is adequate, we must be circumspect. Are we talking about what share society needs…or what share the public accounting firms want…at very low costs? The greatest beneficiaries of the inexpensive public education of accounting students in this country are, of course, the partners of the largest public accounting firms who want to hire the "best and the brightest". (Most accounting graduates are educated at public state institutions).

Avenues available to access still higher quality students are much the same as those addressed above to increase the available pool of talent in general. Those avenues and efforts to make the tasks assigned to recent graduates more meaningful and challenging hopefully would bear fruit. Likewise, internships that foreshadow what new hires will be doing but which involve mostly mundane clerical functions do not advance the firms' ability to attract the best and the brightest. The firms do not have sufficient oligopolistic power, nor can government regulation mandate that students select lower-paying careers in accounting; nor stay in careers they dislike.

Professor Carcello's testimony suggested that creation of independent Schools of Auditing would significantly increase the supply (and quality) of entry level professionals by increasing the stature of the profession. I disagree heartily. I see no reason to believe that the creation of free standing schools of auditing will significantly change the underlying economics of the job market. Further, I believe the proposal to be fiscally impractical. Free-standing schools of auditing would entail increased costs to universities ***that public institutions will not bear***. One must be mindful of a phenomenon over the last two decades, known as the "privatization of public education". That is, a decreasing percentage of the operating budgets of public institutions comes from tuition or state tax subsidies. The major institutions targeted by the large public accounting firms have become increasingly dependent on the charitable giving of alumni, corporations and foundations…and revenues from intellectual property (IP, patents developed by faculty). Business school deans, especially, have been admonished to run their business schools as businesses: raise revenues where they can, cut cost where they must, but balance the budget…relying less and less on university funds. Accordingly, deans have come to look at their degree programs as a portfolio of products. On some products, they can experience high margins because they can charge higher fees (MBA programs). On other products, where tuition is relatively low, low margins are the rule (undergraduate programs). Thus, the emphasis has progressively switched from low margin undergraduate programs to MBA programs. Every increase in the number of undergraduates requires increased subsidies from MBA programs and private giving. Few business schools benefit from significant intellectual property (IP) revenues or federal grants (e.g., National Science Foundation (NSF) grants). In fact, most federal programs do not recognize business disciplines (except for economics) as legitimate funding prospects. Yet the capital markets depend greatly on the research, scholarship and education that business faculty provide. Unfortunately, neither have accounting alumni and firms been generous in giving. To the contrary, their giving may be in a declining trend. Few business school deans can report significant giving ($1,000,000 plus gifts) from accounting-related sources. Over the span of my career I can think of only two gifts made to any accounting program at or above $5,000,000. Thus, the reality is that accounting programs today enjoy significant subsidies from the business school in which they are housed…subsidies that would not be available if they were free standing schools. And, there is absolutely no evidence that the profession has the will to pick-up the multi-million dollar tabs that would accompany truly free standing schools of auditing in the future. States lack the funds as does arguable the profession. I further doubt that that most accounting faculty would miss this reality. Thus, I completely disagree (with Professor Carcello) that most accounting faculty would enthusiastically move from the business school faculty to new schools of auditing faculties. I don't see this happening at all. Many accounting faculty do not teach in accounting undergraduate or masters accounting programs. Many teach exclusively in MBA programs. Of 15 academically qualified accounting faculty at ASU today, only six teach exclusively in accounting degree programs. Attempts to divide accounting faculties between the business school and a new school of auditing would be highly acrimonious, as well as fiscally unsustainable.

Issue 2: Other Supply-Chain Factors: The PhD Shortage in Accounting.

Every responsible enterprise must pay heed to the viability/sustainability of its supply-chain. Its sustainability is dependent on its supply of raw materials (commodities and products) and human capital. Universities are a vital element in the supply-chain of entry-level accounting talent to the practicing profession, ***although that is not the sole, nor necessarily the foremost, goal of collegiate education.*** At long last some attention has been achieved with respect to the fragility of one aspect of this supply chain: the diminishing supply of academically qualified faculty.

To address how to remedy the situation, it might be helpful to consider decisions, events and conditions that caused us to be where we are today. Previous testimony before this committee by Mr. Leslie and Drs. Carcello and Solomon has already provided data on the significant deterioration of the base of academically qualified accounting faculty in this country, a condition that only worsens in the imminent future. I will not repeat these figures. Testimony has also noted that the shortage is especially critical in auditing and the auditing support area of accounting information systems. Based on a current survey of all US Ph.D. granting institutions, conducted by a Joint AAA/APLG/FSA Doctoral Education Committee (on which I sit) only 86 new auditing faculty will emerge from Ph.D. programs over the next five years…to serve the entire nation; and only 23 new accounting information systems faculty will graduate over the next five years. (It is hard to do forensic auditing without some knowledge of technology). These are "declarations" of students already in doctoral programs. How did we get to this point? I will touch on several contributing factors. Many of these factors come down to basic economics in action.

The first item I draw your attention to is that the payback to a prospective doctoral candidate for investing in accounting doctoral studies is not good and has deteriorated over the last two decades. This is the case for several reasons. First, stipends to doctoral students during their years of studies have never been good, but they *have eroded badly* in real inflation-adjusted dollars over the last two decades. Second, the length of doctoral programs *has increased significantly*. Presently, 47 percent of Ph. D. programs provide doctoral students annual stipends of $20,000 or less; 73 percent provide annual stipends of $25,000 or less. Now I work in a metropolitan area where a lot of people like to live and go to school – Phoenix. In the 9 years that I was Director of the ASU School of Accountancy, countless practicing auditors contacted me to talk about potential career changes that involved going back to school, earning a Ph. D., and becoming a college professor. I cannot tell you how many times those same people nearly laughed in my face when research and teaching stipends were addressed. How can they and their families survive for five or six years on $20,000 per year? Student loans were not an appealing answer.

And, for what do they make this economic and family sacrifice? What is the chance of achieving success if you earn your Ph.D.? My best assessment is that students who are lucky enough to start their careers at major doctoral granting institutions (similar to the ones from which they graduated) have less than a twenty percent chance of achieving tenure. The thresholds for achieving tenure have gone up markedly in the last two decades.

Who is responsible for these changes: deteriorating funding, longer programs and reduced likelihood of success?

Deteriorating funding is basically an economic issue. Above I referred to the phenomenon of the last twenty years known as the “privatization of public education” (nearly 85 percent of our accounting Ph. D. granting institutions by the way are public state-assisted institutions) and the resultant pressure on business school deans to balance their budgets and run their business schools as businesses. I spoke about the resultant emphasis on growing programs that offer high profit margins and shrinking or eliminating programs that have small margins. Well, Ph. D. programs yield terrible (negative, in fact) margins: virtually no revenues and all costs. The only direct benefit to a business school dean is that they need to hire doctoral program graduates to staff their faculties, but they cannot/do not hire their own students…so why have expensive programs just to serve other dean’s needs. Of course, this logic doesn’t scale. If every dean thinks this way, a problem emerges. And, in fact, it has. We have a classic free-rider problem. Deans have not cut stipends in absolute dollar terms, but the stipends have been unbelievably sticky, i.e., no increases. Deans have not for the most part killed doctoral programs, but they have reduced doctoral program sizes (and thus costs). There were years in the mid-1990’s where it become popular to admit new doctoral students only every other year. And, this condition continues. Dr. Solomon testified that the University of Illinois today is graduating one to three Ph.D.s per year. When I was a student there, classes of seven or eight were typical. The realities of the economics of doctoral education and the decisions university administrators make in response to financial pressures are real and continuing. Candidates don’t want to bear the costs. Institutions argue they cannot bear the costs, without ***significant*** external support.

Let me return to a second variable in the economic equation that I referred to above: the length of Ph. D. programs. The time demanded of students in doctoral programs has increased sharply over my lifetime. I spent four years in residence when I earned my Ph. D. at the University of Illinois. Today it is rare to complete a doctoral program in less than five years and common to take six years or more. Who is responsible? The fault here lies within the academic institutions and is linked to administrators' and faculty focusing on program reputation and rankings and the wish to give their students a chance to earn tenure at the institution at which they are placed. The length of programs has been extended to get more research done before graduation to facilitate getting a job at a premier school and improving chances for developing a tenurable research record at that school within the typical six year probationary period.

Let me now return to a third and related variable in the equation that I referred to above: the benefits side, if a candidate makes the investment and earns a PhD in accounting. Promotion (and retention) standards have risen markedly over the last decade so that nearly four in five faculty will not achieve tenure at their first school if that school is a major institution such as those at which the large CPA firms recruit. The fault for this escalation in tenure standards clearly lies within the academic institutions (but not exclusively within accounting faculties) – we eat our young. Efforts are underway to reverse this trend, but positive results will not come easy. Recent past presidents of the AAA have "campaigned" for reform. We must keep up the pressure. An unintended consequence of the recent elevation of these promotion standards (mostly in the form of more high ranked research publications) is that new faculty teach less (fewer courses and fewer students) which only exacerbates the Ph. D. shortage problem. We have fewer faculty entering the academic ranks and they also teach less. They teach less, because they demand to teach less because without more time for research they have NO chance to overcome their tenure hurdles. When I joined the faculty at ASU in 1980, I taught three course sections per semester. Today, our newly-minted Ph. D. recruits teach three course sections per year.

So how can we produce remedial changes? As I said recent AAA presidents have campaigned hard to bring back reality to promotion standards, but there is little that the AAA can do about the fundamental economics and systemic issues. More and more Ph. D. students are foreign born in large part because the life-style sacrifice extracted by doctoral programs is less for them relative to their pre-program economic and life-style conditions.

For most US citizens with significant professional experience who desire a doctoral education in accounting to become new accounting faculty, the economic consequences are drastic. Try recruiting a mid-level manager or senior manager from a CPA firm to give up a salary and possible bonus in exchange for five or six years of "academic servitude". Yet it is those people that understand the US business models who should be among the academic ranks.

Fourth, foreign born and US born students alike show a propensity over the last decade to select as their emphasis area Financial Accounting and not Auditing or Information Systems. This decision is not independent of the above influences. The dominant question in the minds of these students is "How can I get a job at a good school and make tenure"? It is harder today to do auditing related research than financial research because to do auditing research the individual must secure data from practicing auditors, whereas requisite financial accounting data (e.g., stock and bond market data) are readily available on databases to which all major institutions subscribe. To this point, I asked my first year doctoral students in our first seminar session just three weeks ago, without any prompts, what area they planned to go into and why. Without exception it was Financial Accounting… because "I can do that and the data are available". The "I can do that…" portion of the answer is a problem we wrestle with today. It means "I cannot do other things, such as auditing, because I have no past auditing experience" or indeed any previous connection with the practicing profession. The "and the data are available" portion of that answer has already been addressed by Professor Solomon. Somehow, someway, a means must be developed for researchers to gain access to auditing related data; or, we will never see the desired upswing in interest in auditing in our doctoral programs, or among faculty. Without it, tenure cannot be made, because research cannot be conducted and if it can't be conducted, it cannot be published. One must be realistically. The ways and means to do research need to be provided for career success. The universities will not in my lifetime abandon significant research requirements (although we can moderate extremes). And, starting your own new schools, doing it "the right way", "your way", or "another way" is not economically viable. Startup as well as sustainability costs are prohibitive. Years ago, when I was starting my career, Peat Marwick (later KPMG) launched their *Research Opportunities in Auditing* initiative. What a difference it made! It provided modest funding for faculty research proposals but it also made data available and access to human subjects (auditors) possible. It changed my career. It allowed me to refocus my research from archival financial research to experimental auditing. We need a program similar in focus again, but bigger in size and duration. Optimally, such an initiative would be a cooperative effort engaging multiple firms. Doing otherwise involves once again free-rider problems which inevitably shortens the life-span of any initiative. No one party can be expected to bear the total costs for the larger community.

Having said all of this I am not pessimistic, I am guardedly optimistic. People do not change until they forcefully see the writing on the wall. We smoke until we find spots on our lungs. We live on hamburgers and French-fries daily until our cholesterol threatens to kill us. The pendulum swings. I have confidence we can shorten Ph. D. programs and moderate promotion standards. The economics of doctoral education and who will pay for it is another matter.

I do not believe however that simple regulatory mandates will solve this. In fact, I believe they are partially the cause for the present condition. A past mandate to which I refer is the 150 hour requirement for writing the Uniform CPA Examination and subsequent licensure. This mandate was a blatant unfunded mandate. The burden fell nearly exclusively on institutions and students to pay the bill. Starting annual salaries for accounting graduates with bachelor degrees and master degrees still diverge by a trivial amount – about $3,000 per year. In the end "you don't get something for nothing." Some students have selected other careers, and deans simply started deemphasizing accounting programs at most schools. One way they have done this is to allocate fewer faculty lines to accounting than other disciplines and this accounts in part for why faculties in all other business disciplines have been increasing while the size of accounting faculties has fallen over the last decade. All these forces are related and many if not most tie back to basic economics.

One success story in recent years (that may deserve cross-firm emulation and expansion) has been the KPMG Ph.D. Project. Under that program, diversity was enhanced by providing annual $10,000 supplementary stipends to minority Ph.D. students. As a result we have experienced a marked *increase* in the ranks of minority Ph.D. students in this country. While the overall number of Ph. D. students has gone down; the absolute and relative percentage of minority students has risen significantly. Thus, there is evidence that economics does make a difference in the supply of accounting Ph.D.s. But, today we need more Ph. D. students across all backgrounds. Thus, I would urge a cooperative effort among the firms, and with the support of government, to expand this program. If the welfare of our society is dependent on strong capital markets; and strong capital markets are dependent on reliable corporate financial information made possible in part by a vibrant auditing profession, why not commit public dollars to support accounting doctoral education? Why must federal support only go toward arts and the hard sciences?

Issue 3: Regulation of Accounting Curriculum

I want to talk bluntly about this issue. Powerful heads of corporations, banking institutions and public accounting firms (hereafter, “powerful people” with no disrespect implied) are accustomed to getting their way, and getting their way quickly (meaning now). As a result they frequently experience a degree of frustration dealing with academics and academic institutions. As you would expect, academics tend to be more deliberative which has its own pluses and minuses. Powerful people, however, also tend to quickly forget any and all mistakes they made by heading off precipitously in a direction that proves in hindsight to have been a mistake (e.g., special purposes entities, sub-prime lending). If academics responded to every call/demand/mandate from every outspoken member of the profession the costs would be enormous and the returns on investment modest, if not negative. And every failed initiative within the business college would make that college dean even more resistant to every future initiative proposed by accounting faculty.

It is also often the case that when frustrated with not getting one’s way on a particular matter, there is a natural tendency in all of us to forget how many changes have been made and on how many things one did get their way. Faculty are not just responsible to employers. We have responsibility to the interests of our students and society. What is “Good for General Motors” is not always “Good for America” irrespective of that proclamation by a former GM CEO. And, what is “Good for the Big 4 Firms” in the short run or the long run is not necessarily “Good for all our or even most of our students and society”. Faculty have responsibilities they take seriously and blatant bullying tactics will not be successful in achieving desirable ends. *Faculty are not unreasonable and faculty are not lazy and faculty are not any more resistant to change than anyone else and likely less so. And, unless these stereotypes so commonly advanced by frustrated “powerful people” are set aside, progress predictably will not be achieved.* When the then Big 8 firms worked with academics to achieve the goals of the Accounting Education Change Commission, real change happened. But, that venture was massively under-funded (which is another pertinent lesson to us today). When the leadership of the National Association of State Boards of Accountancy (NASBA) very recently attempted to bully accounting programs to come in line and accept mandated, but ill-conceived accounting curricula developed in a secretive process with no honest engagement of academics the result was organizational and personal embarrassment for NASBA and its leaders. I know. I was intimate with this process having "served" on the rules drafting committee ("served" in this case is a euphemism for being lectured to and having your input ignored). This was an instance where practicing professionals with virtually NO knowledge of the academic institutional environment or what was really in place in accounting programs, made sweeping self-serving assumptions to drive home their perceived agendas. The whole process was marred by a humiliating disdain for academic professionals with the presumption that they were unreasonable, lazy and comatose. And, the result was that the practicing and academic parts of our profession wasted a lot of time, and two plus years' effort beating back a self-serving political proposal with significant unintended consequences, instead of directing that time and effort into more productive efforts. As a result, the pressure now is all the more intense to move forward a critical common agenda…and to dispel the appearance that we have not been doing enough. I sense some of the same dysfunctional attitudes (faculty are unreasonable, lazy, and non-responsive) in prior testimony before this committee. If my experience with the National Association of State Boards of Accounting is *any shadow* of what we might expect from government regulation of accounting curricula (as proposed by Mr. Turley of Ernst & Young via Treasury Department "guidelines for the body of knowledge that would constitute an 'undergraduate accounting education' and a 'graduate degree' ")- and I think it is- I want no part of it. I believe it will only lead to disaster. Change is constant and fluid. Curricula changes require deep thinking and articulation across many courses and continuous change. And, I submit not all schools should do the same thing. We need different schools experimenting with different curricular initiatives. We have a market system in place; hire from the schools that turn out the best products. Without insult to Treasury Department personnel, I see no evidence of the requisite competence to deal with complex curricular issues, on a one time basis, and certainly not on an ongoing, continuous improvement basis responsive to dynamic changes. I would not presume to be able to run a Big 4 practice, nor run the operations of the SEC or PCAOB. Why do those outside academia presume they know so much better when they have never walked in an educator's shoes? Further, any movement towards radical mandates will cost the profession dearly among its remaining allies on campus: the declining audit faculty in this country. If this committee chooses to issue new unilateral mandates, you will increase the costs of accounting programs still further. You can expect push-back from business schools deans with continuing de-emphasis of accountancy programs and from faculty who will flee to teaching spots in MBA programs. You may not have as many business and accounting administrators and faculty on your side today as you want, but you have more now than you may have tomorrow if engagement and mutual respect is not the rule of the day.

Let me also note that *auditing related education* is not provided solely by auditing faculty. Much of the knowledge and skills needed by future auditors is provided by faculty identified as Financial Accounting faculty. They teach Statements of Financial Accounting Standards (and prospectively International Accounting Reporting Standards), and the underlying economics driving transactions (i.e., substance over form). They teach financial analysis and valuation (and prospectively fair-value concepts and modeling). They teach business strategy and a plethora of other content critical to understanding complex business decisions and transactions. So, we do need financial accounting faculty as well as auditing faculty.

I have also worked within AACSB, another entity that "powerful people" tend to speak about with some disdain, if not outright contempt. I served on the committee that wrote the current accounting accreditation standards. The process was the antithesis of my and others' NASBA experiences. It was transparent, and engaged the greater community over a two year period. And the results were much different. The academic community embraced the non-trivial changes. Go back and compare the pre and post documents. Curricula before and after.

Accounting faculty do want to serve our students well. We do want to prepare our students to be well educated people who contribute to society and to the profession of accounting *and business.* Most of our students do not remain in public accounting, but contribute in many areas of commerce. The Federation of Schools of Accountancy (FAS) and the Accounting Programs Leadership Group (APLG) hold multiple meetings annually for the express purpose of sharing innovative ideas and best practices. Leaders of the practicing profession are routine contributors to the dialogue at those meetings. The American Accounting Association (AAA), at our annual national meeting has many, many *Effective Learning Strategy* (ELS) sessions. The AAA has just announced a second annual national meeting (in addition to all our mid-year and regional meetings) devoted exclusively to teaching issues. A combined AAA/FSA Committee is working with the FASB in developing new teaching materials in the area of Fair Value Accounting (to disseminate nationwide). A combined AAA/FSA/APLG Committee (referred to above in the context of the survey recently conducted) influences change in our Ph. D. programs. A special AAA Education Committee sub-committee will soon begin developing course materials related to integration of IFRS in our curricula (we are currently considering various professional partners in this initiative). The Teaching & Curriculum Section of the AAA sponsors many sessions at all regional meetings as well as the AAA's annual meeting. Most of our schools have active professional advisory boards, whose members advise our faculty on curriculum issues. What am I missing here that leads some to so summarily dismiss all these and many other efforts and ask for a new outside governmental regulatory board to mandate accounting curricula? Think about what has transpired over the last decade at our schools.

In the typical undergraduate 120 semester-hour program, all business students take two sophomore-level introductory accounting classes. Accounting majors at the junior and senior level usually take six additional accounting courses. That is a total of eight. Over the last ten years, most schools in response to the 150 hour mandate have developed up to ten more accounting courses to complete the additional 30 hour requirement. That is more than a doubling - a 125 percent increase - in the number of courses developed, and taught by "lazy, unreasonable, non-responsive faculty" without funding (by those who mandated the change) and by shrinking faculty ranks (accounting faculty size declined twelve percent). The undergraduate curriculum typically adheres to a generalist orientation, for good reason (addressed below). Beyond the introductory courses typically one sees two courses in financial accounting, and one each in auditing, tax, managerial accounting and accounting information systems. The undergraduate program adheres to a generalist approach because students go on to careers in many accounting-related fields – importantly only a minority makes a career in external auditing. However, the graduate program (the extra 30 hours) is essentially a specialist degree in either auditing or tax. The courses are designed and integrated to serve those career options. Recall the 150 semester-hour mandate was called for by the Uniform Accountancy Act as a prerequisite for licensure as a CPA for purposes of supporting the auditing profession and only the auditing profession, and course-articulated masters programs were designed to meet that end.

We must also be conscious that while the auditing profession is lobbying for more special treatment (as if they are not already receiving enough special treatment), other groups are doing likewise. The Institute of Management Accountants (IMA), for example, takes a very different view of things. I refer you to Mr. David Burritt's (CFO of Caterpillar, Inc.) January 4, 2008 comment letter. He and the IMA argue forcefully that accounting academics already fall prostrate too often and too easily in front of the Big 4 firms and that as a result our accounting education programs fail to adequately serve their needs. We are reminded frequently that even within the ranks of the AICPA, over half of the members work outside public accounting. Most of our graduates will have careers outside of public accounting, and the growing complexity of business demands graduate education for those students as well. It is hard to serve many jealous masters. The auditing profession is served well and will continue to be. Mutual respect and cooperation must be the order of the day. And, I sense it often is not.

Am I suggesting that current accounting programs are today perfect and need no changes? That would be ridiculous! We live in dynamic times. Many new challenges confront us. We are moving from historical cost accounting to a mixed model which incorporates far more fair-value accounting. Do we need to put in place more curriculum content in this area? What content? What should it replace in the current program? Or, can we teach it (e.g., economic modeling) synergistically with other topics? We are moving toward international accounting standards. Do we need to put new content in place? What content? When? Do we jettison SFAS? Is principles-based accounting simultaneously replacing rules-based accounting/auditing, and when? If so, should we transition our teaching approaches from teaching standards and rules to focusing more on concepts and principles and teaching how to research authoritative literature? And, will there be support? To research authoritative standards, students must have access to electronically searchable standards. Educators for years have tried to gain such access for students. But, the FASB has been rigidly obstructively insisting they need hefty fees from every user (firms and students alike) to help with their operating budgets (now solved in part by SOX prescribed funding mechanisms). If the US Tax Code and Regulations is a “free good”, why shouldn’t accounting and auditing standards be “free goods’? Prospectively, the International Accounting Standards Board appears somewhat more sympathetic but the AAA is still in negotiations over terms to make these critical resources available to students. The standard setters and the firms want our students to have certain skills, but often support to make that happen has been lacking. This committee must hear both sides of the story about innovation and responsiveness or non-responsiveness.

Accounting educators are also mandated (through revised rules 5.1 and 5.2 of the Uniform Accountancy Act) to include three student credit hours of ethics in our programs (the original misguided proposal was for nine student credit hours (3 courses) of ethics!) The same questions emerge. What do you remove from the accounting curriculum to put this in? Can we synergistically combine this content with other content, so we can take less out while putting this in? Who is going to develop the new material? What is the “right” material? Can you teach ethics? How can you best teach ethics? How do you assess ex-post if one way of educating is better than another? Lots of real issues! And we are working on all these and more. Accounting-related ethics education has been a multi-year effort lead by Dean Nancy Bagranoff, past AAA Vice President of Education and currently the AAA’s President-Nominee. Past AAA President Mary Stone is currently working with the FASB chairing a joint AAA/FSA committee to develop fair-value course materials that our AAA and FSA members can then use in their classes nationwide. A new committee is in the formative stage to do similarly with respect to IFRS, but we need support, a firm and/or an agency to work with faculty to optimize the course materials developed. Or, optimally in the future, an organized structure to identify and coordinate innovation, and accelerate development of new curricular content. Perhaps an ongoing alliance might be proposed that would include the AAA, FSA, APLG, AICPA, and public accounting firms, with funding.

The AAA also is about to launch a major initiative to address potential model programs (plural). Such sea-change events as moving from historical costs to a mixed model with significant fair-value accounting, with simultaneous changes to international standards and principles-based accounting, speak to major changes of the entire profession of accounting. The academic profession will once again be there. This time the challenge is not to add ten new courses, but so soon after developing those courses AND integrating them into the existing curriculum, to turn to transforming them. But, we will need some support. We will need professionals to dedicate real time to work with our faculty to develop international accounting content as well as fair-value content…bringing together their expertise and our expertise. We will need inexpensive, if not free, access for our students to searchable electronic authoritative standards. Other needs will arise. Also, remember that my dean does not give me release time from everything else I am expected to do at my school where we are ever pressed to be leaner and more productive. It is my spouse that I need to look to for release time, as do all the other volunteers that staff AAA, FSA and APLG offices and committees. It is not helpful to be told you are “lazy, unreasonable and non-responsive” when your spouse or children ask such questions as, “Are you still at it?” or “Where do you have to fly to now? Or “Why are you doing this? Does anyone take you all seriously?”

Issue 4: Counting Continuing Professional Education (CPE) Credits toward the 150 Semester-Hour Requirement.

Another proposal advanced in prior testimony before this Committee was to count firm delivered continuing professional education (CPE) toward the 150 semester-hour formal education requirement. I will speak against this for several reasons.

First, I have attended multiple, multi-day staff CPE programs delivered by more than one Big 4 firm over my career, thanks to the generous support of those firms. The content of the courses that I attended does not compare favorably to graduate *"education"*. It tends to be *vocational* and "This is the way our firm does it and this is the way you will do it." It is very important vocational training (very important to the provision to high-quality professional services) that has its place but it is not comparable to the expected rigor of collegiate education. And arguably, moving in this direction becomes problematic if we are truly moving toward principles-based versus rules-based accounting, which would require a very strong bedrock knowledge of concepts and the economic substance of business transactions vis-a-vis the form of those transactions. To acquire the skills to deal with principles-based accounting students will need to be challenged to critically think and reason, not be told what to think.

Second, I believe the scalability of the concept is problematic. If one were to count the CPE of Ernst & Young as qualifying for 150 semester-hour credit, would you likewise enfranchise the CPE of all other firms, large and small, and the CPE of state CPA societies, and private vendors? Are they all high quality, well integrated and supportive of the objectives of the 150 semester-hour mandate? Furthermore, what monitoring or quality control mechanisms will be set in place? How reliable will it be and how expensive will it be? (Hopefully it will be more than the NASBA CPE Registry, which is a "pay your money and be registered" approach.) Or, will this franchise be given only to a select few? I have again attended many programs qualifying for CPE credit by many state accountancy boards. The quality of these programs (1) exhibits great variance, and (2) is, generally, of considerably lower level than graduate collegiate offerings; in addition, (3) these non-articulated sessions provides for little or no integration across sessions/courses to achieve any synergistic advantage. These are poor substitutes at best for a rigorous, disciplined formal education.

Third, after all the effort (with minimal support from the accounting practice) to develop the ten new courses mandated by the UAA 150 semester-hour rule, the Committee's support for Mr. Turley's proposal would gut the intent of original legislation; and, simply put, "pull the rug out" from under all the profession's supporters on campus. This proposal is nothing less than a backside repeal of the 150 semester-hour rule. If the rug is pulled out, it is unlikely that future appeals to accounting educators will fall on fertile ground. Too much effort has been invested; too many IOUs called in to make 150 semester-hour programs possible. At this juncture, given all the recent failures associated with the accounting profession, to argue to reduce professional "education" and attention to critical thinking and reasoning, especially in the shadow of the movement toward principles based accounting, may well imperil quality accounting education (the lifeblood of the US accounting profession) and the future of the US audit profession. This hardly is the time, if there ever was a time, when the profession should be arguing for less formal education and continuing education and especially less ethics education.

Bottom Line(s): Myths and Realities

Myth No. 1. There is a critical shortage of young talent graduating from our colleges today in accounting; and those who are graduating are no longer the best and the brightest.

Reality No. 1: The data simply does not support this assertion. Whether current enrollment levels can be sustained or increased is dependent on many things. Of greatest concern may be the prospective production of accounting Ph.D. (academically qualified) faculty who serve an important place in the supply chain. Basic economics suggest consideration should be given to reducing the costs of doctoral education and/or increasing benefits. Obviously, free market mechanisms are not overriding other impediments.

Myth No. 2. Faculty are unreasonable, lazy and non-responsive to the ever changing needs of the dynamic business world.

Reality No. 2: The data does not support this assertion. Faculty have expended great energies to reasonable requests of the profession (developing upwards of ten new courses to satisfy new 150 hour mandates over the last decade, in addition to tax courses developed during this period) and continue to be responsive as evidenced by the plethora of curricular innovations showcased every year at AAA meetings and conventions and by current initiatives in place and in development by the AAA, FSA and APLG. Few practicing professionals attend those well-advertised and publicized meetings; so perhaps, they lack knowledge of those efforts.

Myth No. 3. Great strides have been made to transform the public accounting work environment into a much more employee-friendly and intellectually-stimulating environment capable of retaining more of the “best and brightest” accounting graduates.

Reality No. 3: The jury is still out, but retention levels continue to approximate poor historic levels and anecdotal feedback from former students fails to support these assertions. The jury is still out, arguably because work-place consequences of recent SOX reforms may have mitigated the honorable efforts of the profession. Renewed and enhanced efforts may be appropriate.

Myth No. 4. No prospective changes need to be made to accounting curricula.

Reality No. 4: This is of course a straw man; nobody is saying this. Change is the only constant. The fact is that accounting curricula are in a constant state of change. Nearly all major universities have professional advisory boards made up of practicing professionals who work with faculty on directing curricular changes. And, significant efforts by the AAA, FSA, APLG, AACSB, AICPA, IMA and other professional groups continue to support these efforts.

Myth No. 5. It is the responsibility of educational institutions to respond quickly and completely to all requests of the auditing profession and to bear all the costs (along with their students).

Reality No. 5: This should also be an obvious straw-man, but is it? Do some people really believe this myth? Many changes are simultaneously in-motion today. Collectively, with mutual respect, the practicing profession, its regulators, its stakeholders and the academic profession must address needed changes. Precipitous regulatory mandates will prove counter-productive in the long term if not also the near term.

Myth No. 6. The current accounting Ph.D. crisis is just so much scare talk! The ship will right itself, just give it time.

Reality No. 6: The jury is out. But much like the global warming debate, the consequences if one is wrong are substantial. Two significant needs, I would emphasize, are (1) attention must be directed to reducing the costs to the qualified individual who would like to pursue doctoral studies in accounting but is deterred from doing so and (2) attention must be directed to finding ways to make auditing related data (archival and human experimental subjects) available to academic researchers (including doctoral students). I have made suggestions in my detailed remarks above about avenues to address each.

Another over-arching need is for greater interaction between and among practicing professionals, academic professionals and regulators/policy makers. My perception is that this interaction has diminished markedly over my career. Whether we have all been too busy with what seemed to be more important things and thus unintentionally relegated this to a lower priority or there are other causes (e.g., there were deliberate cost/benefit decision processes that lead to this situation), I am unsure. However, relationships between practitioners and academics have so diminished that they are little more than formal liaison assignments involving very few parties from any side. And, those assignments change over time so that continuity of relationships is lost. One result is that it is very easy to criticize those you do not know or criticize positions taken when you do not know the reasons for the positions taken. I am sure I am as guilty of this as others. I question the AAA official position of not taking any official positions and then expressing concern when the AAA is not consulted on policy issues. I try to understand but I still question the Big 4 firms' decisions over the years to provide less and less access to research data. Where there have been opportunities for interaction (curriculum issues, policy deliberations, research matters), those opportunities have been embraced perceptibly less often. Perhaps the arguably ill-fated focus of the profession on consulting services in the decade of the 1990s also contributed to this. But, now that auditing has re-emerged at "THE" focus, perhaps it is time to find ways to meaningfully reengage. At least, it appears it would be worth the effort. I am appalled at suggestions by some to remove the academic slot on the reduced-size Financial Accounting Standards Board.