

## THE BEHAVIORAL PATTERN OF THE INDEPENDENT ACCOUNTANT IN RESPONSE TO THE CHANGING ENVIRONMENT AND ITS ETHICAL AND INTELLECTUAL IMPLICATIONS

by Jules W. Muis, RA

### Introduction

For those among us who have not yet had a chance to read the national papers, a more colloquial definition of the topic under discussion may be useful. To put it simply, it can best be defined as the post-closing entry of all troubles facing the profession less those already treated under subjects A (The expanding borders of accounting - are we trying to measure the immeasurable?) and B (The search for common international denominators in accounting and reporting). This definition, I feel, more readily reflects the substance of the papers than the complex official title of subject C, a title the likes of which *Life Magazine* may well have had in mind when they described a similar phenomenon as "that which produces in the victim upon whom it is worked a strong suspicion that he is either hard of hearing or slowly going mad".

It is not for the first time, Mr. Chairman, that behaviorism is introduced as a crucial ingredient of our professional cuisine. For instance, behavioral accounting is given an ever more important place in professional literature and research, confirming that our subject-matter is not exclusively rational; it involves also people, their aspirations and motivations, their common and disparate goals.

It does not often happen that our profession (or any profession for that matter) focuses, unprovoked, on its own behavioral pattern. Yet one may wonder, and with reason, whether sitting in judgment on one's own behavioral affairs will carry much weight with the outside world. This is not a frivolous concern since (whether we like it or not) the public will be watching our unavoidably prejudicial evaluation in light of its own prejudices. Moreover, it will be that same public who, through the democratic process, will decide what they consider the true professional facts to be and whether the profession meets their expectations, reasonable or otherwise. And the papers which have been presented clearly demonstrate a mounting public scrutiny of the profession at large.

### General pattern

It should come as no surprise that in a review of the papers a common pattern emerges, particularly as it concerns the identification of change in our environment and the professional problems arising from such change: an increased interest in our professional work by a growing number and variety of interest groups; the phenomenon of the public accountant sandwiched in the socio-economic tension field which demands ever more in the way of competence and, more importantly, independence; the demand for more preciseness, less ambiguity, more reliability in our professional armoury; a questioning of the value for money, the social costs and benefits not only of our clients' activities but also

of our own professional performance; a near revolution from facts to values, from past to future, in accounting; a questioning of the degree and extent of professional autonomy and, in the wake of the post-Watergate morality, debate about whether morality can be legislated and adherence checked.

It is also easy to understand why the national professional responses to those problems are less than unanimous since the responses are to a major extent a function of the environment, the professional organization and, last but not least, the flukes of professional history in each country.

The differences, however, become more manifest when one looks at the authors' reactions to what is happening in front of their professional eyes, through their own eyes; then, subjectivity unavoidably intrudes itself. We see some authors reacting sceptically or even hostilely to particular developments, while others are jubilant, sometimes for exactly the same reasons.

Thus, behaviorism itself inevitably influences, and plagues, each of our private visions on the sorts of value-laden subjects such as are here under discussion. My own comments on a few selected topics will be no exception to this rule although I will try to avoid playing the role once ascribed to commentators who were called "those people who come from the hills to shoot the wounded after the battle".

### **Expectations and realities**

Future shock is the over all theme of this conference, as if the past shock had not been big enough. And, indeed, if what we have gone through is only a prelude to what is yet to come, we may well wonder what will be left of the high ideals the founding fathers of this profession envisioned for us: the esteem in which we would like to be held as skilled and learned experts applying our knowledge to the affairs of others in the service of the public; our independence in fact and of heart and mind; our selfless devotion to the good of all, especially the weaker, enabling those who lack the resources, competence, authority or access to lead more secure financial-economic lives.

These lofty ideals are reflected in the spirit of much professional literature in which we hear about the profession as a responsive service to the public at large, solidifying the communication process between members of society by adding, through the works of its independent and skilled members, credibility to the statements of others.

Realists might be inclined to give a more modest assessment of the true nature of our profession, simply stating that we are in the business of adding credibility - a definition which ascribes fewer altruistic motives to our professional *esprit*. And at the extreme end of the spectrum we find the hard-core critics of professionals at large, critics who are of the opinion that professionalism, including that of public accountants, is one big fraud whereby, through a conspiracy of silence, participants serve their own self-interest first.

### **Critique/Reactions**

Most countries, with the possible exception of Mexico, apparently the true professional garden of Eden, report an alarming trend of criticism leveled at the profession. Ironically, most of this criticism has little to do with our more esoteric

endeavours, as discussed yesterday; rather, it concentrates on our traditional function: the audit of financial statements. The reasons for this are manifold - such as the increased complexity and enlarged scale of our audit object and a more articulate user, backed in some countries by an aggressive legal profession sharply conscious of return on investment (the techniques of which we might have taught them ourselves).

We should be aware in any analysis that our profession is at a disadvantage when demonstrating its general state of health: only the failures surface. These are, or can be, matched with the successful "missions completed" only with great difficulty. What is more important is that they cannot be set off against the less visible cases where the auditor put his feet down; and those cases are not limited to refusals of clean opinions.

The result of all this is that we tend to go on the defensive, not the best position from which to act constructively or convincingly. Thus what we see is not so much "a proud and independent profession meekly submitted to emasculation" as Mr. Kruger labels the attitude of the profession in the early sixties, but rather (and here I would accept his description) a profession "largely stampeded into accepting outside pressures and controls".

It is an alarming picture we see emerging - an often unorchestrated effort to check future failures through an infinitely growing complex of patchwork measures aimed at satisfying short term public demand and with a seemingly impossible end: a fool-proof system. At what cost? Nobody, seems to care much at the moment a patch is added, although someone may remind us in the end. And on what basis? Mostly no more than the unsubstantiated hope and confidence of ad-hoc architects whose proposals are often endorsed (or tolerated) by an embattled profession endeavoring only to head off further criticism. Let us look at a few of them.

*The Audit Committee* which essentially does what I have always been told the auditor and Board could do and which essentially has what I always thought the auditor had: independence. *Mandatory rotation of auditors*, once described as "playing musical chairs with the missing chair missing". *Peer reviews*, also referred to as the profession's master plan to reduce unemployment in its own ranks - with the unavoidable question left unanswered: Who peers the peers? *Multi-graded quality control measures*; *public oversight committees*; *splitting the profession* (we know full well that, as the physical sciences tell us, splitting is much easier than fusion). This is just a handful of the measures we come across, and one may rightly ask whether the cumulative effect of the cure is not worse than the disease.

These developments, especially in the US, remind me of a children's song you might be familiar with that goes "I know an old lady who swallowed a spider that wriggled and wriggled and tickled inside her. She swallowed the spider to catch the fly. But I don't know why she swallowed the fly". The old lady had not enough sense to stop at that but went on to swallow a bird to catch the spider, a cat to catch the bird, a dog to catch the cat, a goat to catch the dog, a cow to catch the goat, a horse to catch the cow. And, sad but true, the horse did her in! A childhood fantasy, one may ask, or the nightmare of today's public accountant?

This analogy should not trivialize the damage done in the course of professional malfunctioning or be interpreted as a plea for complacency. On the contrary. Neither is it meant to diminish the courageous and penetrating works of,

for instance, Cohen, Adams or Cross. It should only serve as a warning that any too-easy implementation or acceptance of the numerous and hasty remedies proposed from all quarters (each having its own audience to satisfy) may lead to an uncontrolled escalation of controls, each creating its own *raison d'être* and generating its own brand of vested interests and each, once established, becoming virtually irreversible. One must not forget that a facile adoption of these super-controls may well backfire on a future generation of accountants, and indeed, be at the base of our future shock. We could brighten this dreary picture, Mr. Chairman, by properly diagnosing the true nature of the disease to begin with in a climate free of pressure groups - internal, political or otherwise. But this is rarely possible where a profession must ride out a storm of public criticism.

Unfortunately, we have no clear indication, nationally or internationally, of the nature and scope of professional malpractice - of where judgment failed, where independence capitulated to outside pressure or was obscured by secondary motives, where generally accepted standards were non-existent or improperly applied, where the inevitable improvisations in our work lacked sound professional judgment. A statistical analysis of those phenomena (in combination with a tailor-made social cost-benefit analysis and the application of risk management techniques - all already part and parcel of our professional tool kit) could form a solid basis for deciding the extent and composition of the called-for remedies.

#### **Government interference versus autonomy**

I would now like to move to the issue of government interference versus professional autonomy, an issue which receives much attention, quite understandably. We feel strongly our right to membership in the free professions, and any intrusion by outsiders, especially on issues we consider matters of professional pride and privacy such as auditing standards and quality control, is difficult to countenance.

Although our resentment is understandable from a human point of view, the question remains what right we have to claim, as a *public* profession, that we stand "beyond the governmental (that is to say *democratic*) peer".

Gloomy prospects of nationalization are described on the horizon, either nationalization of the standard-setting process only or of the functioning of the entire profession. Although one can quite rightly claim that government control or nationalization could also impair independence, can a government remain indifferent in the face of a profession riddled with indecision?

Our indeciveness is just a *pretext* for governmental interference, others suggest, not the real reason. Dissatisfaction, Mr. Kruger states, is often artificially created as a result of "outsiders, who have ulterior motives, to which the accountancy profession over-react and consequently impose changes on themselves".

As in any territorial dispute, Mr. Chairman, here also, emotions often obscure the arguments, and this impedes a clear analysis. The issue is so sensitive that even those at the other end of the gun, (semi-)governmental agencies, feel obliged to use all disguises available to avoid being accused of paternalism. So the SEC tells the US profession: I back your self-regulatory program but will have to withdraw my support if you do not carry out XYZ. It is the kind of freedom you give your teenage daughter, allowing her to do everything she wants as long as she does



what you want her to do. We could not have a clearer example of the difference between self-regulation and self-determination.

If we were first of all to separate the rational issues from the irrational ones, we might well realize, as some authors obviously do, that co-determination also means co-responsibility, that there are advantages to democratic backing of the emerging standards, that the issue is not black and white (for some it may even be red-hot) and that at a certain point our efforts must inevitably be orchestrated from above. At that point government involvement becomes not a question of principle but degree.

But will multi-party involvement (which government interference implies) also aid in the quest for more *effective* professional tools? I do not believe so. I dare say even the contrary. Multi-party involvement means an unavoidable trade-off between general acceptability and conceptual quality. The price we must pay for democratic backing, or multi party involvement, is theoretic depth of and internal consistency between standards. This is something we will have to come to terms with.

#### **A conceptual framework**

This brings us, Mr. Chairman, to a subject also touched upon by Mr. Waldron and Mr. Baum: the search for universal accounting standards against the background of the many constraints in the methodological process of standard setting. The discussion throws some light on the fact that *who* is to set standards is only one of the many questions. *To what end? Which parameters? How - normatively or pragmatically?* These are just a few of the many valid ones. The discussion on this subject was thrown into relief in the US by the felt necessity to develop a conceptual framework of accounting; in other countries, as was the case recently in the UK, the idea was deferred indefinitely, for practical reasons. There is an urgent need for pruning down the differences in accounting standards, especially internationally, as Mr. Lenstrup indicated. It seems to me that to do this a conceptual framework is indispensable. Although the IASC and European legislators are working hard on numerous international reporting requirements, they lack at present the conceptual framework which would guarantee internal consistency.

One persistent misunderstanding on the subject needs clarification: a conceptual framework is not primarily meant to stand as an unambiguous tool for arriving at one model set of accounting standards as is too often suggested. Setting such an overly ambitious target could alienate many sceptics and might well result in our throwing out the child with the bath water (as we have recently seen in the UK).

The prime function of a conceptual framework, as I see it, should be to chart the present state of the art in standard-setting, to define the different schools of thought, to supply a terminological specification and to outline the possibilities and constraints and, thereby, create order out of chaos, encouraging understanding rather than reactionary fear. Such a conceptual framework could serve as a joint frame of reference for cross-national communication among academicians, practitioners and affiliated disciplines; it could serve as a common point in our continuing education program, teaching us to recognize a new tree every year while at the same time maintaining our ability to see the forest for the trees.

## Independence

Independence, Mr. Chairman, is also reported as a major issue in all papers and for many different reasons. Two of the major ones are:

- (1) that the auditor is paid, hired and fired by the organization he is supposed to audit; this fact receives more and more attention as interest groups other than management and shareholders become increasingly vocal;
- (2) that independence is jeopardized through supplementary services such as tax or management consulting; these not only increase the auditor's financial dependence on his client, the argument goes, but also his spiritual commitment to his recommendations and therefore his responsibility for their financial consequences, consequences which, one day, will have to be accounted for and audited.

Messrs. Jacobsen and Bundy give an interesting in-depth review of the evolution of these issues in the United States.

Generally (and I would like to make an explicit exception of the highly analytical and substantial approach to the issue by Dr. Barlev), the professional defense boils down to a blunt assertion that independence is not impaired by the above factors and cannot be measured; that a distinction *can* and should be made between decision-preparation (which is within the realm of the auditor-consultant) and decision-making (which is the ultimate responsibility of management). Yet the doubt keeps "knawing". In the US concrete steps have been taken to minimize this doubt by, among other things, requiring for quoted companies disclosure of the financial auditor/client relationship so that the user can draw his own conclusions. Other countries like France and Belgium have taken more drastic steps, prohibiting consultancy services for statutory auditors - full stop.

My own feeling is that the profession's response to the issue has perhaps been too defensive and rigid. First of all independence is too subtle a concept to attack or defend with hard fact. Moreover, the fact that investigative reports have never been able to prove that independence is impaired by financial or other dependence will not silence the critics. *It is only in a court of law that one is innocent until proven guilty.* In the normal course of events any such passive a defense is bound to leave, after each calamity, a revengeful audience unconvinced.

Why can't we be more forthright and recognize the fact that independence is, as a soft concept, relative and *of course* affected by our financial and/or counseling relationship with the client but at the same time insist that the alternative (that is, stripping the auditor of all his constructive corollary functions) is a social waste, a squandering of scarce resources? It seems to me that such an approach would take the dogmatic and defensive sting out of our presentation and give a more realistic picture, a picture based on probabilities and social costs and benefits rather than what will prove in the long run to be counter-productive assertions.

Whatever our defense, we must learn to live with the idea that the independence issue will remain a bone of contention for the time to come, or at least for as long as auditors are in business rather than charity.

## Independence of mind: where the professional buck stops

Last but not least, Mr. Chairman, I propose that we look at the behavioral aspects of our professional functioning in the micro-climate in which each individ-

ual accountant operates. This may help to explain the roots of many an unhappy professional adventure: the moral and intellectual implications of operating, in a multi-goaled, tension-filled environment which increasingly challenges a professional feature we hold dear, even at times try to monopolize: independence of mind. This is the last safety valve before the "all clear" signal is given and is put to the test when concrete standards have exhausted their fact-finding and analytical function; when independence in fact is conformed with yet judgment is still not through its arduous task.

Can this vital human element in auditing (with all its moral implications) be regulated or controlled? Martin Luther King, commenting on the generalities in the US Constitution during the famous Selma march, had this to say: "Morality cannot be legislated but behavior can be regulated; legislation may not change the heart but it can restrain the heartless". As a profession we can, and do, regulate and thus influence the behavior of our members. But by doing so (and this is how I translate King's message) we do not necessarily make better men out of them. And this is something we must recognize since, given the many judgmental features in our activities, it means that much is left to a basically uncontrollable human nature. We may wonder whether our usual treatment of this issue does not window-dress the hard realities; whether postulating so much of our professional performance on this subtle filter only intoxicates us into believing that all is well because, finally, we are professionals.

Would it not be more prudent to start from the premise that our profession is one of men, no more, no less, with all their faults and virtues? That among our ranks we find the good, the bad and the ugly? The assumption of such a premise puts a special responsibility on the profession to minimize the concomitant risks. This can only be done by cultivating a working ambiance which encourages the virtues and minimizes the temptations. Unfortunately, however, one can see, and foresee, a dangerous trend in just the opposite direction, spiralling toward an increased business obsession: an evolution from the individual professional dealing in credibility to conglomerates of "merchants of credibility". These are developments which endanger (or pollute) the protective setting in which, for the average man, independence of mind can prosper and be challenged without easy surrender. This polluting effect may take many different forms.

The introduction of far-reaching practice-development schemes, over and beyond the liberalized public advertising conventions, may serve as an example. More destructive in what does not surface than constructive in what does, some of these program inevitably set the world at large to suspecting our motives rather than attending to our arguments.

We mention as an example the lists drawn up by accounting firms of the so-called "uncommitted companies" or "potentially susceptible clients", not to mention the alarming ways and means developed to win their business. And once they have become "our clients" how much of our *honnêteté intellectuelle* are we willing to sacrifice to keep them? "A general decline in intra-professional courtesy" as AICPA president Wallace Olsen phrased it euphemistically. The emergence of "predatory instincts", as *Fortune* put it more bluntly.

There is no little danger, Mr. Chairman, that the evolution toward a hard business of public accounting will breed the stereotyped "organization man" in a "my firm right or wrong" atmosphere. In the long run this cannot but under-

mine the over-all credibility of the profession.

Our professional leaders and managing executives must assume the heavy responsibility of protecting the environment in which each individual accountant has to make, when necessary, his last stance, where, in fact, the professional buck stops: when the individual's conscience and willpower are tested to determine whether or not he is prepared to follow through on disagreeable conclusions.

Beyond this, of course, lies the individual's responsibility to campaign internally (where possible) and externally (where necessary) or to run the risk of (one day) being held accountable for his failure to do so.

### Conclusion

In sum, Mr. Chairman, the critical mass for an all-out revolt against our social functioning may not yet have been reached, but what we will have to accept as a fact is that we are obviously wearing out our welcome with a public which, rightly or wrongly, is becoming impatient with our excuses.

"The benefit of the doubt" no longer appears as an intangible asset on the profession's balance sheet. The writing is on the professional wall: "any truth which is too big to be seen is always smaller than you can see it" is the way an aspiring Dutch poet has put it.

I have no rallying cry up my sleeve, Mr. Chairman, for our besieged profession. Fortunately, as a commentator, I can escape with a simple summary which offers, I hope, some consolation:

- Some of the problems are of our own making, and the solutions to these are primarily in our own hands. The introduction of business ethics into our professional context, with the emphasis sooner on business than ethics, is something we have to forestall ourselves. To do this we must bear in mind that judging staff and partner performance predominantly from a commercial standpoint will not contribute to preserving our prerogative of being a business with, at the same time, a public function. Once that dual status is lost, it cannot be regained.
- Some of the problems are only problems because of the way we define them: the issue of full professional autonomy versus government interference is a case in point. In posing this as an either/or choice (by projecting it as a dilemma) we fuel fear and deny ourselves the possibility of striking a pragmatic balance between our ego, the advantages of professional autonomy and the inevitabilities of some degree of democratic control. We are, finally, *public* accountants.
- Some of the problems are external to our profession, such as environmental changes or unpredictable, vague and unrealistic public expectations. But even confronting these we are not empty-handed, and we may transform them into interesting challenges. We can turn our own professional tools such as risk management, risk analysis, social cost and benefit accounting to our own trade, an exercise which might give us a revealing new perspective on alternative solutions or inevitable conclusions. Even more importantly, it might highlight the *limits* of the possible as a necessary condition for identifying vistas for *real* progress.