DECEMBER 31, 2007, will bring to an end my more than 54 years of involvement in the accounting profession. On that date I will complete six years as a trustee of the Financial Accounting Foundation (FAF), and earlier in the fall I taught my last graduate class in Financial Accounting Theory at Samford University. I feel fortunate in having had two long and rewarding careers in different areas of accounting. First, for more than 33 years I was involved as an accountant and later a financial officer with AT&T Company and its subsidiaries. I was a management accountant; i.e., my people prepared bills to customers and processed their collection, issued paychecks to employees, paid supplier invoices, and prepared internal and external financial reports. After retiring from AT&T, I began a teaching career that lasted another 20 years, 10 of which were full-time.

Involvement in my chosen profession has enabled me to play a role in many different areas and activities. Rather than list them, however, I will list the two blanks in my résumé. I never performed an audit of a public company, and I never served as a member of the Financial Accounting Standards Board (FASB). But I testified at
the public hearing in favor of Statement of Financial Accounting Standards (SFAS) No. 2, “Accounting for Research and Development Costs,” and I have known every Board member personally for the past 20 years. In the past six years, I have participated in the selection and appointment of every FASB member.

I also had the privilege of serving as the national President (now called Chair) of the Institute of Management Accountants (IMA®) for 2000-01, and before that I had served on its Financial Reporting Committee for a period of nearly 10 years and as Committee chair for three years.

But the purpose of this discussion isn’t to recap or identify the things I have done. My intention is to leave some thoughts (not necessarily wisdom) for those who are in the profession today or will enter it in the future. The information in this list isn’t in any order of priority or importance.

PROFESSIONAL CERTIFICATION
To those who are just entering the profession, I say get the “union card.” If your career is in public accounting, become a Certified Public Accountant (CPA). If your career is in business or industry, become a Certified Management Accountant (CMA®). If you are entering the academic world, the Ph.D. is essential. Even if you’ve been out of school for a time, it’s never too late to become certified. I didn’t become certified as a CPA until 13 years after graduating from college and beginning my career. Should you decide to enter the academic world after a career in business or public accounting, you still should pursue the doctorate. It may not make you a better teacher, but it will certainly enhance your standing and perception among your peers.

WHAT WENT WRONG
Three times in the last 25 years the accounting profession has come under attack—and deservedly so. In the 1980s, accounting transgressions such as ZZZZ Best and Crazy Eddie, among a number of others, led to the formation of the Treadway Commission and eventually a compilation of internal control processes under the auspices of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). One major finding at that time was the criticality of the “tone at the top” or the emphasis on proper and ethical behavior by those at the very senior levels of an entity.

In the 1990s, Securities & Exchange Commission Chairman Arthur Levitt criticized the profession for a number of improper actions, including such matters as “cookie jar” reserves, “big bath” accounting, and improp-
er revenue recognition. We didn’t learn from these experiences, however, and the excesses of the late 1990s led to the well-known failures of Enron, Arthur Andersen, MCI, and Global Crossing, among others. The result was that we lost the ability to regulate and manage our fine profession, so we now must operate under the federal rules of the Sarbanes-Oxley Act of 2002 (SOX).

I am sometimes asked what major events caused this last failure on the part of the profession. I will suggest five:

1. Vast increase in the number of stock options issued by companies after the FASB withdrew its proposal to record such issuances as compensation expense.
2. The auditing profession placed its emphasis on consulting and revenue growth and assigned little value to audits.
3. Although the SEC made a lot of speeches dealing with such subjects as “cookie jar” reserves and “big bath” accounting, little action took place.
4. In what some might call “corporate greed,” companies tried to grow rapidly using inflated stock values for acquisitions under the “pooling of interests” accounting method for business combinations. A classic example was Lucent Technologies (now Alcatel-Lucent) making a number of such unfortunate acquisitions using the inflated value of its stock and later narrowly avoiding bankruptcy.
5. The investment community’s short-term focus on the next quarter’s earnings.

Those causes are mine; others may have a different list. The important thing is for all of us to remember that, after three failures, we had better get it right in the future. Those who don’t learn from history are doomed to repeat it.

ETHICAL BEHAVIOR

As the result of my six-year term on the Financial Accounting Foundation, all of which took place after SOX was passed, I have had the pleasure of getting to know and work with three of the CEOs of the Big 4 public accounting firms. Based on the attitudes, professionalism, and leadership exhibited by these three individuals, I am encouraged about the future of our broad profession. As they set the tone for their organizations, I am confident that it will be followed all through their firms.

I hope that a similar attitude will develop throughout our society, but I’m not yet confident about this. For example, far too many instances of plagiarism are detected in our academic community, indicating that a number of our young people are still willing to take the easy way or shortcut. And these students will make up our profession in future years.

Each semester I taught an ethics class for a colleague at Samford, and each time I used a 1993 Accounting Horizons article by an engineer named Roger Boisjoly. He was the engineer who told management of his company (Morton Thiokol) that the “O-Rings” on the space shuttle Challenger wouldn’t seat properly below 53 degrees. Management overruled him, the shuttle was launched below 53 degrees, and the rest is history. Boisjoly’s primary belief was that if you deal ethically with the “little” or “unimportant” situations, you’ll be better equipped to deal with major ethical problems when they arise. In the business world, we all may face a situation where doing the right and ethical thing could have serious job or professional impacts. Will our young people be prepared?

CONVERGENCE AND INTERNATIONAL STANDARDS

Both the Financial Accounting Standards Board and the International Accounting Standards Board (IASB) are committed to the development of a single set of global accounting standards. Both entities have identified what needs to be done to reach this goal as well as a timetable to get there. At the same time, the SEC has requested comments on two of its proposals that (1) would allow foreign registrants using International Financial Reporting Standards (IFRS) to file financial statements with the Commission without reconciling them to U.S. Generally Accepted Accounting Principles (GAAP) and (2) would permit all registrants to choose between IFRS and U.S. GAAP.

Two concerns with this need to be addressed. First, if both of these proposals are accepted by the SEC, convergence efforts would probably halt. Why work on convergence when entities have a choice? [Note: On November 15, the SEC voted “yes” to the first proposal.] The second concern deals with modifications to international standards that are permitted by certain countries and the fact that such modifications could lead to a lack of financial statement comparability. In addition to the impact on convergence, there are significant issues with the ability of entities to choose. Accounting textbooks would have to be rewritten, certification exams would have to be modified, and auditors would have to be familiar with both sets of standards, just to name a few.

Another significant issue is the current lack of a permanent funding source for the IASB, the international standards setter. Since much of its current funding comes from public accounting firms resulting from solicitation by the International trustees, the same question of independence that led to SOX arises here.

In my view, the better approach is to continue to work
toward convergence while addressing the issues I have mentioned before the SEC makes any more changes.

**INDEPENDENCE**

Much has been written about independence and its importance to the accounting profession. For example, the FASB must be viewed as independent from outside influence in the setting of standards. One of the roles of the FAF is to protect that independence. The auditing part of the public accounting profession must be independent from those being audited. As a result of the events that led to SOX and the provisions of the law itself, the independence of the profession in its relationship with the SEC has become more difficult. It’s vital that the profession work with the SEC but be cognizant of the fine line where independence is essential. While the SEC should be consulted about appointments to the FASB or the FAF trustees, it must allow the final decisions to be made in the private sector. Although under SOX the SEC “reviews” the FASB budget, that review must be broad and shouldn’t extend to overruling individual budget items such as salaries. The SEC should provide suggestions and comments on individual proposed accounting standards, but it must not dictate specific provisions. If it does, independence is impaired.

Finally, it’s vital that each of the FAF trustees be truly independent. And the FAF must make the ultimate decision about which trustees to appoint. Today the final decision regarding the appointment of 13 of the 16 trustees resides with the FAF, and efforts are under way to try to work out processes whereby the FAF will also choose the remaining three. In the identification and selection of future trustees, the ability for trustees to be independent in all activities with their constituent organizations is imperative. This can become particularly challenging for a trustee whose firm or company is involved in other matters with the regulator.

**AUDIT FIRM CONCENTRATION**

I have always believed that the U.S. Attorney’s office acted prematurely in indicting the firm of Arthur Andersen rather than dealing with the individuals who were involved in the Enron matter. Today, all those involved have been punished, and the other fine professionals who had no part in the situation have, for the most part, found other positions in our profession. Nevertheless, many lost substantial personal assets.

In the subsequent years, I have often wondered why two other large firms appeared to escape the same punishment in similar situations. I suspect it may be that either the regulator or the Justice Department decided it couldn’t allow another large firm to fail. I believe the profession needs to be observant of the concentration of public company audits among very few firms. Although I don’t know the solution, the situation is still one of concern.

**THE 150-HOUR REQUIREMENT**

I believe another look should be taken at the requirement to have 150 hours of college credit to sit for the CPA exam. At this time, not all states have adopted this requirement. The real question is, “Is it necessary, and how does it improve the readiness of our accounting students to enter the profession?” The need for accounting professionals has grown rapidly since SOX was passed. The Big 4 alone will probably hire about 15,000 new professionals next year, and recruiting now begins early in the junior year of college. By the time students enter their graduate program to achieve the 150 hours required, most already have jobs, and their interest in academic work has diminished. I believe the profession would be better served if these new accountants completed a certification exam before taking time for graduate school.

**MAKING CHANGES**

I have sometimes been asked what changes I would make in our chosen field if I had the authority to do so. I believe a major cause of the problems we have faced in the past is the need for companies, their CEOs, and their CFOs to have such a short-term focus that they are unable to manage their companies for the long term. They are always faced with the need to deliver not just improved earnings, but expected earnings, for the next quarter. I would propose eliminating the requirement for quarterly reporting of earnings as well as companies providing interim data to analysts. That may not be possible, but I believe it would change our market system for the better.

I feel pretty good about the state of our profession, but, as a warning to all of you who are still involved, we cannot and must not have another failure like the ones described in this article. I believe we are doing better, but we must remain vigilant. I am more confident than I have been in the past that we will succeed.

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