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There's an old joke in the accounting profession. The head of a large company needs a new financial officer, so he tells his human resources officer to screen applicants and present the finalists to him for review. Each of the final three candidates for the position comes in for an interview with the CEO. He asks each candidate the same question, "How much is 2+2?" The first two prospective employees answer, "Why, 4 of course." But the third candidate closes the door to the CEO's office, then leans over the CEO's desk and, with a sly smile, whispers to him, "What number do you want it to be?"

Years ago when I was an auditor at the then Big 8 firm of Coopers & Lybrand, we all got a laugh from that joke, but lately not many CPAs are smiling. Like every profession, there are a few notorious bad apples who spoil the barrel for the overwhelming majority of honest practitioners. Almost all of the recent accounting scandals relate to large, publicly traded corporations. The transgressions were so egregious that one of the venerable names in accounting, 75-year-old Arthur Andersen passed into oblivion.

Moreover, the federal government rallied

Public Accounting is Alive, Well and Trustworthy

to bolster public confidence by passing the Sarbanes-Oxley Act, a measure that beefs up auditing oversight of public companies and bans accounting firms from offering consulting services to its publicly traded audit clients. So how do all these changes meant to restore the public's faith in accounting at the national and international levels translate to the local area?

"The changes brought about by the Sarbanes-Oxley bill will eventually trickle down to local accountants," says Jim Ahler, executive director of the N.C. Association of CPAs. "My job today is to reassure both the N.C. public and the state's CPAs that they are still performing a vital service in a noble profession." However, Ahler points out that the Sarbanes-Oxley Act now makes lying to an auditor a crime, so accountants will be trained in questioning techniques to elicit truthful answers from their clients. Ahler also predicts that one of the fastest growing areas in accounting will be the field of fraud detection. This type of accounting will become more prevalent as the composition of the economy continues to shift from manufacturing companies with hard assets to service providers with mainly good will and other intangibles on the books.

"The only job of an accountant is to have people trust the numbers," says Wrightsville

Beach CPA Chuck Earney of Earney & Co. "When Arthur Andersen lost the peoples' trust, it was the beginning of their end," he says.

Earney brings a unique perspective to the current state of accounting because he began his career at Arthur Andersen and he is a part-time faculty member in the Accounting Dept. at UNC-Wilmington. "No question there's a renewed emphasis on teaching ethics to accounting students. However, students need a strong moral base on which to anchor their ethical training."

Earney's firm concentrates on traditional auditing and tax preparation, with many of his clients being non-profit organizations. "I use to present my findings just to the executive director. Now I insist on meeting with the board of directors, because they are my true customer," he says.

In the Wilmington area, most CPAs concentrate on services to small businesses and individuals. While the majority of accounting practices continue to focus on core compliance services, many are branching out to ancillary offerings, such as information systems design and implementation, appraisals and valuation services, expert testimony and investment advice. Just as doctors and attorneys are specialized, you will increasingly see CPAs begin to devote their practices to selected disciplines of accounting. For example, CPAs who concentrate in the financial planning arena can attain the additional credential of Personal Financial Specialist, or "PFS" to add after their CPA title to signify they have taken supplemental special training.

Earney notes that accounting standards will increasingly insist on a separation between traditional compliance services, such as auditing and consulting services. Earney says a new law will go in effect January 1 prohibiting non-profit agencies that receive federal grant money from having an accounting firm perform both its audit and consulting services.

"Many general practice firms are facing a dilemma," observes Earney. "They will either have to concentrate in traditional compliance areas and form alliances with non-related practitioners in consulting services to avoid the appearance of conflict of interest, or elect to concentrate in a specialty." Many experts join Earney and Ahler in predicting that more formal walls will go up over time to separate compliance and consulting services as a way to restore the public's faith in public accounting.

However, according to Ahler, the overarching message to the public needs to be that they can retain their confidence in the area's certified public accountants. The NCACPA Executive Director emphasizes, "Trust is a CPA's number one commodity, and they show it in Wilmington and throughout the state."

