

TESTIMONY OF THE FOUNDATION FOR ACCOUNTING PRACTITIONERS

PRESENTED BY

NORMAN W. LIPSHE, CPA, CFE, DABFA – TRUSTEE

FEBRUARY 6, 2002 BEFORE NEW YORK STATE SENATE

COMMITTEE ON HIGHER EDUCATION

My name is Norman W. Lipshie. I am here representing the Foundation for Accounting Practitioners, as I am a Trustee of that organization. I have attached a copy of my CV for your convenience. I want to state that my father was a CPA and held Certificate 63, I think, issued by Connecticut in 1919. I have been invited here to express our views concerning four questions, which have been raised by the New York State Higher Education Committee.

Question 1. – Whether, short of returning to their traditional role of exclusively providing audit and attest services, can public accountants be independent financial voices while also performing consulting and ancillary services?

The Accounting Profession has evolved into more than auditing and we believe that this is a good thing. The very nature of our profession has developed into much more than it was in my Fathers day. We are truly the Trusted Professional. Independence is basic. It is the cornerstone of our profession and nothing should be allowed which would tarnish that perception yet some consulting must be done. We believe that certain consulting such as management functions, internal auditing, executive recruitment marketing recommendation and probably other specific consulting engagements should be prohibited and performed by other professionals.

Question 2. – How can New York regulate consulting services within the accountancy profession?

Since it now is an SEC requirement to disclose the nature of the fees that Accountants charge their clients, and we feel so strongly that some consulting can be performed by Accountants, we believe that the amount of fees for consulting services charged to a client subject to the above exclusions should be limited to a percentage of the total fees charged. Possibly 15% of the total might not disturb the perception of Independence and we could continue to serve our clients needs

Question 3. – Whether the five big accounting firms face an inherent conflict of interest because a substantial amount of their profits result from consulting services and not from auditing and accounting services?

The major firms definitely have an inherent Conflict of Interest, which they seem to have addressed according to countless reports in the financial Press.

Question 4. – What procedures are in place to identify the potential conflicts and problems faced by accounting firms? Whether such procedures are effective? If not, what additional measures should be implemented?

The procedures in place today include the SEC (who can prohibit a firm from auditing Public Companies) the States Boards (who can revoke or suspend a license) Internal Revenue Service (who can prohibit a practitioner from representing a taxpayer) and The Various State Societies and the AICPA who through their own mechanism or the Joint Ethics Enforcement Program “JEEP” can impose certain sanctions on its members. It is important to note that the Jeep Program is probably the most active disciplinary procedure that we have, The AICPA and the State Societies are basically trade associations that can discipline their members only. THEY DO NOT LICENSE. They can terminate membership in their organization, etc. and even publish disciplinary matters in their periodicals but they do not have the authority to prohibit Accountants from practicing. These organizations can only advise the State Boards of their actions and hope that the State Boards will do whatever is necessary.

The President of the Foundation, who could not attend today’s hearing, has advocated for many years that auditors be rotated so that no accounting firm has a permanent relationship with a client and will know that a successor firm will review the prior firm’s audit procedures. We suggest that serious consideration be given to this suggestion.

NORMAN W. LIPSHIE

Professional Qualifications

Graduated from New York University, School of Accounts and Finance, June 1947 – Bachelor of Science Degree.

Became a Certified Public Accountant in 1951; I am a Certified Fraud Examiner and a Diplomat of the American Board of Forensic Accounting.

Member, New York, New Jersey and Connecticut State CPA Societies.

Began career with *Joseph Lipshie and Co.* Merged that firm in 1969 with Harry Weber & Co. to form *Weber, Lipshie & Company.* I was a Managing Partner of the firm until 1990 and a Senior Partner between 1990 and 1994. The company grew to over 140 professionals and was one of the 35 largest firms in the U.S. (Accounting Today).

Self-employed since 1994, I am now a consultant to the firm of Marks Paneth & Shron LLP, Certified Public Accountants, 622 Third Avenue, New York, New York 10017 (Tel: 212-201-3082).

Designated one of the 100 "Most Influential People in Accounting" (March '94 Accounting Today).

NYSSCPA Activities:

- President, 1990–91
- President-Elect, 1989–90
- Vice-President, 1997–98
- Director, 1985–92 (except 1989)
- Executive Committee, 1987–92
- President – Foundation for Accounting Education, 1991–92
- Foundation for Accounting Education Trustee, 1985–92
- Chairman of following State Society Committees:
 - Apparel Manufacturers
 - Professional Liability Insurance
 - Continuing Professional Education
 - PAR Review
 - Task Force Society Space
 - Task Force Professional Liability
- Served on numerous other committees, including Insolvency and Bankruptcy; Cooperation with Bankers; Professional Conduct; Budget; Benevolent Fund; and Legislative Contacts.

AICPA Activities:

- Member of Council, 1987–94
- Member of AICPA/State Society Coordinating committee for three years
- Member AICPA/AAA Coordinating Committee (established rules and procedures for mediation in the accounting profession)
- Joint Trial Board
- Nominating Committee

New York State Board of Accountancy:

Member of sub-committee established to supervise study on Mandatory Continuing Education

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NEW YORK STATE SENATE HIGHER EDUCATION COMMITTEE
SENATOR KENNETH P. LAVALLE, CHAIRMAN
PUBLIC HEARING NOTICE

The Purpose and Mission of 21st Century Accounting Firms and the Independence of Certified Public Accountants in the Post-ENRON Era

Date and Time: Wednesday, February 6, 2002, 9 a.m.—4 p.m.
Location: The Graduate Center, 365 Fifth Avenue, New York, NY
Contact: Diana Georgia, Counsel, Senate Higher Education Committee
Room 306 LOB, Albany, NY 12247 (518) 455-3121

The New York State Senate Higher Education Committee has jurisdiction over professional licensure. The Chairman, Senator Kenneth P. Lavalle and the Committee will conduct a public hearing on the purpose and mission of 21st century accounting firms and the independence of certified public accountants in the post-ENRON era. The collapse of ENRON has drawn a great deal of attention to the accounting profession and its role in financial markets.

Corporate accounting problems raise the issue of whether the public can demand that accountants maintain total independence from their clients in order to maintain their fiduciary duties.

The CPA profession in New York is regulated by a 100-year-old statute, the first accountancy law in the United States. The law was last substantially revised by the Legislature in 1947. Since then, however, the practice of public accountancy has evolved from its traditional role of solely providing independent accounting services to providing a host of ancillary services, which are centered around business consulting.

New York City and New York State have been, and continue to be, the financial center of the world. As such, New York State has a duty to guarantee that the profession of public accountancy remain a strong and independent voice in the financial reporting system in order to guarantee investor confidence in capital markets. For the foregoing reasons, the Committee is seeking testimony on the following issues:

1. Whether, short of returning to their traditional role of exclusively providing audit and attest services, can public accountants be independent financial voices while also performing consulting and ancillary services?
2. How can New York regulate consulting services within the accountancy profession?
3. Whether the five big accounting firms face an inherent conflict of interest because a substantial amount of their profits result from consulting services and not from auditing and accounting services?
4. What procedures are in place to identify the potential conflicts and problems faced by accounting firms? Whether such procedures are effective? If not, what additional measures should be implemented?

Testimony will be taken by invitation only.