THE ETHICS CONUNDRUM

(DID THE AUDIT TICK MARK RUIN A PROFESSION?)

Was Everett Delaney right when he told me in 1976 on my first accounting job that it was time to secede from the American Institute of Certified Public Accountants (AICPA)? You see, we had gotten into an argument of sorts, me the greenhorn aspiring CPA, and he the 70+ year old patriarch of J. William Hope & Company in Bridgeport, Connecticut. We were using something called the long form report for audit opinions, a novella you might say describing balance sheet accounts, summarizing activity in the accounts and whether they were fairly stated. It required many skills that today's auditors seem to lack; first, an ability to synthesize data into a work-paper that is both accurate and explanatory enough to produce the long form audit opinion and second, an ability by a "numbers guy" to extrapolate raw data into a cogent writing piece which management and third parties can understand. Hence, when I informed Mr. Delaney of the error of his ways that audit opinions should be issued in the "short version" of which we are all familiar with, his comment was, "Well, I guess we'll just secede from the AICPA".

Maybe he was prescient. I'm a tax guy now but when I needed to do work-papers during my days at Price Waterhouse, tick marks were my downfall. When I preferred to write an explanation at the bottom of the work-paper to explain the analysis, I was chastised – why write when a universally understood tick mark would suffice? (These ubiquitous tick marks were usually explained and described at the beginning of the audit file so that the young first year auditors wouldn't have to struggle too much to think about what they just analyzed when a symbol such as "✓", which meant "traced and agreed to appropriate document", said it all!)

Maybe that was the beginning of the profession's downfall. More tick marks made for faster audits. More tick marks made young inexperienced auditors seem intelligent beyond their years. A work-paper with 5 tick marks was certainly evidence of profound and diligent investigation and took less time than writing. Faster audits meant better "realization", the attempt to lose less money on the audit than the year before. Faster audits meant more time to throw the young bodies on "consulting" jobs, which could be full billed and really rack up the profits for the partners. And, of course, slower audits, writing instead of tick marking, meant you would never see the day (three years later) when you made "senior". The best and the brightest were forced out. It was like a sign held out "No thought required here".

Were the seeds of the ethics conundrum sown in tick marks? - Probably not. There are many other factors that in hindsight one can point to such as the aforementioned "realization" issue. They certainly can't explain what causes someone to turn their back on their training because of greed or envy. Greed - when the person your auditing makes more than you, and envy, when you want to get a piece of the action by going along. No, ethics requires that stubborn resistance to intimidation by superiors and acceptance of one's role, which is something a 20-something year old CPA looking to move up the ladder may find hard to resist.

Ethics training probably began long before the B.S. in accounting. It probably began when you first stood up to the bully who tried to intimidate you to do something that you didn't want to do in grammar school, in scouts, or on the sports team. Little victories at the time, which started to mold future resolve.

When the IRS rails against CPAs for "Son of Boss" (Bond and Option Sales Strategy), COBRA (Currency Options Brings Reward Alternatives), CARDS (Custom Adjustable Rate Debt Structure), and other tax shelter schemes, I know not of what they speak. Son of Boss, as far as I ever knew, was the offspring of Everett Delaney who took over for his father at J. William Hope & Company. Unfamiliarity with a tax shelter promoted by the big four does not equal immunity from schemes that don't meet the "smell test" - even for CPAs who work in small firms, as I do. The old adage, "if it seems too good to be true it probably is", has been a useful governor as I negotiate the speedway of tax schemes.

Maybe it was the AICPA's fault after all. Becoming more like a trade association, harnessing power by a cadre of top elites headed by a greedy executive whose name rhymes with swansong, straying from basics by espousing Vision 2000 and multi-disciplinary practice units, trying to be all financial things to all people, the message seemed clear – core beliefs don't matter anymore – do whatever it takes to win. But now caught, like the chastised politician chased from office over a hot tub, leadership has found religion again and vows to do everything with the "greater good" in focus.

Meanwhile those of us who adhered to the "smell test" adage wait in fear of what the new ethical evangelists will proclaim. Like a reformed smoker, those reborn to health are often more dangerous to the rest of us than the disease they were cured of. Now the promotion of more adequate work-papers, more substantive testing, standing up to the client, full priced audits all things adhered to a great expense by the smaller firm is preached from the pulpit of reform from AICPA headquarters across the Hudson.

So maybe Everett Delaney had it right. Long form audit reports are a long ago art form. It may be time for "back to the future". For real ethics in auditing, embrace the long form report and avoid tick marks.