

THE CPA PROFESSION – EXPERIENCE FROM THE U.S.A.

Tran Van Hien⁽¹⁾, Mattie Porter⁽¹⁾, Pham Ngoc Thuy⁽²⁾

⁽¹⁾ University of Houston Clear Lake, Texas, The USA

⁽²⁾ University of Technology – Vietnam National University Ho Chi Minh City

(Received 17 June 2003)

ABSTRACT: *This paper presents the organization, scopes and regulations for CPA profession in the USA. Almost all CPAs in the USA are members of AICPA (American Institute of Certified Public Accountants). They provide services in three areas: accounting, auditing and consulting. The paper also introduces a model describing the CPA profession and its relationships with 10 influential entities in the USA. The model can serve as a good reference for the development of CPA profession in Viet Nam.*

I. INTRODUCTION

Certified Public Accountant (CPA) is an established profession that is highly sought after in many developed countries, especially in those with a market economy and/or a vibrant stock market. In such countries, the CPA profession is organized and regulated in a unique way. The way the profession is organized and regulated is called “model” in article. Different developed countries such as the USA, the UK and Australia have their own models to organize the CPA profession. Each model has its own pros and cons and can serve as a good reference model for developing countries.

In the USA, the CPA profession has proved to be more successful and more challenging than in other countries. The backbone of this profession is the American Institute of Certified Public Accountants (AICPA). During the early years of the profession, American CPAs worked as external auditors whose main responsibility was to report whether the client's financial operations and position are fairly stated in conformity with generally accepted accounting principles (GAAP). American CPAs are now working in various fields such as industry, public practice, management consulting and education. In general, they can be being classified into three main groups namely accountants, auditors, and consultants. Accountants record financial transactions and generate financial statements. Internal auditors are employees of the firm who verify whether internal controls are adequate and followed. External auditors are CPAs who are hired by the client to assess its financial statements for fairness and conformity with GAAP. Consultants help clients improve its business operations using proper financial and automated tools. Public practice used to employ the majority of CPA's prior to 1999. Now the majority of them work for industry instead.

Almost all CPAs are AICPA members. AICPA has been credited for elevating the success and the prestige of the CPA profession in the USA. It has developed rules, principles and standards to assure that its members, external auditors or CPAs provide high-quality auditing services to their clients and third-party information users. AICPA members must conform to numerous internal and external regulations while in public practice so that they can attest that the audited financial statements fairly reflect the client's financial operations and position in conformity with GAAP.

This article focuses on the American accounting profession, its external environment, and some factors influence the Vietnamese central government in developing its CPA profession.

II. AICPA AND ITS ACTIVITIES

Brief History - AICPA and its predecessors have a history dating back to 1887 when the American Association of Public Accountants (AAPA) was formed. In 1916, AAPA was replaced by the Institute of Public Accountants, an organization with 1,150 members. The name was changed to the American Institute of Accountants in 1917 and remained so until 1957, when the name was again changed to the AICPA. The American Society of Certified Public Accountants was formed in 1921 and acted as a federation of state societies. The Society was merged into the Institute in 1936 and, at that time, the Institute agreed to restrict its future members to CPA's. (<http://www.aicpa.org./members/summary.htm>)

Bylaws – AICPA bylaws state that CPAs need to have adequate continuing professional education (CPE) requirement to maintain their knowledge and their works are subject to quality review when necessary. The bylaws govern the AICPA in helping its members.

Standard-Setting Function – AICPA has developed many accounting and auditing standards. AICPA-based accounting standards are frequently known as GAAP (generally accepted accounting principles) that are strictly adhered by publicly traded American companies when creating financial statements. The accounting standard setting function primarily now rests in the hands of the independent Financial Accounting Standards Board (FASB), a group within the AICPA. AICPA-based auditing standards are frequently known as GAAS (generally accepted auditing standards) that must be followed by its members when performing the attest function. These standards guide auditors in performing their duties in a professional, efficient and ethical manner. Further, the standards also state that CPA must be *independent* or the external auditor has no financial interest or affiliation with the entity being audited.

Relationship with State Boards of Accountancy – The authority to grant the CPA title to a candidate belongs to the state government agency known as the *State Board of Public Accountancy* (SBPA). SBPA of each of the 50 states regulates the public accounting practice within its own state by administering the CPA examination, issuing the CPA license to practice accounting or formally giving the title CPA to a candidate, and revoking the CPA license from someone, and enforcing continuing education requirements. Although licensing requirements may be very different from state to state, the accounting & auditing standards and the CPA exams are uniform in all fifty states because they all come from the AICPA.

Relationship with the US Government - The Securities and Exchange Commission (SEC) monitors the accounting profession primarily through the Office of the Chief Accountant. The Office of the Chief Accountant has duty on monitoring the Auditing Standards Board, monitoring the independence of the Standards Board, overseeing the SEC practice Section of the division for CPA firms, and investigating alleged audit failures. Change in auditors must be reported to the SEC. Although absolute regulatory power is granted to the SEC through the Securities Acts, this body has generally opted for the self-regulation by the CPA profession by allowing AICPA to set its accounting and auditing for CPAs.

Monitoring Mechanism - Traditionally, the monitoring mechanism has been housed mainly within the AICPA and with the SEC. The SEC normally intervenes when internal efforts within AICPA are perceived to have failed. Internal enforcement of the standards and ethics

by the AICPA is referred to as *self-regulation*. Oversight and corrective action by the SEC and the courts is known as *external regulation*.

There are a number of units within the AICPA that perform the monitoring function. In monitoring CPA's quality services, *AICPA Trial Board's* functions are admonishment members who have violated standards or rules, suspension or expulsion from membership. *AICPA Quality Control Standards Committee* requires CPA firms must install quality control systems then Committee issues guidelines for establishing systems. Division for CPA firms carries out quality maintenance, peer review and public oversight board.

III. BECOMING AICPA MEMBER

An accounting professional who wants to become an AICPA member has to first obtain a CPA license that is issued by a state. Next, the licensed CPA applies to become a member of the AICPA. Each of these two endeavors consists of numerous requirements as follows:

Obtaining a CPA License. The authority to grant a person a CPA license to practice public accounting is vested with the individual fifty states of the United States of America. In general, the applicant is required to:

- be a good moral character,
- meet the education requirement,
- pass the Uniform CPA examination,
- meet the appropriate work experience requirements (0 to 5 years, depending on the state and the candidate's educational background),
- pass an examination on the rules of professional conduct,
- complete a four four-hour ethics course given by a board-approved provider,
- take an oath of office to support the laws and Constitutions of United States and rules adopted by the Board, and
- pay a fee for certification, and a separate fee for licensing.

On the education requirement, all CPA candidates must earn at least 150 semester credit hours of college-level education. These hours include a bachelor's or graduate degree from an accredited institution of higher education, at least 30 semester hours of accounting course work beyond the elementary accounting, and at least 20 semester hours of related business courses. In most instances, that means a graduate degree.

The Uniform CPA examination is administered by the Board of Examiners of the AICPA in fifty states, the District Columbia, Puerto Rico, and the Virgin Islands. It is developed and graded by the AICPA and administered twice per year (May and November) in each state. The exam consists of 4 sections: Business Law and Professional Responsibilities (3 hours), Auditing (4 ½ hours), Accounting and Reporting (3 ½ hours), and Financial Accounting and Reporting (4 ½ hours). While it is true that all jurisdictions require candidates to pass the uniform CPA exam, there are differences in the minimum grade necessary to pass it and the time a candidate must wait before retaking a section he/she has failed.

Become AICPA members? All CPAs in good standing in the USA can apply to become a member of the AICPA. In order to retain the membership, the member needs to conform to the following rules:

- All members must pay the annual membership dues.
- Members in public Practice must complete 120 hours of CPE every three years, with no fewer than 20 hours per year. Members not engaged in public practice must complete 90 hours of CPE every three years, with at least 15 hours each year.

- Retired, unemployed and members who have temporarily left the workplace are exempt from CPE. Members who place their licenses/certificates on inactive status with their state board of accountancy and do not hold themselves out as CPAs are exempt from the AICPA's CPE requirements as long as their state board does not require CPE while on inactive status.
- All members must agree to abide by the AICPA bylaws and Code of Professional Conduct. Together with the other requirement, this ensures that the standards of all AICPA members will be as high as their own.

IV. CPA JOBS

CPAs and Their Employers - The 1980-1995 years were a period of tremendous change in the US business environment as well as in the accounting profession. It is no wonder that AICPA membership was transformed as well. Total membership almost doubled, from about 162,000 to almost 325,000. Of equal significance, those working in business and industry jumped from 35.5% of total membership to 41.7% and for the first time outnumbered those working in public accounting firms. (See Tab. 1) Since then the CPAs quantity moves up slowly to over 330,000 members in September 2000.

Table 1. AICPA Membership Changes 1980 - 1995

	1980	1995
Total membership	161,319	323,779
Public accounting firms	54.1%	40.7%
Business and industry	35.5%	41.7%
Education	2.9%	2.4%
Government	3.3%	4.4%
Retired and others	4.2%	10.8%

Source: Foundations for the future – Changing profession, changing AICPA

The reason for the increase of membership was that CPAs are now employed in non-public accounting firms because these employers demand an ever-increasing array of financial services for which CPAs are competent. For those in public practice, auditing remained a vital but limited discipline. In order to grow and remain relevant, accounting firms have to diversify in such areas as management consulting, systems integration and financial planning. In today's complex business world they are increasingly asked to be among the most creative of business people. Taxpayers want their advisors to devise the most imaginative strategies possible under the law. Corporations want their accountants to create innovative systems that will allow their businesses to operate at maximum efficiency. In general, investors expect CPAs to uncover the subtlest secrets within a company's financial statements to help them evaluate the company's current performance and future prospects.

CPAs and Their Jobs - CPA activities originate from the accounting profession, so the distinction between accountant and auditor, and between auditor and consultant should be determined to clarify what CPAs can do. *Accounting* involves collecting, summarizing, reporting, and interpreting financial data. Thus accountants determine the best means for measuring, classifying, disclosing, and financial information by referring to appropriate General Accepted Accounting Principles (GAAP). *Auditing* utilizes the theory of evidence – in much the same way, as does the legal profession – to verify the overall reasonableness (fairness) of the financial statements presented. Thus auditors use GAAP as the standards in evaluating fairness of financial presentation. Consultants are those who recommend and/or

develop better methods and/or solutions for clients. Fundamentally, CPA is licensed to work as an independent auditor who performs the attest service. Due to the knowledge of accounting and GAAP, CPA's can certainly work as accountants. Finally, CPA's who can recommend better methods and/or solutions for their clients can work as consultants.

V. CPA FIRMS IN THE UNITED STATES

The Uniform Accounting Act (UAA) stipulates that CPAs could offer accounting services only through a CPA firm and allows CPAs to offer non-attest services through any type of entity they chose, whether or not CPAs owned it. The AICPA rule that attests services could be offered only through a firm controlled by a majority of CPAs.

All most auditors in the USA work in private accounting firms belong to the AICPA, which may be large, medium or small ones. The change of those accounting firms can be depicted in the following two tables. Table 2 shows the changes in the number of CPA's employed by CPA firms of different sizes in 1980 and 1995, respectively. Table 3 shows the mega CPA firms and their mergers between 1985 and 1998.

Table 2. Changes of AICPA members in Public Accounting Firms (1980-1995)

	1980	1995
Total members in Public accounting firms	87, 339	131,887
<i>Firms with 1 member</i>	23.8%	23.2%
Firms with 2-9 members	33.1%	36.5%
Firms with 10+ members	13%	20.4%
25 largest firms	30.1%	19.9%

Source: Foundations for the future – Changing profession, changing AICPA

Table 3. The largest accounting firms in the USA

1985	Summer 1998
1. Arthur Andersen	Arthur Andersen (*)
2. Arthur Young	Merged
3. Coopers & Lybrand	Merged
4. Deloitte, Haskins & Sells	Deloitte and Touch (4 & 8)
5. ERSNT and Whinney	Ersnt & Young (5 & 2)
6. Peat, Marwick, Mitchell	Peat, Marwick, Mitchell
7. Price Waterhouse	PricewaterhouseCoopers (3 & 7)
8. Touch Ross	Merged

(*): *Arthur Andersen has collapsed in 2002 due to its prominent role in Enron's materially misstated financial statements and Enron's subsequent collapse.*

Many users of audit reports expect that CPA firms to detect fraud, theft, and illegal acts, and to report them publicly. CPA firms are potentially liable for monetary damages and even subject to criminal penalties, including fines and jail terms, for failure to perform professional services properly. They can be sued by clients, clients' creditors, investors, and the government. CPA firms accept the responsibility in detecting material misstatements in financial statements; but they are very cautious in accepting the responsibility for detecting all manners of fraud. To protect them from lawsuits, CPA firms have to purchase higher and higher liability insurance, and the business of external auditing has become a very risky business. The collapse of Arthur Andersen, once the largest American accounting firm was

caused by huge lawsuits from investors who lost money in Enron whose materially misstated financial statements were approved by Andersen.

VI. HOW ALL COMPONENTS OF THE CPA PROFESSION FITS IN?

The CPA profession and its relationships with others can be summarized by using a diagram (Figure 1) of 10 entities and flows of business documents. The ten entities are People/Election, the White House, U.S. Congress, State Government and State Board of Public Accountancy (SBPA), AICPA, SEC, CPA, CPA Firm, Business, and Investor/Lender/Stockholder. The meanings of the Entities appear as follows:

1. People/Election – American people and the elections that elect American political leaders
2. White House – The residence of the President of the United States of America, it represents the highest level of the executive branch of the U.S. government.
3. U.S. Congress – the legislative branch of the U.S. government
4. State Government and SBPA – Governments of the fifty states that are also elected by people from the individual states. SBPA is an agency that regulates the CPA profession of each state and its leaders are normally appointed by elected state leaders.
5. AICPA – American Institute of Certified Public Accountants
6. SEC – the Securities and Exchange Commission
7. CPA – Certified public accountant
8. CPA Firm – Firm that specializes in external auditing work
9. Business – Business firm that produces goods or non-auditing services
10. Investor/Lender/Stockholder – People who are interested in investing money in businesses or in trading financial instruments such as stocks, bonds, notes, etc.

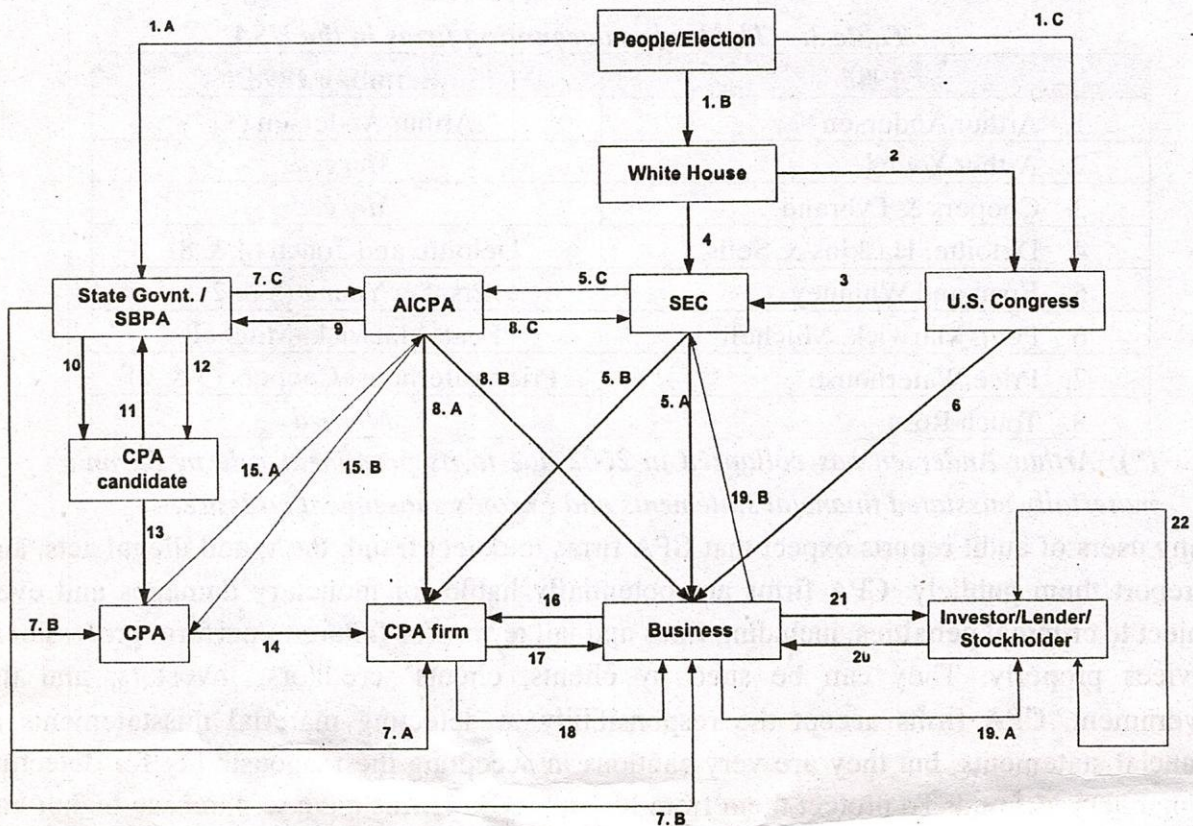


Figure 1 – The Forces that affect the CPA Profession in the USA

The interactions among these entities appear as follows:

- 1: American people elect their President to send to the White House (1.B), senators and representatives to send to the U.S. Congress (1.C) and state government leaders to send to state governments (1.A) who appoint leaders of Public State Board of Public Accountancy of their states.
- 2: President sends his nomination for the SEC Chairman to U.S. Congress for approval.
- 3: U.S. Congress approves the nomination.
- 4: White House may create additional executive orders to be implemented by the SEC.
- 5: SEC formulates appropriate regulations and sends to AICPA (5.C), CPA Firm (5.B) and Business (5.A).
- 6: U.S. Congress creates federal laws that govern the conduct of Business.
- 7: State Government and SBPA create laws and regulations that affect the conduct of CPA (7.B), CPA Firm (7.C), Business (7.D) and AICPA (7.A).
- 8: AICPA creates its own accounting & auditing rules and standards (GAAS and GAAP) that may affect the conducts of CPA Firm (8.A), Business (8.B), and SEC (8.C).
- 9: AICPA creates uniform exams to be used by Public State Board of Public Accountancy.
- 10: State Government/PSBPA of each state administers CPA exams using its own rules.
- 11: CPA Candidate passes the CPA exam.
- 12: State Government/PSBPA issues the CPA license to CPA Candidate.
- 13: CPA Candidate becomes a CPA.
- 14: CPA joins a CPA Firm as an employee.
- 15: CPA joins and accepts the codes of professional conduct issued by AICPA.
- 16: CPA Firm receives an audit fee from Business for an audit engagement.
- 17: CPA Firm provides the audit service.
- 18: CPA Firm issues its opinion on financial statements prepared by management of Business.
- 19: Business issues audited financial statements to Investor/Lender/Shareholder and SEC.
- 20: Investor/Lender/Shareholder uses audited financial statements to invest in Business.
- 21: Business pays Investor/Lender/Stockholder for their investments.
- 22: Investor/Lender/Stockholder uses audited financial statements to trade Business-issued financial instruments with each other.

From Figure 1, the highest level of control of the accounting profession in the USA begins with the American people and election results that form the executive and legislative branches of the federal and state governments. These governmental bodies create business laws and regulations that govern the conduct of American businesses.

The second highest level begins with the state governments and their SBPAs who create rules on how to become a CPA as well as laws and regulations that affect the conduct of businesses within their states.

The third highest level begins with the CPA firms who must take into consideration federal & state laws and regulations, and AICPA auditing & accounting rules and standards when auditing a business. Their opinions on financial statements serve as trustworthy guides to investors, lenders and stockholders of businesses in making investment & trading decisions.

The fourth level is vested with the CPA and his competency in accounting & auditing matters, his keen understanding of the business being audited, and his independence from the audited. In brief, the CPA profession is needed for all countries with a functional market

economy. For developing countries, the development of an effective CPA profession would not only create a better business environment but also contribute to favorable conditions for investments as well. The AICPA has provided its members a strong image towards companies all over the world. American CPAs are universally known for their independence, integrity, objectivity, and protection of confidential client information.

Since the introduction of the doi-moi policy initiated in the late 1980s, the Vietnamese economy has gone through major transformations from total central planning to a hybrid of market mechanisms and limited central planning, the "market-oriented socialist economy." Next, economic events such as the trade agreements with ASEAN countries, the establishment of the first Vietnamese Stock Market in July 2000 and the Bilateral Trade Agreement with the United States, have integrated the Vietnamese economy into the regional and global economies. These changes have helped to expand the economy rapidly. Along with these structural changes in the economy, the accounting profession of Vietnam has been developed by the governmental training programs and licensed the CPA's to audit both private and state-owned firms.

VI. CONCLUSION

The CPA profession in the USA is a complex profession with forces that provide many checks and balances from the very top level (political level) to the individual level (competency and independence of the CPA). The AICPA provides an environment in which the grassroots participation, competency, and independence of individual CPAs are highly encouraged. The AICPA via its members sets up accounting and auditing standards that govern the conduct of CPAs while auditing their clients. The SEC, a federal agency delegates its standard-setting responsibility to the independence-minded AICPA that is willing to take on contentious accounting and auditing issues. In addition to adhering to AICPA guidelines, CPAs must also conform to the code of ethics as well as regulations defined by their State Board of Public Accountancy. Failure to conform to state-issued regulations means a suspension of their CPA license.

As the various sectors of the Vietnamese economy expand, the demand for a complex CPA profession will also grow in Vietnam. The new complexity requires Vietnam to look at alternative organizational structures for this important profession so that the investing public can be protected. Deciding what model to organize and manage the growth of the CPA profession to fit Vietnamese economic system is a major challenge for Vietnamese economic policy makers and business leaders. The model of the American CPA profession is one of the models should be referred to develop the Vietnamese CPA profession and investing public.

KẾ TOÁN CÔNG – KINH NGHIỆM TỪ HOA KỲ

Trần Văn Hiến, Mattie Porter, Phạm Ngọc Thúy

TÓM TẮT: Bài báo trình bày cơ cấu tổ chức, lĩnh vực hoạt động, và các yêu cầu cần thiết để tham gia nghề nghiệp của một kế toán công (CPA, Certified Public Accountant) tại Hoa Kỳ. Hầu hết các CPA của Hoa Kỳ là thành viên của tổ chức AICPA (American Institute of Certified Public Accountants), hiện nay họ hoạt động trong ba lĩnh vực chính là kế toán, kiểm

toán và tư vấn. Bài báo cũng đưa ra một sơ đồ nhằm giới thiệu các mối quan hệ của mười đơn vị có ảnh hưởng đến hoạt động của nghề kế toán công tại Hoa Kỳ. Có thể xem đây là một trong những mô hình tham khảo trong việc phát triển ngành nghề CPA tại Việt Nam.

REFERENCES

- [1] **Mary E. Murphy**, *Auditing and Theory*, A CPA Review, Richard D. Irwin, Inc., 1963,
- [2] **Larry F. Konrath**, *Auditing Concepts and Applications: A Risk Analysis Approache*, South-Western College Publishing, 1999
- [3] **Vincent M. O'Reilly et al**, *Montgomery's auditing*, twelfth edition, John Willey & Sons, inc. 1998
- [4] **Jack C. Robertson, Timothy J. Louwers**, *Auditing*, ninth edition, Irwin McGraw-Hill, 1999
- [5] **Philip B. Chenok with Adam Snyder**, *Foundations for the future – The AICPA from 1980-1995*
- [6] **Web sites:** www.aicpa.org, www.nasba.com