

THE ROLE OF THE CPA IN SOCIETY

By Michael Houston

This year's winning student essay is judged to be an original essay describing the student's view of the CPA's role in today's economic environment. This year's winner, Michael Houston, received his master's degree in accountancy from North Carolina State University in May. Here is his winning essay.

This essay provides a brief analysis of the role that Certified Public Accountants (CPAs) undertake in society, specifically as independent auditors of public corporations and their new evolving role as strategic business leaders. Included is a discussion of whether these roles should change in light of the recent headline scandals witnessed in the accounting profession over the past several years.

The Role of the CPA in Society

Capital markets are the driving force behind the United States economy. To function efficiently and effectively, the marketplace must provide potential investors, lenders, and other interested parties with accurate and reliable information about the companies that are seeking capital. Much of this information is presented in the form of financial statements, which are initially drafted by these companies. Independent CPAs subsequently examine these financial statements and the associated records to provide assurance to the public that the financial statements are presented fairly, in all material respects, and the financial position of the firm is accurately reflected in accordance with generally accepted accounting principles. This assurance allows financial statement users to confidently assess the present, and project the future economic condition of the organizations they are evaluating. Although a comparable marketplace could and would continue to exist without independent CPAs, a company's cost of obtaining capital through the public market would increase dramatically, primarily attributable to the increase in information risk that would result from not having independent audits. These costs would subsequently be levied onto consumer goods and services, which ultimately would impede economic growth and development in our society. Therefore, CPAs can effectively be viewed as an integral and essential element in the capital market's optimal functioning, and as a result, the United States economy and society at large.

In addition to the CPA's critical role in the United States capital markets, the past decade has shown considerable progress in the evolution of the CPA from the stereotypical "bean-counter" to a tactical force involved in many companies' strategic planning and business decisions. Long gone are the times when CPAs were characterized simply as check compilers, ensuring bills were paid, receivables were collected, and payroll was processed on time. Today, with their extensive knowledge of business processes and ample supply of vital information, CPAs are sought after to provide a vast array of value-enhancing activities that facilitate business decisions that ultimately have a direct effect on a company's performance. Particularly in the "mom-and-pop" sector, which according to the Census Bureau accounts for 70 percent of all US businesses, small and local CPA firms provide services well beyond what is characteristically expected of the "typical" accountant. For instance, small business owners frequently engage their CPAs to obtain expert advice on how to improve profitability, find executive-level talent, and identify solutions to customer service concerns—issues well beyond mere tax compliance



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and bookkeeping. Consequently, the CPA is also recognized as one of the underlying contributing factors in the development of a prosperous and successful, commercially driven economy.

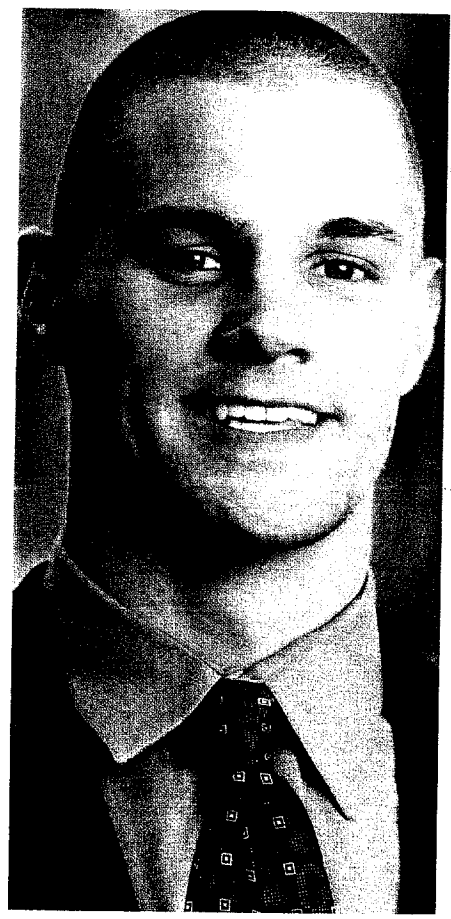
Changing Role of CPAs?

Despite the recent breakdowns and financial malfeasance surrounding Enron, Anderson, and WorldCom that tarnished the image and reputation of today’s CPA and Corporate America, the fundamental responsibility of the Certified Public Accountant has not been substantially altered. Their primary role remains to provide assurance to outside parties that the financial statements issued by a public corporation are fairly stated and presented in accordance with generally accepted accounting principles. However, due in large part to the recent legislation enacted by lawmakers to restore public trust and confidence in both the nation’s capital markets and the accounting profession, the manner in which the CPA fulfills this role has significantly changed, as has the extent to which the CPA’s work is scrutinized and regulated. For instance, the Sarbanes-Oxley Act, passed by Congress in 2002, establishes various additional requirements designed to ensure CPA independence, promote responsible conduct on the part of CPAs, and require CPAs to report on management’s assertions about the effectiveness of its internal controls for financial reporting. Therefore, for example, in accordance with Section 404 of the Sarbanes-Oxley Act, CPAs are now required to assess the internal control structure utilized for financial reporting of publicly traded corporations and report on the effectiveness of those controls.

In summary, CPAs are a critical component of the successful functioning of today’s

economy, and thus our society as a whole. Unfortunately, the recent debacles involving only a few insidious individuals have created questions among the public concerning the ethical and moral standards of the entire accounting profession. This situation precisely reflects the classic example of one

bad apple spoiling the barrel! Nevertheless, with the creation of the Public Company Accounting Oversight Board emphasizing an increase in moral behavior coupled with the significant efforts in college curriculums across the nation stressing ethical conduct, we can confidently proclaim the accounting profession is already prevailing again as one of the most highly regarded and ethical professions in the world.



Michael Houston is the 2005 recipient of the North Carolina CPA Foundation’s largest scholarship. As the top award-winner, he received \$5,000 toward his education in pursuit of a career in accounting. Congratulations, Michael!

To make a contribution to the NC CPA Foundation, please send a personal check to the NC CPA Foundation Inc., PO Box 80188, Raleigh, NC 27623. 