



Public Interest Newsletter

Fall 2015



“Placing the public interest above self-interest is the hallmark of a profession”... Eddie Stamp, 1983...

A Letter from the Chair

Dear Public Interest Section Members,

It was great to see many of you at the Annual Meeting in Chicago and I hope you are enjoying your fall semester.

I would first like to take this opportunity to provide some information from our Section's Business meeting held on August 10th, since many of you were not able to attend. **Pat Poli** (Fairfield University), the incoming AAA Director Focusing on Segments, addressed our meeting and described her role in supporting Sections like ours. I then had the honor of presenting Outstanding Service Awards to three of our members, **Pamela Roush** (University of Central Florida), **Charlie Cullinan** (Bryant University), and **Eric Lee** (University of Northern Iowa). **Robin Roberts** (University of Central Florida) was unable to attend the business meeting, but also received this award. Congratulations to these Award recipients for all they have done for our Section!

We then reviewed our financial information, including cash flow. As I discussed in our last newsletter, our Section has been part of a cooperative effort with the AAA to support our activities for a three year period. I am grateful for this support and think it is beneficial for our Section.

A few other highlights:

The 2015 Midyear Meeting was very successful due to the efforts of **Matt Keane** and **Steve Perreault**, two of my colleagues at Providence College. Attendance increased 40% when compared to the prior year. Thanks Matt and Steve!

The Ethics Symposium was similarly outstanding and well attended. Many thanks to the Co-Coordinator, **Amy Hageman** (Kansas State University) and **Lucy Chen** (Villanova University). Nice Job!

Congratulations to Accounting Exemplar Award winners **Barbara Merino** and **Steven Mintz**. Thanks to the Accounting Exemplar Award Committee, chaired by **John Thornton**.

Going forward, the 2016 Midyear Meeting is being chaired by **Lisa Baudot** (University of Central Florida), **Charlie Cullinan** (Bryant University), and **Pamela Roush** (University of Central Florida). It will be held at The Alford Inn in Winter Park (Orlando), FL, on April 1-2. The meeting will include a Doctoral/Early Scholar Consortium that will be held on Friday morning and plenary and research sessions will be held on Friday afternoon and Saturday. I strongly encourage you to consider submitting a paper to this year's meeting and enjoy the warm Florida weather after the winter. The Call for Papers is forthcoming.

The call for nominees for the Nominating Committee members is out with a due date of October 23. As immediate past-Chair, **John Thornton** will serve as the nonvoting chair of this Committee. Please consider nominating yourself or another colleague for this committee.

As many of you know, as a result of its strategic planning process, the AAA is creating four “Centers” (Centers for Advancing Accounting Research, Education, Practice and Public Interest). **Sue Ravenscroft** and I are representing our Section on the Center for Advancing Accounting Public Interest Focus Group, which had its first meeting at the Annual Meeting in Chicago. At this point we are in the initial stages of the development of this Center and how it will best address public interest issues. At our Section's Business meeting concern was expressed about the AAA partnering with the Fix the Debt Organization in addressing the U.S. national debt. This topic was also addressed at the Focus Group with discussion of the Center's role to inform the debate rather than advocate for a particular point of view on an issue such as the national debt. Sue and I will keep you advised of the Focus Group's progress.



Patrick T. Kelly, Ph.D.

Chair of the Public Interest Section, American Accounting Association

Chair, Department of Accountancy, Providence College School of Business

Sue Ravenscroft has also graciously agreed to serve as the Chair of our Section's Membership Committee. The best people to recruit new members for our Section are our present members. Each of you probably knows someone who "belongs" in our section. Please reach out to that person and have them submit a paper to the Midyear Meeting, Ethics Symposium, Annual Meeting, etc. The result will be a stronger, more interesting and vibrant Section. I greatly appreciate your assistance with this effort.

Finally, our Newsletter Editors and Webmasters, **Lawrence Chui** (University of St. Thomas) and **Byron Pike** (Minnesota State University - Mankato) continue to provide valuable and dedicated service to our Section. We are most fortunate for their service. Thanks to them both!

I hope you enjoy the remainder of the semester and look forward to seeing many of you at the Midyear Meeting.

Respectfully,

Pat Kelly

The 2015 Public Interest Section Accounting Exemplar Award Recipients

The Public Interest Section **Accounting Exemplar Award** is given to either an accounting educator or an accounting practitioner has made notable contributions to professionalism and ethics in accounting education and/or practice.



The 2015 Public Interest Section Accounting Exemplar Award Recipients are **Barbara Merino** and **Steven Mintz**.



Congratulation Barbara and Steven!

Paul Williams Received Prestigious AAA Award

The Accounting Horizons and Issues in **Accounting Education Best Paper Awards** are presented annually. The awards are given for the best paper published each calendar year for either publication.

The 2015 Accounting Education Best Paper Award went to **Paul Williams** for his paper titled. "The Myth of Rigorous Accounting Research."

SYNOPSIS: In this brief paper, I provide an argument that the rigor that allegedly characterizes contemporary mainstream accounting research is a myth. Expanding on arguments provided by West (2003), Gillies (2004), and Williams (1989), I show that the numbers utilized extensively to construct the statistical models that are the central defining feature of rigorous accounting research are, in many cases, not adequate to the task. These numbers are operational numbers that cannot be construed as measures or quantities of any kind of stable property. Constructing elaborate calculative models using operational numbers leads to equations whose results are not clearly decipherable. The rig-

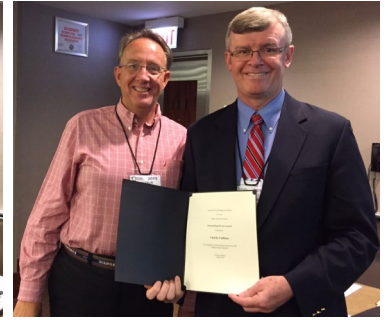
orous nature of certain preferred forms of accounting research is, thus, largely a matter of appearance and not a substantive quality of the research mode that we habitually label "rigorous." Thus, the policy recommendations implied by the results of rigorous accounting research may be viewed with considerable skepticism.



The 2015 Public Interest Section Service Awards

Three of our Public Interest Section members were recognized during the recent AAA business meeting for their outstanding service. They are: **Eric Lee**, **Pamela Roush**, and **Charles Cullinan**. Please join us to thank them for their contributions to the Public Interest Section!

thank you!



Looking Ahead



Dr. Michael L. Kraten
Providence College

**Public Interest section
Vice Chair of International Membership**

The 2015-16 academic year is expected to be a momentous one for the Public Interest Section of the American Accounting Association (AAA), and for public interest concerns throughout the business world. The AAA is planning to launch its new Public Interest Center, and the global business community will continue to grapple with challenges involving corporate social responsibility, environmental and social sustainability, economic instability, and other concerns.

The Libor manipulation investigations have expanded to encompass currency, commodity, and other illegal activities in the financial services industry. Climate change events and social protest movements have engulfed national and global regions. And macro-economic systems from China to Greece have gyrated in convulsions. All of these trends are expected to intensify during the upcoming year.

Meanwhile, the Center for the Advancement of the Public Interest in Accounting is expected to take its place beside the AAA's three other emerging Centers to provide critical support and expertise to address our profession's future challenges. Our own Section looks forward to continuing its role as a key forum for research and teaching in our field.

With the American presidential election season hitting its stride, and with continued debates over assurance, regulatory oversight, risk management, and taxation policies growing more contentious, we can look forward to an exceedingly turbulent -- and interesting -- academic year.

Officer's Update

Welcome to our quarterly newsletter! We've decided to begin the academic year by piloting a new strategy in member communications.

Each quarter, we'll focus on a different theme: Looking Ahead to the academic year in the fall, The PIS Midyear Meeting in the winter, Academic Year In Review in the spring, and The AAA Annual Meeting in the summer. We'll begin with some content about the theme, continue with an Officer's Update, present an Editorial Column, and then conclude with Member Notes.

Why are we experimenting with this approach? As you know, we pilot tested a successful social media effort during the past two years. Because of our need to coordinate our continuing online presence with the newly emerging Center for the Advancement of the Public Interest, we've temporarily archived that material, and are now integrating the most successful aspects of that initiative into our ongoing newsletter series.

We'll extend this pilot newsletter approach throughout this academic year, and will then assess its impact. If you have any thoughts, ideas, suggestions, or critical comments about our approach, or if you would like to contribute intellectual content, we welcome your input.



Editorial Column

The Public Interest Section is delighted to present the following editorial opinion essay that first appeared in Dr. **Steven Mintz's** Ethics Sage blog. Steve is a member of our Section and the winner of the CPA Journal's 2014 Max Block Award for Informed Comment, for his paper "Revised AICPA Code of Professional Conduct: Analyzing the Ethical Responsibilities for Members in Public Practice and Members in Business," which was published in December 2014.

The essay addresses the natural conflict between the frequently conflicting values of commercialism and professionalism. As Dr. Mintz notes in his essay, although the passage of the Sarbanes-Oxley Act impacted the behavior of CPA firms in the short term, recent events raise important concerns about whether additional regulations are required to impact their behavior in the long term.

For more information about this topic, you may wish to review "'Can Professionalism and Commercialism Coexist in CPA Firms? Putting the Public Interest Before Increased Profits.'" It appeared in the February 2015 edition of the CPA Journal, and it triggered a spirited response (or retort) in the following issue.

We present this essay in the hopes of promoting healthy debate about this critical topic.

Can Commercialism and Professionalism Co-Exist in the Accounting Profession?

What we see today in the accounting profession is troubling. Increased commercial activities threatens the independence cornerstone of the profession that underlies its public interest obligation. Audit firms are pushing the envelope in their involvement with non-audit services that makes it appear as though they might compromise their independence on the audit because of these relationships.

Following the scandals at companies such as Enron and WorldCom, the Sarbanes-Oxley Act (SOX) was passed by Congress in 2002 that limited the non-audit services that audit firms could provide. For a short time CPA firms, especially the Big Four, were on their best behavior. But, all that changed a few years ago as the thirst for new services pushed the firms into new areas of practice that can create the impression that a firm might not be independent in expressing its opinion on the client's financial statements, in large part because they are reviewing their own work.

Here are some recent examples. Alarm bells went off in October 2013, when PwC announced it was acquiring the consulting giant Booz & Company. Back in 2002, PwC had sold its previous consulting business to IBM for \$3.5 billion, as a response to restrictions on providing consulting services for audit clients that were created by SOX. As a result of its acquisition of Booz, PwC added \$9.2 billion in global consulting revenue and increased its consulting group's share of total global firm revenue of \$32.1 billion to 28.5 percent, up from 21.7 percent in 2009. Lynn Turner, the former SEC chief accountant, raised an important question about the merger when he asked: "Are the auditors going to serve management, or are they going to serve the best interests of the investing public?"

On January 24, 2014, KPMG agreed to pay \$8.2 million to settle charges by the SEC that the firm violated auditor independence rules by providing certain non-audit services to affiliates of companies whose books KPMG was auditing. In audit reports, KPMG repeatedly represented that it was independent despite providing services at various times from 2007 to 2011 to three audit clients.

The prohibited services included restructuring, corporate finance, and expert services – to an affiliate of one company that was an audit client. KPMG provided such prohibited non-audit services as bookkeeping and payroll to affiliates of another audit client. These relationships created a self-review threat to independence.

In a separate instance, KPMG hired an individual who had recently retired from a senior position at an affiliate of an audit client. KPMG then loaned him back to that affiliate to do the same work he had done as an employee of that affiliate, which resulted in the professional acting as a manager, employee, and advocate for the audit client. An SEC investigation also revealed some KPMG personnel owned stock in companies or affiliates of companies that were KPMG audit clients, further violating auditor independence rules.

On July 14, 2014, Ernst & Young agreed to pay more than \$4 million to settle accusations by the SEC that it violated independence rules by lobbying on behalf of two of its audit clients. These cases involve lobby-



Dr. Steven Mintz
Professor of Accounting

Cal Poly State University

ing by the firm's subsidiary Washington Council. When an auditor acts as an advocate for its audit client, independence in appearance, if not fact, has been compromised.

The SEC investigation appears to have been prompted by a Reuter's article on March 8, 2012, that identified three companies – Amgen, CVS Caremark, and Verizon -- that used EY for both audit and lobbying services at the time, and three that had previously done so: AT&T, the Fortress Investment Group, and Transocean.

In the case of one audit client, identified by the SEC only as Client A, the commission cited three lobbying efforts. It said EY had informed the client that a bill was scheduled to be voted on in the House and arranged for a letter supporting the legislation to be delivered to legislative staff members before the vote was taken. In the second effort, the firm sent a letter to legislative leaders recommending legislation the client wanted, and in the third case it sought an amendment to pending legislation. There was no indication that any of those efforts had any practical effect.

On July 1, 2015, the SEC charged Deloitte & Touche with violating auditor independence rules when its consulting affiliate kept a business relationship with a trustee serving on the boards and audit committees of three funds Deloitte audited. Deloitte agreed to pay more than \$1 million to settle the charges. Deloitte also disgorged to the SEC audit fees of nearly \$500,000 plus prejudgment interest of about \$116,000, and it paid a penalty of \$500,000.

Deloitte violated its own policies by failing to conduct an independence consultation before starting a new business relationship with trustee, Andrew C. Boynton. Deloitte failed to discover that the required initial independence consultation was not performed until nearly five years after the independence-impairing relationship had been established between Deloitte Consulting and Boynton, who was paid consulting fees for his external client work.

Deloitte compromised its independence because the relationship made it appear that the firm may not be objective and impartial in conducting its audit of the three funds. Deloitte represented in audit reports that it was independent of the three funds while Boynton simultaneously served on their boards and audit committees.

The recent trend of expanding into questionable non-audit services for audit clients is ominous, I believe. The audit profession has a history of reverting to old behaviors after a period of calm. I see the red flags and believe the SEC needs to investigate the overall issue of providing non-audit services to audit clients. Perhaps it's time to prohibit all such services for audit clients, while allowing them for clients for whom no audit services are provided.

Steve Mintz teaches in the Orfalea College of Business at Cal Poly San Luis Obispo. He also blogs at: www.ethicssage.com and <http://www.workplaceethicsadvice.com>.

Member Notes

Dennis Huber has recently published a paper in the Journal of Accounting, Ethics and Public Policy

Public Accounting and the Myth of the Public Interest, Wm. Dennis Huber, Journal of Accounting, Ethics and Public Policy, Vol. 16, No. 2, 2015

Abstract: For decades it has been drummed into the conscience, the consciousness, and the subconscious of accounting students, researchers, and practitioners alike that the public interest is the sine qua non of the public accounting profession. Accounting researchers have attempted to explore the multi-faceted nature of what is referred to as the public interest based on the assumption that the public interest actually exists in the public accounting profession (including professional accounting organizations, government and quasi-government regulatory agencies, and auditing and accounting standard setting bodies). This paper questions that assumption by conducting an exegesis of the texts of the legislative findings, statutes, and purposes and missions of professional accounting organizations, government and quasi-government regulatory agencies, and auditing and accounting standard-setting bodies. It concludes that the assumption that the public interest exists in the public accounting profession is a myth that disguises what interest the public accounting profession actually serves and blinds the public from understanding what is meant by serving and protecting the public interest.