

**REPORT OF THE
VIRGINIA BOARD OF COMMERCE**

**The Study of Issues
Relating to the
Practice of Accountancy**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 8

**COMMONWEALTH OF VIRGINIA
RICHMOND
1988**



COMMONWEALTH of VIRGINIA

Department of Commerce

Board of Commerce

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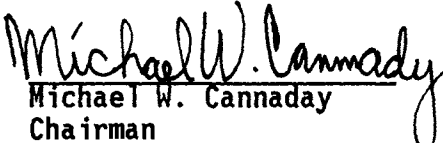
November 13, 1987

**TO: The Honorable Gerald L. Baliles
Governor of Virginia
and
The General Assembly of Virginia**

The report transmitted herewith is pursuant to House Bill 1019 of the 1987 Session of the General Assembly of Virginia. Section 2 of House Bill 1019 requested the Board of Commerce to study three issues relating to the practice of accountancy and submit its findings and recommendations to the 1988 Session of the General Assembly.

Also included with the report are observations and comments which were submitted by an individual member of the Board of Commerce.

Respectfully submitted,


Michael W. Cannaday
Chairman

MWC:djp

Enclosure

**BOARD OF COMMERCE REPORT AND RECOMMENDATIONS
ON THE STUDY OF ISSUES RELATING TO
THE PRACTICE OF ACCOUNTANCY
AS SPECIFIED IN HOUSE BILL 1019
(1987 ACTS OF ASSEMBLY)**

**Accountancy Study
Subcommittee Members:**

**Michael W. Cannaday, Chairman
George W. Logan
Jim O'Quinn**

As a result of House Bill 1019, the 1987 Virginia General Assembly directed the Board of Commerce to study the following three issues relating to the practice of accountancy: (i) the need and desirability for additional regulation of accountants who are not certified public accountants; (ii) the proper parties to be involved in rendering review reports on financial statements; and (iii) the appropriateness of modifying the limitations on references to accounting principles and standards contained in the Act.

In response to the General Assembly's mandate, the Board of Commerce appointed a three member Subcommittee and the Subcommittee employed Technical Associates, Inc., a Richmond based firm of consulting economists, accountants and engineers.

Based upon the findings and conclusions of the consultant, and upon the testimony received at the public hearings, the Subcommittee accepted the report of Technical Associates in its entirety and made the following recommendations to the full Board of Commerce for consideration:

A. Reduce the current prohibition against use of certain language by unlicensed persons.

The Subcommittee recommends that the current broad prohibition against the expression of any kind of opinion on a financial statement (an "assurance" in the language of the current statute) by unlicensed persons be reduced. Practitioners calling themselves accountants, however, or offering services to the public in the fields of bookkeeping or accounting, or claiming special qualifications in these fields should be required to add a disclaimer if they make any kind of assurance which would encourage reliance on a financial statement. The recommended disclaimer consists either of the language:

"The undersigned is not a licensed Certified Public Accountant under Virginia law. Persons relying on this opinion (these opinions) must do so on the basis of their own judgement of the writer's qualifications, ability, and independence." or (at the option of the accountant) "The undersigned is not a licensed Certified Public Accountant under Virginia law. This opinion (these opinions or statements) is (are) intended solely for the use of my client."

The disclaimer should not be required on an assurance which is clearly given by an employee to his employer, or which is given by a government employee in the course of his duties.

In addition, persons who do not claim to be accountants and who neither offer accounting or bookkeeping services to the public nor claim special qualifications in this field should be able to

write anything they wish about a financial statement without a disclaimer, whether or not their statements are directed to their employers.

B. Continue to restrict "audit" and "review" assurances to licensed persons.

Although the Subcommittee recommends that the prohibitions against the offering of assurances by accountants and bookkeepers be reduced, they should not be removed. Two important kinds of assurance, an "audit" and a "review", should continue to be restricted to licensed persons and the use of the related terms "audit", "audited", "auditing standards", "review" and "reviewed" should be similarly restricted. All other previously prohibited terms, including "examination" and "opinion" should be available to unlicensed accountants. The recommendations should have the effect of restricting only the word "review," not the review function as long as the function is given another name.

C. Do not create additional class of licensee.

No additional class of licensee should be created. The Subcommittee believes that the disclaimer and the restrictions which should be retained will provide sufficient protection to the public.

The full Board of Commerce voted to adopt the recommendations of the subcommittee and the report of their consultants, Technical Associates, Inc.

The Board also approved one additional recommendation to the 1988 General Assembly which is independent of the consultant's report and study of the issues mandated by House Bill 1019.

The Board recommends that the 1988 General Assembly consider amending Title 54 to require that licensed Certified Public Accountants who prepare financial audits/reviews be required to include the following information:

In addition, the preparer of this financial audit/review is a Certified Public Accountant under Virginia Law and does hereby disclose that in addition to the preparation of this document such CPA has the following business relationship with the client entity:

(Herein is set forth the relationship)

**COMMENTS OF GEORGE W. RIMLER
MEMBER BOARD OF COMMERCE**

In my five years of tenure as a member of the Board of Commerce this is my first individual attachment to any report or recommendation emanating from the Board. I am delighted that a well qualified, independent consultant, utilizing thorough methodology, has verified the merit of the policy, of the past and present administration, of attempting to lessen government interference in the marketplace. The legislature is to be commended for establishing this study as part of H.B. 1019. The report finds no reason for more regulation and in fact states that "the evidence from both the public hearings and surveys does not indicate an overpowering need for restrictive regulation."

Rather than have a study emerge after legislation, it would, I believe, be more effective to study regulatory matters before the drafting process. In this case the legislature adopted a policy and then called for a study to develop objective data. One cannot help but speculate as to why the consultant's report (pg. vii, paragraph 3), prefers the North Carolina (least restrictive) end of the spectrum, but bases conclusion on the acknowledged self-interest views from self-interested parties (p. vi, paragraph 2). These views emanated from CPA's, non CPA's and users of financial statements. The consultant was totally on target in recognizing the exceedingly narrow self-interest nature of these views. Yet, any reasonably objective party would be at a loss to comprehend the merit of considering the self-interest views as a key data source in formulating recommendations.

Absent the sentiments expressed in the surveys and in the public hearings, the consultant's recommendation would be the licensing/-regulatory system presently in existence in North Carolina. However, because of these views, the Consultant has chosen a system which retains certain major restrictions on unlicensed accountants while eliminating others.

- p. vii of Consultant Report.

The process whereby the legislature requests an independent study and a member then testifies at a public hearing as to what recommendations "the General Assembly will be guided by" is circular at best and tends to reduce the effectiveness of the desired independent output--the very reason for the study. Why conduct studies to make recommendations to the legislature and then informally limit the possible ideas generated?

"Ah, but a man's reach should exceed his grasp. Oh, what is heaven for?"

Perhaps the jockeying in the drafting of H.B. 1019 influenced aspects of the study and its conclusions.

There is no longer doubt that the debate accompanying the prolonged "turf battle" between these two groups has very little to do with protection of the public. The simultaneous emergence of the age of entrepreneurship coupled with corporate merger mania has created new opportunities and new markets for providers of accounting services. I believe it would be tragic if either group was allowed to substitute state interference for marketplace competition in the "people's turf."

1987 SESSION

VIRGINIA ACTS OF ASSEMBLY - CHAPTER 610

An Act to amend the Code of Virginia by adding in Title 54 a chapter numbered 5.3, consisting of sections numbered 54-102.24 through 54-102.35, and to repeal Chapter 5 of Title 54 of the Code of Virginia, consisting of §§ 54-84 through 54-102, the added and repealed sections relating to the continuance of the State Board of Accountancy and to the practice of public accountancy; penalty.

[H 1019]

Approved MAR 27 1987

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 54 a chapter numbered 5.3, consisting of sections numbered 54-102.24 through 54-102.35, as follows:

CHAPTER 5.3.

PUBLIC ACCOUNTANCY.

§ 54-102.24. *Practice of public accounting; certified public accounting; certified public accountants.—It is the intent of the General Assembly that the State Board of Accountancy certify and license persons to practice public accountancy and restrict the practice of public accountancy to those persons who are so certified and licensed, and that it take such actions as may be authorized by Title 54 to aid the public in determining the qualifications of persons who give assurances on financial statements.*

§ 54-102.25. *Definitions.—As used in this chapter, the following words and terms shall have the following meanings, unless the context clearly indicates otherwise:*

“Assurance” means any act or action, whether written or oral, expressing an opinion or conclusion about the reliability of a financial statement or about its conformity with any financial accounting principles or standards.

“Board” means the State Board of Accountancy continued by the provisions of this chapter and established by its predecessor under prior law.

“Certificate” means a certificate as a certified public accountant issued by the Board pursuant to this chapter or corresponding provisions of prior law or a corresponding certificate as a certified public accountant issued after examination under the laws of any other state.

“Financial statement” means any writing or other presentation, including accompanying notes, which presents, in whole or in part, historical or prospective financial position, results of operations or changes in financial position of any person, corporation, partnership or other entity.

“License” means a license to practice public accounting issued under the provisions of this chapter or corresponding provisions of prior law.

“Practice of public accountancy” or “public accounting” means the giving of an assurance, in a report or otherwise, whether expressly or implicitly, unless this assurance is given by an employee to his employer.

“Registration certificate” means a certificate issued to a professional corporation that has met all of the requirements for registration under this chapter.

“Report” or “reports” when used with reference to financial statements, means an opinion or disclaimer of opinion or other form of language or representation which states or implies any form of assurance or denial of assurance.

“State” means any state of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam.

§ 54-102.26. *State Board of Accountancy; membership; qualifications; powers and duties of Board.—A. The State Board of Accountancy is continued and shall have the responsibility for the enforcement of the provisions of this chapter subject to the powers and duties of the Director as set forth in § 54-1.33 of this Code. The Board shall consist of seven members who shall be residents of Virginia and who shall be appointed by the Governor and serve at his pleasure. Appointment of members of the Board shall be for terms of five years. Members of the State Board of Accountancy as it exists prior to July 1, 1987, may continue as Board members until their individual terms expire.*

As the terms of the members of the Board expire, they shall be replaced by members with the following qualifications: one public member who may be an unlicensed accountant who otherwise meets the requirements of § 54-1.18:1 (i) and (ii); one educator in the field of accounting; and five practicing certified public accountants, duly certified and licensed, who have been actively engaged in the practice of public accounting for at

least three years prior to appointment to the Board. Any certified public accountant member of the Board whose license is revoked or suspended shall automatically cease to be a member of the Board.

Vacancies occurring during a term shall be filled by appointment by the Governor for the unexpired term. Upon the expiration of his term of office, a member shall continue to serve until his successor takes office. No person shall be eligible to serve on the Board for more than two successive full terms. Appointment to fill an unexpired term shall not be considered a full term for this purpose.

B. The Board may establish continuing education requirements for the issuance of a license or to assure continued competency of licensees.

§ 54-102.27. *Grant of certificate; restrictions on practice.*—The Board shall issue a certificate only to a person who meets the character, education, and examination requirements established by regulations of the Board. A person who holds a valid certificate granted to him by the Board may refer to himself as a Certified Public Accountant or CPA but is not empowered to practice public accountancy until he obtains a valid license to do so.

§ 54-102.28. *Grant and renewal of license; rights of licensee.*—The Board shall issue a license only to a person who holds a valid certificate and who has met work experience requirements established by Board regulation.

The Board shall grant or renew a license only if the license holder meets requirements established by the Board. A person who holds a valid license granted to him by the Board may practice public accounting.

§ 54-102.29. *Professional corporations.*—A. No professional corporation organized under the provisions of Chapter 7 (§ 13.1-542 et seq.) of Title 13.1 of this Code shall practice, directly or indirectly, public accounting in this Commonwealth unless registered under this chapter.

B. A professional corporation organized under the provisions of Chapter 7 of Title 13.1 of this Code shall be issued a registration certificate by the Board upon its application and payment of the required registration fee provided that:

1. Each shareholder of the professional corporation who will practice public accountancy in Virginia holds a license issued by the Board.

2. The name of the professional corporation and the conduct of its practice conform with the ethical standards which its shareholders are required to observe in the practice of public accountancy and the name includes such designation of the corporate form as is authorized by Chapter 7 of Title 13.1 of this Code and is followed by the description a "Professional Corporation" or "P.C."

C. Professional corporation registration certificates shall be renewed biennially on the anniversary date if such corporation meets the requirements for registration and has paid the registration fee. The Board shall establish a renewal fee.

§ 54-102.30. *Unprofessional conduct.*—The Board may revoke or suspend a license or certificate or impose lesser sanctions for any of the following causes:

1. The use of fraud, deceit, or misrepresentation about credentials or qualifications for licensure or certification.

2. The conviction of a felony or of a misdemeanor involving moral turpitude.

3. Unprofessional conduct in violation of the Standards of Practice enacted by the Board.

4. Professional discipline imposed by another state in the practice of public accountancy.

5. Dishonesty, fraud, or negligence in the practice of public accountancy.

6. Suspension or revocation of the right to practice before any state or federal agency.

7. Violation of any of the provisions of this chapter or any regulation promulgated by the Board.

§ 54-102.31. *Prohibited acts.*—A. A person who does not hold a valid license issued by the Board shall not claim to hold one, nor shall he practice or offer to practice public accountancy or public accounting; nor shall he make any other claim of licensure, registration, or approval related to the preparation of financial statements which is false or misleading.

B. A person who does not hold a valid certificate issued by the Board shall not claim to hold one or describe himself as or assume any of the following titles or designations: certified public accountant, CPA, public accountant, PA, certified accountant, CA, chartered accountant, licensed accountant, LA, registered accountant, RA, independent auditor or auditor.

C. A person who does not hold a valid license issued by the Board shall not claim to

have used “generally accepted accounting principles,” “generally accepted accounting standards,” “public accountancy standards,” “public accountancy principles,” “generally accepted auditing principles,” or “generally accepted auditing standards” in connection with his preparation of any financial statement; nor shall he use any of these terms in describing any complete or partial variation from such standards or principles or to imply complete or partial conformity with such standards or principles.

D. A person who does not hold a valid license issued by the Board shall not use the words “audit,” “audit report,” “independent audit,” “attest,” “attestation,” “examine,” “examination,” “opinion,” or “review” in a report as that term is defined in this chapter, and which expresses assurance on a financial statement.

E. A person who does not hold a valid license issued by the Board shall neither state nor imply that he is tested, competent, qualified, or proficient in financial standards established by (i) the American Institute of Certified Public Accountants or any agency thereof, (ii) the Governmental Accounting Standards Board or any agency thereof, (iii) the Securities and Exchange Commission or any agency thereof, (iv) the Financial Accounting Standards Board, or (v) any successor entity to an entity named in this subsection.

F. No person who holds a valid license issued by the Board shall engage in the practice of public accounting under a professional or firm name or designation that contains a name or term other than past or present partners, officers, or shareholders of the firm or of a predecessor firm; nor shall any such person engage in the practice of public accounting under a professional or firm name which is deceptive or misleading.

§ 54-102.32. Exemptions from unlawful acts.—A. The unlawful acts set forth in § 54-102.31 shall not apply to or prohibit a person or firm holding a certification, designation, degree or license granted in a foreign country entitling the holder thereof to engage in the practice of public accountancy or its equivalent in such country, provided that:

1. The practice of this person or firm in the Commonwealth of Virginia is limited to providing professional services to persons or firms who are residents of, governments of, or business entities of the country in which such entitlement is held;

2. Such person or firm does not engage in the practice of public accountancy in the preparation of financial statements about any other person, firm, or governmental unit in the Commonwealth of Virginia; and

3. The person or firm designates the country of origin and does not use any title or designation other than the one under which he or it may lawfully practice in the country of origin, which may be followed by a translation of such title or designation into English.

B. No section of this chapter shall be construed, interpreted, or applied in such a way as to prohibit any public employee from performing his duly authorized or mandated duties.

§ 54-102.33. Inapplicability of chapter.—A. Nothing contained in this chapter shall be construed to prevent any person from describing himself as an “accountant” or a “bookkeeper” or from stating that he practices accountancy or bookkeeping; nor shall this chapter be construed to prevent any person from performing services involving the use of accounting skills, from rendering tax services, management advisory or consulting services, or from the keeping of books of account and related accounting records, or from preparing financial statements without the expression of an opinion or an assurance.

B. Nothing contained in this chapter shall be construed to prevent any person from stating that he has prepared, compiled, assembled or drafted a financial statement, provided he does not use any additional language which comprises an assurance.

C. The prohibitions of § 54-102.31 and the other provisions of this chapter shall not be construed to preclude the use of the following language: “I(We) have compiled the accompanying (financial statements) of (Name of entity) as of (time period) for the (period) then ended. A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I(We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all (or certain) required disclosures (and the statement of changes in financial position). If omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the (entity)’s financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about these matters.”

§ 54-102.34. Criminal penalty.—Any person or firm who commits an act prohibited by § 54-102.31 shall be guilty of a Class 3 misdemeanor.

§ 54-102.35. Injunctive relief.—If any person or firm commits an act prohibited by this

chapter, the Board shall be empowered to seek and to obtain injunctive relief from a court of competent jurisdiction to prevent a continuing or future violation.

2. That the Board of Commerce shall evaluate (i) the need and desirability for additional regulation of accountants who are not certified public accountants, and (ii) the proper parties to be involved in rendering of review reports on financial statements, and (iii) the appropriateness of modifying the limitations on reference to accounting principles and standards contained in this act. If the Board determines that additional regulation is required or desirable or that this act should be amended, the Board shall recommend to the 1988 General Assembly for its approval any regulatory system appropriate to implement that degree of regulation, and it shall also recommend appropriate amendments to this act.

3. That Chapter 5, consisting of §§ 54-84 through 54-102, of Title 54 of the Code of Virginia is repealed.

President of the Senate

Speaker of the House of Delegates

Approved:

Governor

**THE REGULATION OF
ACCOUNTING IN VIRGINIA**

**A REPORT TO
THE VIRGINIA GENERAL ASSEMBLY**

**BY
THE STATE BOARD OF COMMERCE**

OCTOBER 22, 1987

TABLE OF CONTENTS

	PAGE
Executive Summary	i
Background and Purpose	i
Methodology and Procedures	i
Regulation Elsewhere	ii
Public Hearings	ii
Survey Results	iii
Conclusions and Findings	v
Recommended Approach	vii
Alternative Approaches	ix
I. Purpose and Scope	1
II. Development of Recommendations and Options	3
A. Regulatory Context of Review Services	3
B. GAAP In Its Proper Setting	6
C. Establishing An Additional Class of Licensed Accountants	8
D. The Public's Perspective	9
E. Regulatory Frameworks Elsewhere	11
F. Interests of Financial Statement Users	12
III. Recommended Approach and Its Justification	14
A. Recommended Changes	14
B. Basis of the Recommendations	15
IV. Alternative Approaches	17
A. North Carolina Model	17
B. Kentucky Model	18
C. Modified North Carolina Model	19
D. Retain Present Law	19
E. Tennessee Model	19

V.	Surveys of Accounting Services Users and Providers	21
A.	Business Users of Accounting Services	22
1.	Profile of Respondents	24
2.	Overall Survey Results	25
3.	Evaluations and Analysis	27
4.	Distinguishing Among Accounting Services	28
5.	Small vs. Large Firms	28
6.	Original and Corrected Survey	29
7.	Geographical Differences	30
8.	Respondent Errors	32
9.	Unsolicited Comments	32
B.	Users of Financial Statements	33
1.	Tabulations and Interpretations	34
2.	The Banking Community	36
3.	Other Matters	36
C.	Providers of Accounting Services	36
1.	Introductory Findings	37
2.	CPA's vs. Non-CPA's	37
Appendix A:	Survey Forms and Compilation of Results	
Appendix B:	An Overview of the Regulation of Accounting In Neighboring Jurisdictions	
Appendix C:	Legal Aspects of the Regulation of Accounting With Emphasis on States Adjoining Virginia	

THE REGULATION OF ACCOUNTING IN VIRGINIA

EXECUTIVE SUMMARY

Background and Purpose

The 1987 Virginia General Assembly, as part of House Bill 1019, directed the State Board of Commerce to "evaluate (i) the need and desirability for additional regulation of accountants who are not certified public accountants; and (ii) the proper parties to be involved in rendering review reports on financial statements; and (iii) the appropriateness of modifying the limitations on references to accounting principles and standards contained in this act".

To assist it in carrying out the mandates of the legislature, the State Board of Commerce ("Board") retained the consulting firm of Technical Associates, Inc. of Richmond, Virginia ("Consultant"). This report has been prepared by the Consultant to aid the Board in its evaluation.

Methodology and Procedures

To meet the objectives of the study, four avenues of inquiry were undertaken. First, the conceptual basis for the licensing or regulation of professional practices was considered, particularly as it relates to the accounting profession. Second, the Consultant conducted a general review of statutes and regulations governing accounting practice in the U.S. including legal summaries of relevant case law.

Third, the Consultant attended the public hearings held by the Board and closely examined the transcripts and written comments flowing from those proceedings. Finally, a major survey was taken regarding opinions in the Commonwealth of the issues at hand, directed at more than 14,000 businesses, 1,000 users of financial statements, and 1,100 accounting professionals.

An assessment and weighing of this considerable amount of information and data forms the basis for the Consultant's conclusions and recommendations.

Regulation Elsewhere

Laws and regulations governing accounting practices vary widely among the 50 states. Some appear to be highly restrictive, literally granting a monopoly to CPA's in the accounting services market. Others are less restrictive, limiting the exclusive domain of the CPA's to auditing services. There are still other states who have a minimum of regulation, allowing anyone to do anything except that only CPA's can claim to be licensed. Some 14 of the 50 states have chosen a two-tier system whereby there are licensed CPA's and licensed non-CPA's, each with exclusive rights over particular accounting functions.

Diversity in the regulation of accounting practice is apparent when considering just the systems in Maryland, the District of Columbia, West Virginia, Kentucky, Tennessee, and North Carolina. At one end of the spectrum sits North Carolina, where the only restriction on non-CPA's is that they may not refer to themselves as anything except accountants. Beyond that, unlicensed accountants can perform any accounting function in Virginia's southern neighbor. At the other end of the spectrum sits Tennessee with a two-tiered licensing system, i.e., licensed CPA's and licensed PA's. Moreover, the regulations in the Commonwealth's southwestern neighbor specifically set forth what each of the classes of licensees can do.

Public Hearings

The Consultant attended public hearings held by the Accountancy Study Subcommittee of the Board in Fairfax, Williamsburg, and Roanoke. At these hearings, over which Subcommittee Chairman Michael W. Cannaday presided, representatives of the Virginia Society of CPA's argued forcefully for retaining the present law, while spokesmen for the Virginia Society of Accountants put forward vigorous arguments for reducing present restrictions. Representatives of other organizations, and many individuals, took a variety of positions which were as diverse as, and in many cases were similar to, positions advocated by the respondents to the Consultant's surveys.

For example, representatives of financial institutions, with one exception, took positions in support of the present law,

although those who were questioned agreed that they could easily distinguish the work of a CPA from that of an unlicensed accountant and could establish a policy of rejecting reports by non-CPA's if they wished.

The record of the public hearings was kept open until July 31 to permit the submission of written testimony and additional materials. Forty-five exhibits were received and incorporated into the record before the deadline. These exhibits also reflected the same wide variety of opinion expressed in the surveys.

Survey Results

To determine the general views of Virginia businesses regarding the issues posed by the General Assembly, the Consultant conducted three mail surveys of accounting service users and providers in the Commonwealth: (A) a survey directed at 14,360 chief financial officers or chief executive officers of randomly selected businesses; (B) a survey directed at 1,000 third party users of financial statements, such as bank loan officers, executives of investment banking and brokerage firms, and investment company officials; and (C) a survey of 1,146 accounting professionals, divided approximately equally between CPA's and non-CPA's.

Half of the businesses responding (50%) in survey (A) are satisfied with both the cost and quality of accounting services available in their areas. Substantially more firms are concerned over the cost of accounting services (23%) than over its quality (5%). Only 5% are concerned with both the cost and quality of accounting services.

Approximately 70% of the respondents in survey (A) distinguish between various types of accounting services such as compilation, bookkeeping, review, tax preparation, and audit. And, of this 70%, 9 out of 10 believe different education and experience levels are required to competently provide such services. Auditing services are ranked highest as requiring the most education and experience.

When the firms in survey (A) were asked if "Virginia law should be changed to permit non-CPA's to use such terms as

"generally accepted accounting principles", or GAAP, approximately 40% answered "yes" and 60% responded "no". Virtually the same distribution of answers resulted when they were asked if the law should be changed to allow non-CPA's to use the term "review", issue review reports, or to call themselves "public accountants". That is, about 60% said "no" and 40% said "yes".

The converse situation arose when the survey (A) businesses were asked if they would "favor regulation of non-CPA's, such as a licensing requirement similar to but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "GAAP". That is, about 60% said "yes" and 40% replied "no". The same converse response distribution emerged when the survey (A) firms were asked about the same form of regulation of non-CPA's being a prerequisite to them being able to use "review", issue review reports, and hold themselves out as public accountants.

In survey (B), it was found that bankers and other users of financial statements use compiled statements, reviewed statements, audited statements, and income tax returns with approximately the same frequency in making financial decisions. About 67% also believe such statements are prepared in accordance with "generally accepted accounting principles".

More than 8 out of 10 of the survey (B) respondents recognize the accounting terms of art distinction between audited and reviewed financial statements. And, about 60% of them believe that preparation by a CPA is the most important factor in determining the reliability of an unaudited financial statement.

The pattern of responses in survey (B) regarding changing present Virginia law to allow non-CPA's greater latitude or favoring regulation of non-CPA's as a prerequisite to such an allowance is similar to that of survey (A), but users of financial statements are more opposed to changing current law than is business generally. At the same time, survey (B) respondents favor regulation of non-CPA's to a greater degree than survey (A) firms.

The views of CPA's and non-CPA's differed sharply in survey (c) regarding the desirability of changing present restrictions

on the use of accounting terms and the preparation of review reports. More than 90% of CPA's favored no changes in present law on both of these issues, while 77% of non-CPA's wanted the law altered. The two groups were somewhat closer in the matter of the need for regulation. Among CPA's, 47% favored regulation (such as a licensing requirement) as a prerequisite to allowing non-CPA's to use such terms as GAAP. In contrast, 58% of the non-CPA's took this position. The percentage of CPA's favoring regulation as a prerequisite for non-CPA's to perform reviews was 54%, whereas the number of non-CPA's seeking this prerequisite was 67%.

Conclusions and Findings

The justification for the licensing or regulation of professional practice is that the public benefit of economic and other restrictions outweigh the public cost. That net benefit, where it exists, is due to the technical nature of professional practice which makes it difficult for the public to make rational and informed choices.

In the case of medical practice, where life and death decisions abound, it is understandable that significant market restrictions have been imposed. With respect to other professions, the need for regulation is less obvious. As a people, however, we have approached licensing and regulation cautiously--believing that the free market produces the greatest gain for society overall. Perhaps nowhere is this better exemplified than in Virginia, not only with regard to broad public policy measures, but also with respect to professional licensing. To illustrate, Section 54-1.26 of the Code of Virginia (1950, as amended) states "that the Board shall regulate only within the minimum degree necessary to protect public health, safety and welfare".

The evidence from both the public hearings and surveys does not indicate an overpowering need for restrictive regulation. The business public is able to distinguish among various types of accounting services and is generally satisfied with the cost and quality of those services. Nothing suggests that a large (or even a small) body of the business consuming public needs a restrictive form of licensing or regulation before they can make rational and informed choices about accounting services.

At the same time, a majority of businesses do not want present Virginia law changed. But given the large minority who do wish to allow non-CPA's greater latitude, one wonders whether the majority's opinion may have been influenced by a natural reluctance to advocate a change in the law or by a lack of experience with the present law. However, the fact that a majority of firms are in favor of regulating non-CPA's as a prerequisite to granting them greater latitude in their practices must also be considered in the interpretation of the apparent preference of a majority of businessmen for retaining the current law.

As for users of financial statements, their views are clearly and understandably governed by self-interest, as are those of CPA's and non-CPA's. Financial statement users seek avenues which will make their jobs easier and less costly. Restricting accounting services to CPA's or licensing non-CPA's fulfills those ends.

The Consultant also concluded that the development of the system in which financial information is couched in a uniform language has been of enormous importance to the economic growth of Virginia and the nation as a whole. This is due largely to the efforts of CPA's who have achieved similar qualifications and whose work is widely accepted by persons who do not know them. The Consultant has further found that reviews, as defined by the American Institute of Certified Public Accountants ("AICPA") have become an integral part of that uniform language system since their use was suggested by the AICPA in 1978 as an alternative to a full audit.

The evidence also indicated that the work of unlicensed practitioners (non-CPA's) has been indispensable to the Commonwealth and that the growth and development of non-CPA practice normally involves learning about GAAP and other aspects of accounting which are codified primarily through the efforts of CPA's. The great majority of persons who have received training in GAAP and related subjects are not, and never will be, CPA's. Some non-CPA's were even found to have Ph.D.'s in accounting and related subjects and to teach accounting principles at the college level based on GAAP.

An essential difference was found between the work of CPA's and that of unlicensed accountants. That is, the work of the latter is not part of the nationwide licensing system which gives the work of CPA's credibility. As a result, the reports of unlicensed accountants can only be relied upon by persons who are in a position to make their own judgement as to the accountant's independence, qualifications, and skill.

In addition, the Consultant concluded that third parties who rely on financial statements are normally quite sophisticated and can easily distinguish the work of a CPA from that of a non-CPA. Such users can, and sometimes do, adopt policies of never accepting the work of a non-CPA as evidence of the reliability of a financial statement. As a consequence, the Consultant believes that users of financial statements do not normally need protection from the work of non-CPA's. A majority of such users wish to retain the restrictions in the present law because they would prefer not to be subject to customer pressure to deal with review reports and other assurances prepared by accountants who are not CPA's.

Recommended Approach

Absent the sentiments expressed in the surveys and in the public hearings, the Consultant's recommendation would be the licensing/regulatory system presently in existence in North Carolina. However, because of these views, the Consultant has chosen a system which retains certain major restrictions on unlicensed accountants while eliminating others.

The Consultant recommends that the current broad prohibition against the expression of any kind of opinion on a financial statement (an "assurance" in the language of the current statute) by unlicensed persons be reduced. Practitioners calling themselves accountants, however, or offering services to the public in the fields of bookkeeping or accounting, or claiming special qualifications in these fields should be required to add a disclaimer if they make any kind of assurance which would encourage reliance on a financial statement. The recommended disclaimer consists either of the language:

"The undersigned is not a licensed Certified
Public Accountant under Virginia law.

Persons relying on this opinion [these opinions] must do so on the basis of their own judgement of the writer's qualifications, ability, and independence." or (at the option of the accountant) "The Undersigned is not a licensed Certified Public Accountant under Virginia Law. This opinion [these opinions or statements] is [are] intended for the client's use only."

The disclaimer should not be required on an assurance which is clearly given by an employee to his employer, or which is given by a government employee in the course of his duties.

In addition, persons who do not claim to be accountants and who neither offer accounting or bookkeeping services to the public nor claim special qualifications in this field should be able to write anything they wish about a financial statement without a disclaimer, whether or not their statements are directed to their employers.

Although the Consultant recommends that the prohibitions against the offering of assurances by accountants and bookkeepers be reduced, they should not be removed. Two important kinds of assurance, an "audit" and a "review", should continue to be restricted to licensed persons and the use of the related terms "audit", "audited" "auditing standards", "review" and "reviewed" should be similarly restricted. All other previously prohibited terms, including "examination" and "opinion" should be available to unlicensed accountants.

No additional class of licensee should be created. The Consultant believes that the disclaimer and the restrictions which should be retained will provide sufficient protection to the public.

In designing these recommendations, the Consultant intends to give to unlicensed persons nearly complete freedom to examine and analyze financial statements, to use or misuse accounting terminology, and to make the results available to anyone who might want to look at them, provided that it is made clear that the responsibility of judging the reliability of that work rests with the user.

The word "review" is reserved to CPA's because it has been restricted in Virginia and is so restricted in many other states. It could be taken, therefore, to mean the type of analysis which is performed by a CPA and which is widely acceptable as a result. A loan officer might request a "review" of a financial statement, for example, when he means a "review by a CPA". The Consultant's recommendations should have the effect of restricting only the word "review", not the review function as long as the function is given another name.

The recommended disclaimer is intended to remind both the person who pays the accountant and any third party, such as a loan officer, of something that should be obvious in any case--that the work he is paying for or examining is outside of the system which makes the work of CPA's credible to persons who have no knowledge of their individual reputations. It is designed to encourage persons who need to use this system to demand the work of a CPA, but to let persons who are comfortable with the work of a non-CPA to use the work of that accountant.

Alternative Approaches

1. North Carolina Model. North Carolina has put no restrictions on unlicensed accountants except that they cannot call themselves anything except "accountants". The North Carolina system is one of open competition in which the market alone determines who hires CPA's, who hires non-CPA's, and for what work each is hired. Third parties are free to use or reject audits and reviews by both types of accountants depending on their needs. Presumably, businesses who hire accountants to perform reviews and audits are (or soon become) sensitive to the requirements of third parties who may use the resulting reports. Similarly, there are economic incentives to encourage banks and bonding companies to communicate their requirements for the preparation of reviews and audits to potential customers, either to avoid turning away customers who submit unwanted types of assurances or to attract customers by having minimum requirements for the preparation of such assurances.

This regulatory approach has been successful enough in North Carolina so that there is no evident movement to change it. The Consultant recognizes, however, that this approach is likely to be contrary to the views of the majority of the respondents to

the surveys who do not wish to remove current restrictions on non-CPA's. Otherwise, the Consultant believes that this is a desirable regulatory system.

2. Kentucky Model. If the two approaches presented thus far are felt to give too much freedom to unlicensed accountants, the Consultant recommends a law like that of Kentucky which prohibits unlicensed accountants (or persons claiming expertise in accounting) from giving any opinion as to the reliability of a financial statement. Such a law clearly prohibits both reviews and audits by unlicensed persons. It does not, however, try to regulate persons such as security analysts if they do not claim expertise in accounting, nor does it contain explicit restrictions on the use of accounting terms such as GAAP. This and comparable terms would have to be used carefully by unlicensed accountants, however, if they were to avoid violating the restriction on opinions.

The Consultant believes that this simpler law would avoid some of the awkwardness of the present Virginia statute. It would be less subject to legal challenge on the grounds that it infringed the freedom of speech of non-CPA's, and it would remove much of the problem of accidental violations which may occur under the present Virginia statute. Otherwise, the effect of such a simpler statute on the business of licensed and unlicensed accountants would probably be much the same as that of House Bill 1019.

3. Modified North Carolina Model. This alternative lies between the North Carolina model and the Consultant's recommended approach, as it removes the restrictions on the performance of reviews by non-CPA's. This approach shares with the North Carolina system the disadvantage that it disregards the wishes of respondents to the surveys, especially the survey of users of financial statements. It would restrict only audits to CPA's. Given a choice, the Consultant would prefer the North Carolina approach in total.

4. Retain Present Law. The Consultant does not believe that the status quo is a desirable alternative. In particular, prohibition on the use of terms such as GAAP which are important to many professions, not only accounting, is of questionable legality and does not appear to be necessary to protect the

public. The latter is especially true for third party users of financial statements as they are ordinarily very knowledgeable about the requirements for reliable statements. A burdensome regulation which is not strictly necessary is contrary to the Virginia tradition of regulating as little as possible, so that the public can choose for itself whatever level of services and qualifications it wishes to pay for. Alternative approach 2 accomplishes most of the goals of Virginia's current law, but avoids many of its worst problems.

If the current statute is retained, the Consultant recommends that minor modifications be made to: (1) clarify the freedom of employees to make assurances to their employers; and, (2) to avoid incidental violations of the law by persons whose assurances are of an essentially casual nature (as an official of a charity indicating the results of a fund drive).

5. Tennessee Model. If the Commonwealth were to embrace regulation of an additional class of accountant, the Consultant would expect the regulatory framework to be similar to that of Tennessee. There, a licensed "Public Accountant" can perform reviews of financial statements and do anything else a licensed CPA can do except an audit. Persons who are completely unlicensed may not claim to have skills in accounting and may not offer their services to the public. Licensing as a "Public Accountant" in Tennessee requires passing a state test in addition to experience and educational requirements. The educational requirement is an Associate Degree with 24 quarter hours in accounting.

This is the Consultant's least preferred approach, as it exemplifies regulation requiring more regulation. It would prevent many persons who can now pursue a career in accounting from doing so, either because they could not pass the licensing test or did not have the educational qualifications. As a consequence of restricted entry to the occupation, the cost of accounting services could well rise. Qualifications would have to be reasonably strict or reviews performed by "Public Accountants" would have no credibility.

THE REGULATION OF ACCOUNTING IN VIRGINIA

I. PURPOSE AND SCOPE

The statute which now controls the regulation of accounting in Virginia was passed in the 1987 session of the General Assembly after intense debate. Because of the press of other business when the new law (House Bill 1019) was passed, several of its most hotly contested features were not given as much study as the members of the committee and sub-committee which worked on the bill would have liked. As a result the following language was included in the new law:

"That the Board of Commerce shall evaluate (i) the need and desirability for additional regulation of accountants who are not certified public accountants, and (ii) the proper parties to be involved in rendering of review reports on financial statements, and (iii) the appropriateness of modifying the limitations on reference to accounting principles and standards contained in this act. If the Board determines that additional regulation is required or desirable or that this act should be amended, the Board shall recommend to the 1988 General Assembly for its approval any regulatory system appropriate to implement that degree of regulation, and it shall also recommend appropriate amendments to this act."

Technical Associates, Inc. ("Consultant") was commissioned by the Virginia Department of Commerce to prepare the present study to assist the Board in its evaluation of the three major questions posed by the General Assembly.

The Consultant was instructed to recognize that the statutory language quoted above was itself a result of a compromise between vigorously contested views and was drafted after much discussion. This language was to be followed faithfully in determining the scope of the study.

The issues involved in the regulation of accounting tend to be interrelated, however. Accordingly, although the Consultant has followed the language of the statute as closely as possible, it occasionally has been necessary to go beyond a strict interpretation of that language in order to develop sensible recommendations and options. For example, the statute does not require a study of whether unlicensed persons (non-CPA's) should be able to describe themselves as "public accountants" and the Consultant did not consider this question by itself. But at the same time, the statute does require a study of the need for additional regulation of accountants who are not CPA's. In a number of states, this issue has been addressed through a second tier of regulated practitioners who can lawfully call themselves "Public Accountants". Thus, the question of how the regulation of accountants who are not CPA's might take shape in Virginia involves the use of that title and that use has been considered here in this limited context.

In addressing the three major questions of House Bill 1019, the Consultant was also instructed to address a number of subsidiary but pertinent issues. These are related to the various criteria which the Code of Virginia (Section 54-1.26(B), 1950, as amended) requires the Board to consider in evaluating the need for additional regulation or in determining the proper degree of regulation of professional practices.

II. DEVELOPMENT OF RECOMMENDATIONS AND OPTIONS

While regulation is generally inconsistent with the theory of competition, licensing of accounting practice has produced an important economic benefit. Specifically, it has permitted the preparation of financial information and related assurances which are relied upon throughout the United States and, increasingly, throughout the world by individuals who have no knowledge of or contact with the accountants who compiled the information and offered the assurances.

Much of the evolution of this universal system, in which financial information is couched in a uniform language by practitioners who have met similar minimum qualifications and whose work is uniformly accepted, has been of enormous importance to the growth of Virginia's and the nation's economy. Today, we can hardly imagine the sale of any but the smallest business, or such now routine arrangements as the securitization of loans, without reliance on this system. No regulatory innovation which could jeopardize essential elements of this system would be justified without the strongest evidence of need for change. By the same token, regulation beyond these essential elements is equally questionable.

A. Regulatory Context Of Review Services

As recently as the mid-seventies only audited statements were part of the system noted above, and only audited statements were widely used to justify substantial loans or the issue of performance bonds. Unaudited statements always had to be treated with caution, for the term "review" had not yet been given special status as an assurance on a financial statement. Since 1978, however, when their use was encouraged by the American Institute of Certified Public Accountants ("AICPA"), reviews have been increasingly employed by CPA's as lower cost alternatives to audits to indicate the reliability of financial statements.

In its technical accounting sense, a review refers to a thorough check of a financial presentation and of the methods by which it was assembled. Unlike an audit, it does not involve going behind the documents to verify their validity by such

techniques as counting inventory, nor does it include the evaluation of financial controls, but a review usually incorporates many of the other, less elaborate, tests which would be associated with an audit.

With respect to the practices of CPA's, necessary elements in the preparation of a review are prescribed by the AICPA. Among other things, these require that the CPA performing a review must be familiar with accounting practices for the particular industry or type of organization whose financial statement are being analyzed. While not a professional requirement for non-CPA's, the terminology espoused by the AICPA is widely used by unlicensed practitioners. Thus, for all practical purposes, the technical concept of a "review" is the same to both licensed and unlicensed accountants, as well as to their more knowledgeable clients.

Reviewed financial statements are now frequently used to support the issue of bonds by bonding companies for such activities as construction and the extension of credit to many types of businesses and organizations. They are not commonly used to justify extensions of credit to publicly traded companies, for which regular audits are required in any case, nor are they frequently used for larger loans or bonds for which audited statements would be appropriate.

The rapid increase, due to mergers, of the average size of banks in Virginia and the consolidations of financial institutions such as bonding companies has affected the use of reviews as well as other financial documents. Reviews which might once have been scrutinized by bankers and underwriters who lived in the same town as the accountant who prepared them, and who were familiar with his work, are more frequently likely to be used by a person who can only rely on the accountant's status as a CPA. Reviews, therefore, have increasingly taken their place as tools in a system which works because individuals have confidence in CPA's they do not know.

This reasoning does not, however, by itself imply that there is a need to prohibit reviews which lie outside of this system and which may be accepted only by persons who are in a position to judge for themselves the competence of the accountant who

prepared them. It might imply, however, that such reviews should be distinguished from reviews performed by a CPA.

Great as it is, the importance of the CPA to the commerce of the Commonwealth and of the United States may be less than that of the unlicensed accountant. A large majority of accounting work in Virginia and the nation is done by persons who are not CPA's. The Consultant's survey of businesses in the Commonwealth reveals that nearly 30% of these businesses seldom employ a CPA. Even when a CPA is used, his hours on the job are likely to be very brief compared to those of other accounting personnel. As a consequence, the reliability of the books of most businesses and the fairness and accuracy of nearly all of our tax system are dependent on the skills and professionalism of thousands of unlicensed accounting personnel. Any regulatory action which tends to reduce the incentive or ability of unlicensed accountants to improve their skills in their occupations or professions will do a disservice to the Commonwealth. Often such improved skills will involve a better knowledge of generally accepted accounting principles which the AICPA and other such bodies dominated by CPA's have developed.

The work of the unlicensed and unregulated practitioner (we will take up the question of additional regulation below) normally will not, however, be relied upon by anyone who is unfamiliar with the qualifications, reputation or other work of that accountant. This must remain an essential distinction between the licensed (CPA) and the unlicensed (non-CPA) accountant. The work of CPA's is accepted by people who do not know them because a state has certified their qualifications (which includes the passing of a difficult examination), because they are accountable to a licensing authority, and because of the clear-cut liability for negligence associated with a licensed professional. Absent such a system, each individual who relies on the work or opinion of an accountant does so on his own responsibility and at his own risk. The only state authority which can support him is the legal framework which deals with misrepresentation and negligence in any trade or occupation.

Present Virginia law permits an unlicensed accountant to give assurances to his employer which he cannot give to any outside party. The law reflects the unequivocal responsibility of an employer to judge the work and qualifications of his

employees. The Consultant believes that employer status is not essential to this logic. If (and it is an important "if") it is clear that third parties will rely solely on their own resources and will take full responsibility for the judgements they make concerning the ability and independence of the work of unlicensed accountants, there is no reason to prevent such accountants from providing assurances on financial statements or using terms which may be associated with such assurances.

There are advantages to reducing or lifting the current restrictions on the language which can be used by unlicensed accountants. These restrictions include prohibitions on the use of terms such as "examine" and "examination", "review", and "opinion" which are frequently used both in ordinary speech and, with specialized meanings, in accounting. The Consultant believes that it must be awkward for unlicensed practitioners to avoid using any such terms in connection with their work on financial statements, even though alternative words such as "study", "consider", and "analyze" may be available.

B. GAAP in Its Proper Setting

Perhaps more important than the issue of review is the current prohibition against references to "generally accepted accounting principles" ("GAAP") or to other similar standards and principles of the profession or occupation of accounting. GAAP is a broad and complex body of knowledge which is maintained and codified by the AICPA. Parts of GAAP are continually changing and almost no one can claim complete mastery of all of it, but everyone in accounting must use parts of GAAP more-or-less continuously, since it is the undisputed standard for most kinds of financial reporting.

An extensive knowledge of GAAP is by no means the exclusive property of CPA's. Because everyone who uses financial reports needs an understanding of parts of this subject, persons trained in GAAP can be found in a variety of positions, not only in banking and other financial industries but in most publicly held companies. Courses in accounting (based on GAAP, of course) are offered at most of the larger two-year or four-year colleges and universities in Virginia. Relatively few of the persons enrolled in these courses will go on to become CPA's. At Virginia Commonwealth University alone, there are three individuals who

teach GAAP and who hold Ph.D.'s in accounting or related disciplines, but who are not CPA's.

The Consultant expects that accidental violations of the present law by persons such as security analysts or accounting professors who frequently comment on financial reports are fairly common. These violations probably include the illegal use of GAAP as well as other restricted terms such as "examine" and "review". It is easy, for example, to imagine a letter from a security analyst to a client saying, "I have examined the report on this company and, although the accounting is probably in accord with GAAP, the quality of this company's earnings is poor". Although such accidental violations may not be serious in themselves, they do suggest that it is not possible to define the limits of application of the present law in a satisfactory way.^{1/}

Since unlicensed accountants (non-CPA's) are now entitled to compile financial statements, and since compilations are normally made in accord with GAAP, prohibitions against any reference to such principles make little sense. Moreover, any accountant, licensed or unlicensed, who finds that he must make a significant departure from GAAP in his compilation is generally understood to be obligated to reveal that fact in his transmittal letter^{2/}. Yet, at present, that transmittal letter cannot refer to GAAP at all. While there are ways in which an unlicensed accountant can discuss an omission from disclosures required by GAAP in a financial statement without direct references to GAAP^{3/}, it is awkward for him to have to do so. Such awkwardness should be tolerated only if it is necessary to achieve a significant regulatory goal.

^{1/} See also the transcript of the Roanoke Public Hearing, pages 69 and 70.

^{2/} See page 143 of the transcript of the public hearing in Roanoke or Exhibit 40, submitted by Steven Pearson, page 3.

^{3/} See page 144 of the transcript of the public hearing in Roanoke.

C. Establishing an Additional Class of Licensed Accountants

Accountants who are not licensed CPA's are already strictly regulated in that they are not allowed to use certain terms in connection with financial statements or to provide assurances concerning such statements. The regulation or licensing of an additional class of accountants would presumably give members of the new class more freedom to use accounting terms and to provide limited assurances on financial statements than they now have. In that sense, it would imply less, rather than more, regulation.

The establishment of an additional class of accountants would complicate the regulatory process, however. It would require the development of a second set of qualifications, perhaps including establishment of a different examination on accounting subjects. It would also mean that users of accounting services--including the operators of every type of small business--would have to distinguish among three types of accountants (licensed CPA's, licensed non-CPA's, and unlicensed accountants) when there is limited evidence that they now sometimes fail to distinguish unlicensed accountants from CPA's^{4/}. An additional regulated class would imply costs and fees which would have to be passed on to clients and, ultimately, to consumers.

Depending on the licensing requirements for a new class of accountants, less trained accounting practitioners might fail to qualify for the new class or could be disciplined if they did incompetent work. In that way the new type of regulation would tend to upgrade the quality of accounting practice generally. However, accounting work done by persons who remained outside the new class would not be improved, and might deteriorate as able accounting personnel were absorbed into the new license class.

The Virginia Society of Accountants has not asked for an additional class of licensees unless such action is necessary to obtain for its members the right to perform reviews and to use accounting terms and phrases such as GAAP in connection with

^{4/} See page 72 of the transcript from the public hearing in Williamsburg.

financial statements. Thus, unlicensed accountants see the value of licensing primarily as a means to gain partial release from the restrictions of the current law.

D. The Public's Perspective

Outside of the accounting profession, a majority of businesses, (62% of those responding to the Consultant's survey) would prefer to retain the present provisions of the law prohibiting persons other than licensed CPA's from performing reviews. A similar majority (60% of those surveyed) would prefer to retain current restrictions on the use of accounting terms such as GAAP by unlicensed persons. If, however, current restrictions on reviews and the use of accounting terms by unlicensed persons were to be removed, then a majority of Virginia businesses (again, approximately 60% of those responding) would prefer regulation, such as licensing of non-CPA's, presumably to protect them from incompetent practitioners.

The Consultant's survey of "users of financial statements" (a survey sent to bankers, stockbrokers, and investment company executives) revealed somewhat greater misgivings about reducing or eliminating current restrictions on the issue of review reports or the use of accounting terms by persons other than licensed CPA's. Seventy-one percent of those responding to the survey indicated that they did not wish to see any change in the current law restricting the right to issue review reports. Seventy-six percent did not want a change in the present restrictions on the use of GAAP and other accounting terms.

Several users of financial statements wrote strong comments on their survey forms, or on accompanying letters supporting all of the restrictions on unlicensed persons in the present law. Similar views were expressed by several speakers from the financial community at the public hearings^{5/}. Like business in general, a majority (65%) of respondents to the financial users survey felt that if persons who were not licensed under present law were permitted to use accounting terms such as GAAP, then additional regulation--such as licensing--would be

^{5/} See, for example, page 55 of the transcript of the public hearing in Fairfax beginning at line 18.

desirable. An overwhelming 81% felt that some form of licensing was desirable as a prerequisite to non-CPA's being able to issue review reports.

The survey results do not give a mandate either for or against an additional class of licensed accountant. Instead they reflect widespread concern among businesses, and especially among users of financial statements, that permitting persons other than licensed CPA's to use accounting terms such as GAAP and to issue review reports would cost them time and money by forcing them to deal with lower quality financial statements. If current restrictions were lifted, therefore, these businesses would wish additional protection from poor quality or potentially misleading reports. That protection might take the form of licensing for non-CPA's, or it might take some other form.

Although concern about the problems which might be caused if current restrictions on unlicensed accountants were removed is apparent among users of financial statements it is not universal. The record also contains the pleas of a banker^{6/} and an insurance broker^{7/} who believe that the present restrictions on the ability to perform reviews and to refer to GAAP are unnecessary. The banker, in particular, felt that he had the ability to judge the quality of an accountant's work and had no use for present restrictions.

The survey of businesses gives no sign of widespread discontent with accounting services. Indeed, about half of the businesses responding were satisfied with both the cost and quality of the accounting services they received. To the degree that there is discontent, cost is the largest problem with 26% of the respondents indicating a concern. In contrast, only 40% of respondents felt that cost was acceptable, but quality was weak. These results give no support for the idea that licensing an additional class of accountants is necessary to protect the public from incompetent practitioners.

^{6/} See Exhibit 34 from the record of public hearings.

^{7/} See page 79 of the transcript of the public hearing in Fairfax.

The survey results do indicate^{8/}--as did the public hearings--interest in including preparers of tax returns in any new class of regulated accountants. This interest, however, is probably the result of confusion between state and federal regulatory roles. Most tax work in every state is directed at compliance with federal tax law, which is, of course, administered by the Internal Revenue Service ("IRS"). Appeals from IRS decisions go to federal courts. Virginia's income tax system is designed to follow the features of the federal system so that when the federal return is correctly completed, most of the work for the state return has been done also.

The IRS is in the best position to regulate tax preparers since it audits a large number of tax returns, understands abuses of the tax system, and is in a position to enforce its regulations. In contrast to the IRS, the Virginia Department of Taxation audits relatively few returns and is not in good position to help with the enforcement of restrictions on preparers of tax returns. The IRS has a system of regulation in place which includes a category of enrolled agents who have passed a test administered by the IRS. The IRS also recognizes the special qualification of CPA's and members of the bar in each state. In light of the federal system, further State regulation of tax preparers does not appear to be a meaningful option.

E. Regulatory Frameworks Elsewhere

Consistency with neighboring states should be considered in advocating regulatory change such as an additional class of licensed accountants. Of Virginia's adjoining jurisdictions of Maryland, West Virginia, Kentucky, Tennessee, North Carolina and the District of Columbia, only Tennessee has a type of licensed or registered accountant in addition to CPA's. As is the case in Tennessee, any new class of regulated accountant in Virginia would be recognized primarily within the state and their work would not be part of any regional or national system. In the United States as a whole, 14 out of the 50 states license a second class of accountants.

^{8/} About 38% percent of respondents to the general business survey thought tax preparation was one of the top two areas in terms of the need for regulation.

The Consultant regards adding an additional class of licensed accountants with lesser qualifications than those of a CPA as a last resort. If it is desirable to remove a major part of the present restrictions on non-CPA's, and if no other methods can be found which protect the public from the adverse consequences of the removal of these restrictions, then a new class of licensee may be appropriate. This position appears to be consistent with the wishes of Virginia businesses as expressed in the survey results and with the policy of the Commonwealth, as established by the General Assembly, i.e., that additional regulation should be the minimum needed to ensure public health, safety, and welfare. A number of options which appear to be preferable to regulating an additional class of accountant are considered later in the report.

F. Interests of Financial Statement Users

As noted earlier, a substantial majority of the users of financial statements who responded to the Consultant's survey would prefer to have no change in the legislation which prohibits unlicensed persons from presenting review reports or which restricts the use of GAAP and other financial terms. Comments on the survey forms and the views of speakers at the public hearings indicate that these preferences are often strongly held. These results deserve further analysis.

Professional, third party users of financial statements, such as the bankers and investment officers to whom the survey was directed, are certainly sophisticated enough to look to see whether a report on a financial statement is signed by a CPA. If Virginia law were changed to permit persons other than licensed CPA's to perform reviews or to provide other assurances on financial statements, those who relied on such statements, or their organizations, could easily establish a policy of refusing to accept such reviews or assurances. In the case of one large bonding company which operates in other states as well as Virginia, such a policy already exists. Because users of financial statements are free to accept only the reports of CPA's, their interest in having the state prohibit such reports from non-CPA's may, at first sight, be difficult to understand.

After the Consultant discussed the matter with representatives of banks and bonding companies, the reason for this interest became clear. Specifically, it stems from the awkwardness and bad public relations which could result if customers were told that the accountant's reports they submitted could not support their loan or bond applications because the reports were not prepared by a CPA. Financial institutions and other users of financial statements are apparently concerned that a significant number of customers might pay for reviews by accountants who were not CPA's and whose work would have to be rejected for that reason, or which would require considerable additional investigation to determine their reliability. In other words, many banks and bonding companies would prefer not to be subject to customer pressure to deal with reports not prepared by CPA's.

Although the prevention of the embarrassment of financial institutions is not an essential regulatory goal, an appropriate regulatory system should minimize the chance that significant numbers of financial reports of doubtful value will be prepared, even during a period when regulations are changing and some confusion is likely. A system in which the proper role of the report of the unlicensed accountant is clear, both to the person who pays for it and to the third party who may be asked to rely on it, should meet this objective.

III. RECOMMENDED APPROACH AND ITS JUSTIFICATION

After weighing the purpose of professional licensing, the regulatory policy of neighboring states, the views expressed in the public hearings and the results of the surveys, the Consultant has concluded that the current law in Virginia should be modified. The modifications are intended to remove restrictions in the current law for which there is no apparent need while retaining those which may provide real protection.

A. Recommended Regulatory Changes

The Consultant recommends that current broad prohibitions against the expression of any kind of opinion on a financial statement (an "assurance" in the language of the current statute) by unlicensed persons be substantially reduced. Persons calling themselves accountants, however, or offering services to the public in the fields of bookkeeping or accounting, or claiming special qualifications in these fields should be required to add a disclaimer if they make any kind of assurance which would encourage reliance on a financial statement. The recommended disclaimer consists either of the language:

"The undersigned is not a licensed Certified Public Accountant under Virginia law. Persons relying on this opinion [these opinions] must do so on the basis of their own judgement of the writer's qualifications, ability and independence." or (at the option of the accountant) "The Undersigned is not a licensed Certified Public Accountant under Virginia Law. This opinion [these opinions or statements] is [are] intended for the client's use only."

The disclaimer should not be required on an assurance which is clearly given by an employee to his employer, or which is given by a government employee in the course of his duties.

In addition, persons who do not claim to be accountants and who neither offer accounting or bookkeeping services to the public nor claim special qualifications in this field should be able to write anything they wish about a financial statement

without a disclaimer, whether or not their statements are directed to their employers.

Although the Consultant recommends that the prohibitions against the offering of assurances by accountants and bookkeepers be reduced, they should not be removed. Two important kinds of assurance, an "audit" and a "review", should continue to be restricted to licensed persons and the use of the related terms "audit", "auditing standards", "review" and "reviewed" should be similarly restricted. All other previously prohibited terms, including "examination" and "opinion" should be available to unlicensed accountants.

No additional class of licensee should be created. The Consultant believes that the disclaimer and the restrictions which should be retained will provide sufficient protection to the public.

B. Basis of the Recommendations

In designing these recommendations, the Consultant intended to give to unlicensed persons nearly complete freedom to examine and analyze financial statements, to use or misuse accounting terminology, and to make the results available to anyone who wanted to look at them, provided that the responsibility of the user of the accountant's work to judge the reliability of that work for himself was clear.

The word "review" is reserved to CPA's because it has been restricted in Virginia and is so restricted in many other states. It could be taken, therefore, to mean a type of analysis performed by a CPA. A loan officer might request a "review" of a financial statement, for example, when he means a "review by a CPA". The Consultant's recommendations should have the effect of restricting only the word "review", not the review function as long as the function is given another name.

In contrast to the case with the word "review", the Consultant does not recommend any restriction on "examine" and "examination", because another word, "audit", is available that more precisely describes the function which would continue to be restricted to licensed accountants (CPA's). It is never entirely satisfactory to use a word from common speech as a technical

term, and when another, more precise word is available, there is no justification for casting the common word into this role.

The recommended disclaimer is intended to remind both the person who pays the accountant and any third party, such as a loan officer, of something that should be obvious in any case--that the work he is paying for or examining is outside of the system which makes the work of CPA's credible to persons who have no knowledge of their individual reputations. It is designed to encourage persons who need to use this system to demand the work of a CPA, but to let persons who are comfortable with the work of an unlicensed accountant to use the work of that accountant.

The Consultant's believes that these recommendations have the advantage over present regulation in that they will not create accidental violations of the law by persons who do not hold themselves out to be accountants and whose opinions could not be taken as assurances by any sensible person. They confine the scope of regulation where it belongs--to the occupation or profession of accounting.

Perhaps even more important, these recommendations will not put unnecessary or contradictory restraints on the use of terms and concepts which are important to the occupations of unlicensed accountants, security analysts, and others who work with financial statements and are not CPA's. In the development and codification of GAAP and other standards of accounting, CPA leadership has been invaluable. That leadership, however, should not lead to an exclusive right to use such essential tools.

IV. ALTERNATIVE APPROACHES

The Consultant recognizes that the results of its analysis of the regulation of accounting may differ from that of other parties and that the choice of a regulatory framework is the responsibility of the Board and ultimately the General Assembly. To accommodate their needs, five alternative systems to the recommended approach have been examined. These alternatives range from a substantial degree of deregulation to a large increase in regulatory structure.

A. North Carolina Model

The restrictions on "reviews" and the required disclaimer contained in the recommended approach are matters of convenience and clarity, but are not really essential. It is possible (such as in North Carolina) to remove all restrictions on unlicensed accountants except the use of the terms "CPA" and "Public Accountant". Users of accounting services must then distinguish between licensed CPA's and unlicensed accountants and make their judgements accordingly. In this case, only the name "CPA" is licensed, with the title "public accountant" being restricted to avoid confusion.

The North Carolina system is obviously one of open competition in which the market alone determines who hires CPA's, who hires unlicensed accountants, and for what work each is hired. Third parties are free to use or reject audits and reviews by both types of accountants depending on their needs. Presumably, businesses who hire accountants to do reviews and audits are (or soon become) sensitive to the requirements of third parties who may use the resulting reports. Similarly, there are economic incentives to encourage banks and bonding companies to communicate their requirements for the preparation of reviews and audits to potential customers, either to avoid turning away customers who submit unwanted types of assurances or to attract customers by having minimum requirements for the preparation of such assurances.

In this system, unlicensed accountants and their firms may be able to build up local reputations for work of integrity and high quality which will enable them to compete seriously for

audits and reviews with CPA's. The result may be significantly lower costs for accounting services as well as better access by the public to jobs in the profession.

Under this system, CPA's are still freely available to those who need their services so that the universal system of compilations, reviews, and audits by CPA's remains undisturbed. Moreover, third party users are able to reject any opinions by persons other than CPA's if they choose to do so.

This regulatory approach has been successful enough in North Carolina so that there is no evident movement to change it. The Consultant recognizes, however, that this approach would be contrary to the views of the majority of the respondents to the surveys who did not wish to remove current restrictions on non-CPA's. Otherwise, the Consultant believes that this is a desirable regulatory system.

B. Kentucky Model

If the two approaches presented thus far are felt to give too much freedom to unlicensed accountants, the Consultant recommends a law like that of Kentucky which prohibits unlicensed accountants (or persons claiming expertise in accounting) from giving any opinion as to the reliability of a financial statement. Such a law clearly prohibits both reviews and audits by unlicensed persons. It does not, however, try to regulate persons such as security analysts if they do not claim expertise in accounting, nor does it contain explicit restrictions on the use of accounting terms such as GAAP. This and comparable terms would have to be used carefully by unlicensed accountants, however, if they were to avoid violating the restrictions on opinions.

The Consultant believes that this simpler law would avoid some of the awkwardness of the present Virginia law. It would be less subject to legal challenge on the grounds that it infringed the freedom of speech of non-CPA's, and it would remove much of the problem of accidental violations which may occur under the present Virginia statute. Otherwise, the effect of such a simpler statute on the business of licensed and unlicensed accountants would probably be much the same as that of House Bill 1019.

C. Modified North Carolina Model

This alternative lies between the North Carolina approach and the Consultant's recommended approach, as it removes the restrictions on the performance of reviews by non-CPA's. This approach shares with the North Carolina approach the disadvantage that it disregards the wishes of respondents to the surveys, especially the survey of users of financial statements. It would restrict only audits to CPA's. Given a choice, the Consultant would prefer the North Carolina approach in total.

D. Retain Present Law

The Consultant does not believe that the status quo is a desirable alternative. In particular, prohibition on the use of terms such as GAAP which are important to many professions, not only accounting, is of questionable legality and does not appear to be necessary to protect the public. The latter is especially true for third party users of financial statements as they are ordinarily very knowledgeable about the requirements for reliable statements. A burdensome regulation which is not strictly necessary is contrary to the Virginia tradition of regulating as little as possible, so that the public can choose for itself whatever level of services and qualifications it wishes to pay for. Alternative approach B accomplishes most of the goals of Virginia's current law, but avoids many of its worst problems.

If the current statute is retained, the Consultant recommends that minor modifications be made to: (1) clarify the freedom of employees to make assurances to their employers and; (2) to avoid incidental violations of the law by persons whose assurances are of an essentially casual nature (as an official of a charity indicating the results of a fund drive). Such changes can be expected to be non-controversial. The second change has already been discussed with legal counsel for the Virginia Society of Certified Public Accountants.

E. Tennessee Model

If the Commonwealth were to embrace regulation of an additional class of accountants, the Consultant would expect the

regulatory framework to be similar to that of Tennessee. There, a licensed "Public Accountant" can perform reviews of financial statements and do anything else a licensed CPA can do except an audit. Persons who are completely unlicensed may not claim to have skills in accounting and may not offer their services to the public. Licensing as a "Public Accountant" in Tennessee requires passing a state test in addition to an experience requirement and an educational requirement. The educational requirement is an Associate Degree with 24 quarter hours in accounting.

This is the Consultant's least preferred approach, as it would prevent many persons who can now pursue a career in accounting from doing so, either because they could not pass the licensing test or did not have the educational qualifications. As a consequence of restricted entry to the occupation, the cost of accounting services could well rise. Qualifications would have to be reasonably strict or reviews performed by "Public Accountants" would have no credibility.

V. SURVEYS OF ACCOUNTING SERVICE USERS AND PROVIDERS

The results of three mail surveys play an important role in the findings and recommendations of the Consultant. The general purpose of the surveys was to ascertain the views of three groups of Virginians (i.e., business firms, financial statement users, and accounting professionals) concerning various aspects of the regulation of accounting services in the Commonwealth.

The questions posed in each of the mail surveys were structured to focus on issues related to the three questions posed by the 1987 Virginia General Assembly in House Bill 1019. That is: (1) the need and desirability for additional regulation of accountants who are not certified public accountants; (2) the proper parties to be involved in the rendering of review reports on financial statements; and (3) the appropriateness of modifying the limitations on reference to accounting principles and standards contained in House Bill 1019.

The mail surveys were also specifically undertaken to satisfy a number of requirements in the RFP issued by the Board. To illustrate, Section 54-1.26(B) of the Code of Virginia, (1950, as amended) states that "in determining the proper degree of regulation...the view of a substantial portion of the people who do not practice the particular profession, trade or occupation" shall be considered. Additionally, the RFP specifically requires that the results of surveys be used in addressing the question of "whether there is sufficient demand for the service for which there is no substitute not likewise regulated and whether this service is required by a substantial portion of the population".

As shown in Appendix A, each questionnaire sent to the three sampled populations was prefaced by an explanation of the purpose and background of the survey. Many of the questions used were the same in each of the three survey instruments, differing in number and content primarily with regard to the profile information requested from the surveyees. The survey instruments were designed to inform the public and to collect as much relevant information as

possible while not overwhelming the respondents and jeopardizing the response rate. Printing and mailing of the surveys was largely performed by North American Marketing of Richmond, although the Consultant directly made some mailings.

In total, the three surveys are comprised of 26 questions for businesses, 23 for users of financial statements, and 21 for accounting professionals. A number of the questions have multi-part potential answers. The results of the three surveys, overall and by various cross-tabulations, are presented in a question-by-question format in Appendix A.

A. Business Users of Accounting Services

The size of the sampled business population was first established to achieve 95% statistical confidence in survey results in each of Virginia's 10 Congressional Districts. For a population of virtually any size, 95% confidence requires a sample of 384 members of the population. Accordingly, for the survey results to be representative (within a 5% margin of error) of the views of the population in each Congressional District and in Virginia overall, results for 3,840 mail surveys are required.

Based on the Consultant's experience, response rates to mail surveys can vary considerably depending on questionnaire length and complexity, sensitivity of the issues, and many other factors. For purposes of the survey of businesses, the Consultant set a relatively high target response rate of 1 out of 4 or 25% because of the presumed importance of the issues to businesses. This target rate was also established to account for firms going out of business and changes in locations. With a 25% target response rate, 15,360 businesses had to be sampled, i.e., $3,840/25\%$.

Subsequently, however, this number was reduced to 14,360 in order to accommodate at minimum cost the survey of users of financial statements. This latter survey was added after the project had begun at the suggestion of representatives of the Virginia Society of CPA's and the Virginia Society of Accountants. The Consultant determined that even at a response rate as low as 20%, 14,360 surveys would give only a

1% loss of accuracy below that expected with a 25% response rate and a sample size of 15,360.

Dun's Marketing Services provided the Consultant with names and addresses of 14,360 randomly selected businesses throughout Virginia. The random selection was drawn from the total business population of more than 100,000 firms maintained by Dun & Bradstreet for credit rating purposes. At the conclusion of the survey 3,004 completed forms had been returned to the Consultant for a response rate of 21%. Approximately 1,200 forms were returned by the postal service as the addressee had either moved or gone out of business.

While the surveys were being mailed, a printing error was discovered in the business user questionnaire--specifically in Q-19 which, in turn, relates to interpretations of possible answers to Q-23 and Q-26. These questions involve types of licensing requirements of non-CPA's which the respondents would favor should non-CPA's become regulated. Because the Consultant determined that the printing error did not significantly undermine the integrity of the overall survey instrument and because of time constraints, the surveys were mailed as originally printed. Upon their return, each questionnaire was visually examined to determine if the printing error caused ambiguity or confusion on the part of the respondent in any significant way. When this was detected, the original survey was excluded from tabulation and a new (corrected) survey was sent to the surveyee.

Of the approximately 3,300 original surveys returned to the Consultant, the printing error was found to have caused some confusion in about 210 of the returned original surveys. Immediately upon making this determination, a corrected survey was sent to the surveyee along with a letter explaining the problem. About 110 of the 210 corrected surveys were returned to the Consultant and these have been processed and tabulated.

As discussed later, Chi Square statistical tests have been performed to check on the responses to the original (uncorrected) survey against those for 90 of the corrected

surveys. While some significant statistical differences have been found between the responses to the original and corrected questionnaires, they do not materially effect the overall survey results.

In order to further ensure the integrity of the survey collection, data input, and tabulation process, the first 675 completed questionnaires returned to the Consultant were subject to careful examination and verification. The tabulations for this initial set (675) of responses were then compared to the results for the balance of the returned questionnaires--approximately 2,400. This comparison showed that the results for the two groups (675 and 2,400 respectively) are virtually identical. Accordingly, the latter set has not been subject to the same intensive verification process as the initial set of 675 questionnaires. Moreover, cross-tabulations and statistical tests have been performed for only the subset of 675.

1. Profile of Respondents. More than 96% of the businesses surveyed are domiciled in Virginia. Put otherwise, only about 4% are subsidiaries of companies headquartered outside the Commonwealth. Additionally, approximately 98% of the surveyed businesses are not involved in providing accounting services to the public.

The firms were asked about the nature of their businesses, having choices among retail trade, wholesale trade, manufacturing, legal services, health services, financial services, and other. The list was limited because of concerns over the length of the survey instrument so that business sectors such as construction, farming, and mining were not specifically identified. As a result, only about 56% of the respondents were able to specifically designate their business nature, while 44% designated "other". Of the former group, the most prevalent business cited was "retail trade" -- over 30% of those polled. The next most prevalent type of business identified was "health services" with over 8% of the respondents.

With respect to the size of the surveyed firms, as measured by the number of full-time employees in Virginia, they are largely small businesses, i.e., 71% have 10

full-time employees or less and 21% have between 11 and 50 full-time employees. The balance of the respondents is distributed between firms with 51 to 200 employees (6%) and those with over 200 employees (3%).

A majority (53%) of the surveyees have accounting personnel on their full-time staffs, while about 47% employ no such personnel. Of the firms which have accounting personnel on staff, the vast preponderance employ bookkeepers. The employment of staff accountants follows far behind, with the employment of staff CPA's being even more distant. Overall, approximately 73% of the surveyed businesses that have accounting personnel on their full-time payrolls, employ bookkeepers rather than accountants or CPA's.

It is also true that an overwhelming majority (78%) of the firms rely to at least some degree on outside bookkeepers, accountants, or CPA's to meet their internal accounting needs. Moreover, of those who retain outside accounting personnel, 71% of the firms rely on CPA's. The respondents also generally believe (74%) that the quality of accounting services in the Commonwealth is adequate. This group is comprised of more than 50% who think the cost of accounting service is reasonable, while 23% believe the cost is high. Only about 10% of the surveyed firms registered any sign of a complaint as to either inadequate quality or a combination of inadequate quality and high cost.

2. Overall Survey Results. Seven out of 10 businesses make distinctions between various types of accounting services such as compilation, bookkeeping, review, tax preparation, and audit. Additionally, of this 70%, more than 9 out of 10 believe different education and experience levels are required to competently provide such services. In terms of ranking, i.e., which type of service requires the most education and experience, auditing service typically receives the highest rank. Tax preparation service is generally given the next highest ranking with review service following in third position. Compilation and bookkeeping services are relatively even in sharing fourth and fifth rankings.

By more than a two-thirds majority, Virginia businesses believe that one or more of the five accounting services noted above should be regulated to at least some degree. The most often given reason (47%) for this viewpoint is that "free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners". Additionally, some 21% believe that regulation is justified since the benefits of such action outweigh the costs.

When asked which types of accounting services should be regulated to at least some degree, the most prevalent answers are auditing and tax preparation--about equally divided. Following in a distant third position is review services. Compilation and bookkeeping services lag far behind with fourth and fifth rankings, respectively. Thus, there is a direct positive correspondence between the business public's view regarding the education and experience necessary to provide various types of accounting services and their perception of the need for regulation of such services.

For about 61% of the business respondents, the law in Virginia should not be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" or GAAP. Thirty-nine percent said the law should be changed. The most prevalent answers explaining these position are that: (a) reference to such terms implies assurance and, therefore, should be limited to CPA's (38%); and (b) reference to such terms need not imply assurance (26%).

While a 61% majority of the firms do not favor changing Virginia law, 59% also responded that they would favor a licensing requirement before non-CPA's could use such terms as GAAP. The most frequent form of licensing requirement deemed necessary by the respondents is work in the field of accounting for one year or more (30%), followed relatively closely by passage of an examination administered by the State (22%). Other frequent answers consist of a continuing education requirement (20%) and a 4-year accounting degree from an accredited college (18%).

As compared to the issue of GAAP, the surveyed businesses responded very similarly on questions about

whether Virginia law should be changed to: (a) allow non-CPA's to use the words "review" or to issue review reports; and (b) use professional titles such as "public accountant". That is, again about 60% said "no" to both questions, with 40% saying "yes". At the same time, if non-CPA's were to be granted these opportunities, then about 60% of the business public is desirous of some form of regulation for these practitioners. The bases for these positions are consistent with the responses regarding the issue of GAAP, i.e., generally accepted accounting principles, as are the forms of regulation deemed necessary.

3. Evaluations and Analysis. The picture that emerges from the overall survey of Virginia firms is that the business public has a reasonably good understanding of various types of accounting services, even from a technical (terms of art) accounting standpoint. This is true for both large and small businesses. The surveyees assign higher educational and experience requirements to those accounting services which tend to be of a more sophisticated nature and involve the exercise of informed judgment (e.g., audit, review, and tax preparation). There also appears to be general satisfaction with the quality and cost of accounting services in the Commonwealth. All of this suggests that the general business public has made (and is able to make) enlightened decisions about accounting services--decisions about which they are generally pleased. In turn, this would seem to imply that Virginia business does not need the strict regulation in the new law, in spite of the fact that about 60% of the respondents do not want the present law changed.

Part of the explanation for the public preference for leaving the law unchanged may lie in a natural reluctance to advocate a change in any existing statute. This possibility is supported by the fact that only 14% of the responding businesses indicated on Q-14 that reviews were among the accounting services which should be regulated, although a majority indicated by their answers to Q-20 that they did not wish to remove current restrictions limiting the performance of reviews to CPA's.

However, there is also evidence that 60% of the business public does believe that non-CPA's should be prohibited from

using such terms as "generally accepted accounting principles", "review", and "public accountant" and from issuing review reports. Not only were the questions posed regarding these issues precise, but a majority (again about 60%) favors some form of regulation of non-CPA's before present Virginia law is changed.

4. Distinguishing Among Accounting Services. One of the questions posed in the business survey was whether the respondent distinguished among five types of accounting services: compilation, bookkeeping, review, tax preparation, and audit. Thirty percent of the surveyees responded that they made no distinction. The question arises, therefore, whether this 30% should be afforded special treatment. An analysis of this subgroup suggests that it can be included in the overall group without producing significant bias, even though the respondents in the subgroup were instructed by the questionnaire not to answer certain questions.

Generally, responses to survey questions followed similar patterns whether the surveyees said they did or did not distinguish among accounting services. The only possible exception to this finding is that a greater percentage (75%) of those who do not distinguish among services favor regulation of one or more of the accounting services than those who do distinguish (69%).

Aside from this difference, answers for the overall group and those who do not distinguish among accounting services are very much the same, i.e., typically less than a 2 percentage point differential. Thus, the Consultant believes it is reasonable to include this subgroup in the overall group (absent any distinction) without biasing the survey results.

5. Small vs. Large Firms. A cross-tabulation analysis was conducted to determine if the responses to the questionnaire differed between small and large businesses. Survey results for large businesses, defined as those with more than 50 full-time employees in Virginia, were tabulated for selected questions and compared to overall survey results. The latter is used as a surrogate for small firms in the survey since they dominate the business category.

As might be expected, large business tends to have more accounting staff (CPA's, accountants, and bookkeepers) in-house and relies less on outside personnel. When outside personnel are retained, moreover, they are invariably CPA's.

There is also a greater tendency for large businesses to support some regulation of the accounting profession than is true in the survey overall (73% vs. 69%). They also exhibit a greater preference for regulation of audit (39% vs. 35%) and review services (20% vs. 15%) and a lesser preference for regulation of tax preparation (30% vs. 36%) and bookkeeping (1% vs. 6%) services.

In comparison to the 40% in the overall survey who say that Virginia law should be changed to allow non-CPA's to use such terms as GAAP, 47% of large businesses said this should be the case. However, this difference did not prevail with respect to allowing non-CPA's to use the term "review", issue review reports, or call themselves "public accountants". Large firms also responded in accordance with the overall survey results regarding licensing requirements. That is, about 60% would favor some form of licensing of non-CPA's before non-CPA's should be allowed to do what is presently prohibited under Virginia's law.

6. Original and Corrected Survey. Chi Square analyses have been performed to test whether significant statistical differences exist in the responses to the original and corrected questionnaires. The test has been applied to the 675 subgroup of responses to the original survey and to the 90 subgroup of responses to the corrected survey--both subgroups were referenced earlier. Using a standard of 95% confidence, statistically significant differences have been found in five of the 24 questions analyzed (Q-11 and Q-15 have not been subject to Chi Square analyses at this time). Specifically, such differences are found in responses to Q-22 and Q-25 and Q-19, Q-23, and Q-26.

Q-22 and Q-25, which are unrelated to the printing error discussed earlier, involve the issue of whether non-CPA's should be licensed before they could use certain terms. In comparison to 73% who responded "yes" to Q-22 in the original

survey, only 61% in the corrected survey favored regulation of non-CPA's as a prerequisite to non-CPA's being able to use the term "review" and to issue review reports. A similar difference is found with respect to Q-25, i.e., 76% say "yes" in the original survey while only 66% in the corrected survey indicate a preference for regulation of non-CPA's before non-CPA's could hold themselves out as "public accountants". As these differences reflect a change in magnitude rather than direction, they do not materially effect the survey results. Moreover, it is unlikely that the differences are related to the printing error in any way, but rather reflect the random nature of statistical distributions.

For Q-19, Q-23, and Q-26, which do involve the printing error, the only significant statistical difference is found (for all three questions) with respect to the rankings in the types of licensing requirements favored for non-CPA's. Specifically, whereas in the original survey "work in the field of accounting for one year or more" was the most prevalent response, this took second place behind "passage of an examination administered by the state" in the corrected survey. In fact, while the rankings of all other possible answers remain the same in each of the three questions, the two answers cited consistently exchange first and second rankings. As these two answers relate directly to the printing error, this may suggest that the error caused some confusion on the part of those polled. However, since no specific prerequisite for non-CPA licensing was favored by anything close to a majority of the respondents (in the original or corrected survey) the differences in results between the original and corrected questionnaires do not significantly alter the survey findings.

7. Geographical Differences. As indicated earlier, the sample size of the survey of business users of accounting services was designed to achieve 94% statistical reliability for Virginia overall, as well as in each of its 10 Congressional Districts. Given that more than 3,000 questionnaires have been returned to date, this goal appears to have been accomplished.

The distribution of survey results by Congressional District has been more difficult, however. This is true

because: (a) the locations of the sampled businesses are only easily identifiable by zip code; and (b) zip code areas rarely correspond exactly to the geographical configuration of Congressional Districts. Accordingly, for purposes of analyzing survey results by geographical areas, the responses have been grouped into six regional categories comprising the Commonwealth. As shown on the map in Appendix A, these consist of: Central, Valley, Northern, Southside, Southwest, and Tidewater. Appendix A also shows how the results in each region compare to the overall survey for various questions in the sequence Q-5 through Q-25. The results of only selected questions have been tabulated and compared to conserve time and resources, as the findings should be applicable to the entire survey results. Moreover, geographical area tabulations have been performed for only the first subgroup (675) of the original surveys returned to the Consultant.

In order to test whether statistically significant differences exist in the responses by geographical regions (at the 95% confidence level), Chi Square analyses have been employed. For all the questions analyzed, statistically significant differences have been found to exist only in the cases of Q-10 and Q-12.

With respect to the former, which addressed the issue of whether different education and experience is necessary to competently provide various types of accounting services, the responses in the Central region were statistically different than the responses in the survey overall. There, nearly 99% said different education and experience was necessary as compared to 95% for the survey overall.

In Q-12, where respondents were asked whether it was necessary to regulate to some degree accounting services, the Central region again responded somewhat differently, measured in a statistical sense. As compared to a "yes" response for 69% of the surveyees combined, 78% said "yes" in the Central Region.

Overall, the geographical tabulations, comparisons, and statistical tests indicate a uniformity in the business public's opinions regarding the regulation of accounting services in Virginia. Even for the few questions for which

statistically significant differences emerge, the differences in results are of magnitude and not direction.

8. Respondent Errors. In a limited number of cases, respondents either gave more than one answer to a question when asked to provide only a single answer or objected to the question and, thereby, did not answer. In a small number of other cases, respondents made errors such as checking both "yes" and "no" when only one answer was requested. In every case where these circumstances were found in a questionnaire, the response was treated as a "no answer" in tallying the survey results.

Two answers were most frequently given when only one was requested for Q-13 and Q-17. These questions refer, respectively, to reasons why (or why not) accounting services should be regulated to some degree and to reasons why (or why not) Virginia law should be changed to allow non-CPA's to use such terms as GAAP. In Q-13, potential answers (1) and (3) are similar, as is the case for potential answers (2) and (4). This is far less true in Q-17, but some similarity is apparent. A summary of the respondent errors (8/11/87) concerning these questions is shown below:

	Answers <u>(1) and (3)</u>	Answers <u>(2) and (4)</u>
Q-13	29	14
Q-17	11	54

There were also a number of (but less prevalent) instances of respondents checking more than two answers to the above questions. And, there were instances of (1) and (2) combinations and (3) and (4) combinations. It is also interesting to note that on a number of occasions (about 15), the respondents chided the survey for assuming continued regulation of accounting services (Q-15) in Virginia. Considering that the respondent errors apply to over 3,000 returned questionnaires, the survey of businesses has been relatively error free.

9. Unsolicited Comments. The Consultant received many comments concerning the issues at hand, either written in the margins of or attached to the returned questionnaire. A compendium of these unsolicited comments is presented in

Appendix A. As indicated, some of the comments are heated, others are quite perceptive, and still others reflect vital economic interests. Overall, they probably reflect the gamut of business sentiment underlying the survey results.

B. Users of Financial Statements

In evaluating public opinion regarding the regulation of accounting services, an important subset of the business community is comprised of those firms which use the financial statements of others in making business decisions. Such firms, i.e., third-party users of financial statements, include banks, saving and loan associates, brokerage houses, securities dealers, bonding institutions, and other companies involved in the provision of financial services. While business generally is the primary user of accounting services, the subset in question frequently must rely on the financial statements which flow from those services in determining whether to make a loan, purchase securities, or bond performance.

From Dun's Marketing Service, the Consultant secured a randomly drawn list of 1,000 firms involved in the provision of financial services. The list was drawn from 4-digit SIC codes 6011 through 6799 (i.e., Finance, Insurance, and Real Estate) maintained by Dun & Bradstreet for credit rating purposes.

The size of the sample (1,000) was selected based on the expectation that a very high response rate would be realized due to the importance of the issues at hand to users of financial statements. Specifically, a response rate of about 30% was expected from those who actually received the survey. Thus, given that 384 surveys are needed to achieve 95% statistical confidence for the State as a whole and allowing 10% for erroneous addresses, 1,000 questionnaires were mailed. By the last day on which forms were accepted for processing (8/19/87), 189 forms had been returned. These were tabulated as presented in Appendix A. Because the response rate was lower than expected, the expected level of accuracy was 92% instead of the target of 95%.

1. Tabulations and Interpretations. As is the case for business in general, a large preponderance of the surveyees are headquartered in Virginia (86%) with more than 72% operating in the field of banking. The respondents tend to be much larger than business generally, with about 54% having more than 50 full-time employees in Virginia.

As to the type of financial statements used by the respondents in conducting their business, there is no clear majority. That is, they are about equally likely to use compiled statements, audited statements, reviewed statements, and income tax returns.

A large majority of the respondents (over 68%) indicated that the financial statements which they used are prepared in accordance with GAAP or "generally accepted accounting principles". Of the remaining 32% who responded "no" or "uncertain" regarding this issue, 72% stated that their answer was based on the fact that the "financial statements do not disclose the principles employed". A further indication of the apparent high degree of technical sophistication among these respondents rests in the fact that a large proportion recognize the accounting terms of art distinction between audited and reviewed financial statements, i.e., 134 (89%) and 121 (81%), respectively out of the 150. The comparable figures fall to about half, however, for compiled statements and tax returns.

When asked which type of accounting service should be regulated to some degree, the overwhelming response was "audit". No other service was even close, as compilation, review, and tax preparation were about equal in a distant second position. The same pattern is exhibited in responses regarding the services which, assuming some regulation continues, requires the most and least regulation.

Despite these results, about 76% of the respondents said that present Virginia law should not be changed to allow non-CPA's to use such terms as GAAP. The far most prevalent reason given for this position is that the use of such principles implies assurance and should be limited to CPA's. At the same time, nearly 68% favor regulation of non-CPA's before they should be allowed to use such terms as GAAP. The

form of regulation most frequently preferred (about 33%) is "passage of an examination administered by the State".

Very similar patterns prevail regarding the issues of non-CPA use of the terms "review" and "public accountant" and whether non-CPA's should be able to prepare review reports. Roughly 70% to 80% said Virginia law should not be changed regarding these matters. A comparable percentage, however, also favor a licensing requirement for non-CPA's before they are allowed to use such terms and perform such activities. Again, the most prevalent form of licensing mentioned is passage of a State examination.

In answering the question of what is most important in determining whether financial statements are properly prepared, 56% cited preparation by a CPA. The next most prevalent response (31%) is compliance with internal standards.

By and large the respondents are neither accountants nor CPA's. On the job experience is most frequently cited as the source of knowledge about accounting, with undergraduate courses in college being the second most common response. As a group, however, they are clearly knowledgeable of the various types of accounting services and financial statements. They are also able to distinguish among accounting terms of art and the degree of assurance that can be assigned to a particular type of financial statement. Furthermore, they hold auditing far above other accounting services in terms of the need for regulation.

Despite the apparent ability to make informed choices among accounting services, users of financial statements are generally content with Virginia law, although 20% to 30% favor change to allow non-CPA's greater latitude. These results suggest that while the respondents can ably function under less regulation of accounting services, a more tightly controlled system is preferred--perhaps because it serves their business interests. This is reflected in the fact that while audit services are regarded as requiring (by far) the most regulation, the surveyees overwhelmingly opt for licensing of non-CPA's before they are allowed to perform non-audit functions.

2. The Banking Community. As banking dominated the survey of financial statement users (102 of the first 150), tabulations have been prepared for this subset of the surveyees. The results are also shown in Appendix A for a number of selected questions.

As indicated in reviewing the responses shown for the banking community, the results are generally the same as the overall group. The only possible exception is in Q-7, where 83% (as compared to 74% for the overall group) said financial statements do not disclose the principles employed in their preparation. However, Chi Square tests show that even this difference is not statistically significant at the 95% confidence level.

3. Other Matters. As with the survey of businesses, users of financial statements made errors in completing the questionnaire. The most frequent error was giving two answers when only one was requested--some gave more than two answers. As before, when this was found to be the case, the answers were not recorded and were treated as a "no response". The most frequent compound answers were given in response to Q-12, (2) and (4), and Q-22, (2) and (3). Several unsolicited comments were also provided as shown in Appendix A.

C. Providers of Accounting Services

A random sample of 1,146 accounting professionals was selected for the third survey conducted by the Consultant. The size of the sample was based on an expected response rate of about 33% plus some small provision for moves and wrong addresses. These were not regarded as major potential problems, however, since much of the sample was developed from recently compiled lists.

Specifically, the names of 573 CPA's were randomly drawn from Board files of licensed CPA's in the Commonwealth--roughly a 10% sample. The remaining 50% (573) were randomly drawn from a composite file comprised of: (A) a randomly drawn listing of firms in Virginia with a 4-digit SIC code 8931 (Accounting, Auditing, and Bookkeeping Services) maintained by Dun's Marketing Service; (B) the most recent

membership roster of the Virginia Society of Accountants; and (C) the most recent membership roster of the Virginia Society of Enrolled Agents (i.e., registered practitioners before the IRS).

CPA's, which could be identified, were excluded from list (A). The remainder of list (A) was then compared with lists (B) and (C). Names which appeared on all three lists were eliminated from the last two lists. Next, the remainders of lists (B) and (C) were compared and duplicate names were removed. The remainders of all three lists were then combined, from which a random sample of 573 was drawn.

A total of 407 questionnaires were returned to the Consultant by the cutoff date for processing (8/15/87). The response rate was therefore 407/1,146 or 36%.

1. Introductory Findings. About 82% of accounting services providers have their main office in Virginia and are comprised largely of small firms. Over 70% have 10 or less full-time employees in the Commonwealth and about 18% have 11 to 50 of such employees. CPA's and accountants are equally likely to be employed by the respondents (roughly 36% each)^{9/} with bookkeeping personnel following closely behind (26%)^{9/}.

More than 90% of the respondents distinguish among various types of accounting services and 98% said different education and experience levels are necessary to provide such services. The most frequent service cited was "audit" as requiring the most education and experience. Review services fell in second place in this regard, with tax preparation following closely behind.

2. CPA's vs. Non-CPA's. As indicated in Appendix A, results are shown for the overall survey, as well as for the responses of CPA's and non-CPA's. The separation was made based on responses to Q-3, i.e., in those instances where

^{9/} These percentages are based on total number of responses rather than the number of firms. Sixty-four percent of the responding firms employed CPA's and the same percentage employed accountants. Of course, the two groups overlap.

CPA's were indicated as being part of the full-time work force, it was assumed that the respondent was part of a CPA firm. This is a reasonable assumption given that CPA's are rarely employed by non-CPA firms. Based on Q-3, 233 or about 65% of the 358 surveys tabulated initially relate to CPA respondents, while 35% represent non-CPA views.

As a comparison between CPA and non-CPA responses indicates, there does not appear to be a great difference in how the respective accounting services providers view technical or professional issues. Major differences in viewpoints on public policy and regulatory issues are exhibited, however. (This is also reflected in the unsolicited comments shown in Appendix A.) To illustrate, upon applying Chi Square tests to virtually all the questions after Q-3, statistically significant differences (at the 95% confidence level) were found in the responses to every question except Q-5 and Q-16. The former relates to education and experience levels necessary to competently provide various types of accounting services, while the latter deals with the reasons for a "yes" response to whether present Virginia law should be changed.

D. Summary Analysis

In Table V-1, presented on the following pages, a summary of salient survey results is shown. As indicated, with respect to changing present Virginia law to allow non-CPA's greater latitude in their practices, a spectrum of opinion is demonstrated. Not unexpectedly, CPA's and non-CPA's fill the endpoints. From there, public opinion is somewhat mixed, although users of financial statements overwhelmingly side with CPA's. In a comparative sense, business generally also leans toward leaving present law unchanged. But a relatively large minority favors a reduction in the restrictions on the accounting practices of non-CPA's under current law.

The poll unequivocally shows, however, that if present law is changed to allow greater freedom to non-CPA's, the public favors some form of regulation or licensing of non-CPA's. This is particularly true for users of financial statements and the non-CPA's themselves. CPA's are evenly

split on the issue. But, again, a fairly large minority is not in favor of non-CPA regulation--this is true of CPA's and business generally.

Table V-1 also shows that while virtually everyone is able to distinguish among various types of accounting services, they also are generally desirous of some regulation. Auditing is most frequently regarded as the service which should be regulated, although business considers tax preparation as more important in this regard. Only banks and CPA's consider reviews as the second most important services to be regulated, as tax preparation typically fills that position. For sure, bookkeeping is universally considered as the service least requiring regulation.

Financial statement users and CPA's believe that passage of a State administered examination is the preferred form of regulation or licensing. Business opts for work experience as the most preferred approach in this regard, while non-CPA's believe continuing education is preferable. Perhaps the most surprising result is that a formal college education and degree is considered as least important across all the categories surveyed. This is true because such training is a primary requirement before one can take the CPA examination.

TABLE V-1
SUMMARY OF SALIENT SURVEY RESULTS*

	BUSINESSES		FINAN. ST. USERS		ACCT. SERV. PROV.	
	OVERALL	LARGE FIRMS	OVERALL	BANKS	CPAS	NON-CPAS
<u>Change Present Law</u>						
GAAP:						
Yes	40%	47%	26%	24%	7%	77%
No	60%	53%	74%	76%	93%	23%
Reviews:						
Yes	41%	41%	29%	25%	6%	77%
No	59%	59%	71%	75%	94%	23%
Public Accountant:						
Yes	39%	39%	30%	29%	14%	82%
No	61%	61%	70%	71%	86%	18%
<u>Regul. of Non-CPA's</u>						
GAAP:						
Yes	60%	56%	65%	67%	47%	58%
No	40%	44%	35%	33%	53%	42%
Reviews:						
Yes	61%	60%	81%	80%	54%	67%
No	39%	40%	19%	20%	46%	33%
Public Accountant:						
Yes	66%	63%	71%	76%	55%	73%
No	34%	37%	29%	24%	45%	27%
<u>Disting. Among Serv.</u>						
Yes	70%	90%	n/a	n/a	92%	77%
No	30%	10%	n/a	n/a	8%	23%
<u>Necess. to Regulate</u>						
Yes	69%	73%	n/a	n/a	96%	77%
No	31%	27%	n/a	n/a	4%	23%

* Based on the first 675 businesses, the first 150 users of financial statements and the first 348 accounting professionals who responded to the survey.

TABLE V-1
SUMMARY OF SALIENT SURVEY RESULTS*

	BUSINESSES		FINAN. ST. USERS		ACCT. SERV. PROV.	
	OVERALL	LARGE FIRMS	OVERALL	BANKS	CPAS	NON-CPAS
<u>Serv. to Reg.: Rank^{1/}</u>						
First	T	A	A	A	A	A
Second	A	T	T	R	R	T
Third	R	R	R	C	C	R
Fourth	C	C	C	T	T	C
Fifth	B	B	B	B	B	B
<u>Types of Reg.: Rank^{2/}</u>						
First	WE	WE	PE	PE	PE	CE
Second	PE	PE	CE	CE	CE	WE
Third	CE	CE	WE	WE	WE	PE
Fourth	BA	BA	BA	BA	BA	BA
Fifth	BA+	BA+	BA+	BA+	BA+	BA+

^{1/} Key: A means Audit; R means Review; T means Tax Preparation; C means Compilation; B means Bookkeeping.

^{2/} Based on responses regarding types of regulation of non-CPA's before they could use GAAP. Key: BA means undergraduate degree in accounting; BA+ means degree plus courses in business, economics and finance; PE means passage of State examination; WE means one year or more of work experience; and CE means continuing education requirement.

* Based on the first 675 businesses, the first 150 users of financial statements and the first 358 accounting professionals who responded to the survey.

n/a means not applicable since the corresponding questions were not asked, although the vast majority implied "yes" to the requests as reflected in responses to Q-4 through Q-9.

APPENDIX A

**SURVEY FORMS AND
COMPILATION OF RESULTS**

APPENDIX A

CONTENTS:

Survey Forms

Business Users (Original)
Business Users (Corrected)
Financial Statement Users
Accounting Professionals

Business Users Survey

Results of All Business vs. 1st 675
Those Who Distinguish (1st 675)
Large vs. Small Businesses (1st 675)
Remailed Surveys (1st 90)
Geographical Differences (1st 675)
Map of Regions
Unsolicited Comments

Financial Statements Users Survey

Results of All Users vs. 1st 150
Banking Results (1st 102)
Unsolicited Comments

Accounting Professionals Survey

Results of All Accounting vs. 1st 358
CPA's vs. Non-CPA's (1st 358)
Unsolicited Comments

SURVEY OF BUSINESSES CONCERNING THE REGULATION OF ACCOUNTING

Original

OVERVIEW OF SURVEY

PURPOSE

Recognizing that there are benefits and costs associated with government regulation, the General Assembly has called for an evaluation of certain aspects of the law governing the practice of accounting in Virginia. As a user of accounting services, your views in this regard are important.

The survey is designed to elicit your opinion on a number of issues. Specifically, the General Assembly requires that a study be made of: "(i) the need and desirability for additional regulation of accountants who are not CPA's; (ii) the proper parties to be involved in rendering review reports on financial statements; and (iii) the appropriateness of modifying the limitations on reference to accounting principles and standards under current law". In resolving these issues, consideration must be given to numerous factors relative to the benefits and costs of professional licensure, as well as the standards which should be used in licensing regulations.

Because of the complexity of many of the issues, the entire survey should be looked over before beginning with your written responses. To assist you, a summary of Virginia law is provided below. Upon reviewing this and the survey, please check the boxes and fill in the blanks as you deem appropriate. A return (postage-paid) envelope has been provided.

BACKGROUND

Under Virginia Law, a distinction is made between those who practice accounting as licensed certified public accountants (CPA's) and those who practice without such a license and designation (non-CPA's). This distinction, which applies to all who offer accounting, bookkeeping, tax preparation, and other such services, is designed "to aid the public in determining the qualifications of persons who give assurances on financial statements"

The law governing the distinction prevents non-CPA's from offering their services under certain professional titles, from using certain accounting terms, and from performing certain accounting functions. Specifically, non-CPA's are prohibited by law from: (1) referring to themselves in their practices as "certified public accountant, CPA, public accountant, PA, certified accountant, CA, chartered accountant, licensed accountant, LA, registered accountant, RA, independent auditor or auditor", and (2) using such terms in their practices as "generally accepted accounting principles" or "standards", "public accountancy standards" or "principles", "generally accepted auditing principles" or "standards", "audit", "audit report", "independent audit", "attest", "attestation", "examine", "examination", "opinion", or "review". Because of the restrictions on the terms which can be used by non-CPA's, they are prevented from legally performing the accounting functions associated with these terms for the general public. These restrictions, however, do not apply to accounting services performed by individuals directly for their employers or to those performed by government employees.

Some claim that the restrictions under present law are necessary to protect individuals who rely on financial statements of others in making business decisions such as bank loan officers. Others argue that these users need no such protection and that the encompassing nature of the law makes it difficult if not impossible for non-CPA's to provide accounting services to the public. And still others contend that these competing interests are reconcilable only through additional regulation. Your views on these and other matters are vital in resolving the issues.

SURVEY OF BUSINESSES CONCERNING THE REGULATION OF ACCOUNTING

- Q-1 Is your firm a subsidiary of a company headquartered outside VA?
(1) yes (2) no
- Q-2 Is your firm involved in providing accounting services to the public?
(1) yes (2) no
- Q-3 If you answered "no" to Q-2, which one of the following best describes the business of your firm?
(1) retail trade (2) wholesale trade (3) manufacturing
(4) legal services (5) health services (6) financial services
(7) other services
- Q-4 How big is your firm in terms of the number of full-time workers employed in VA?
(1) 1-10 (2) 11-50 (3) 51-200 (4) over 200
- Q-5 Which of the following are included in the full-time workers in Q-4?
(1) CPA's (2) accountants (3) bookkeepers (4) no accounting personnel
- Q-6 To meet your firm's internal accounting needs, do you retain outside bookkeepers, accountants, or CPA's?
(1) yes (2) no
- Q-7 If you answered "yes" to Q-6, which of the following do you retain?
(1) bookkeepers (2) accountants (3) CPA's
- Q-8 Which one or more of the following best describes the quality and cost of the accounting services available in the general vicinity of your office?
(1) quality is adequate and cost is reasonable
(2) quality is adequate but cost is high.
(3) quality could be better but cost is reasonable
(4) quality could be better and cost is high.
(5) no basis to judge
- Q-9 Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?
(1) yes (2) no
- Q-10 If you answered "yes" to Q-9, do you believe that different education and experience levels are necessary to competently provide such services?
(1) yes (2) no

Q-11 If you answered "yes" to Q-10, rank (by filling in the blanks) the five services cited in Q-9 in terms of the most (1) through the least (5) education and experience which you believe are necessary to competently provide such services.

(1) _____ (2) _____ (3) _____
(4) _____ (5) _____

Q-12 Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-9 to ensure that only those with certain education and experience levels can offer such services to the public?

(1) yes (2) no

Q-13 Which one of the following best describes the reason for your answer to Q-12?

- (1) no regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.
- (2) some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.
- (3) no regulation is justified because the resulting costs to the public outweigh the benefits.
- (4) some regulation is justified because the resulting benefits to the public outweigh the costs.

Q-14 If you answered "yes" to Q-12, which one or more of the following services do you believe should be regulated to at least some degree in VA?

- (1) compilation (2) audit (3) tax preparation
- (4) review (5) bookkeeping

Q-15 Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-9 (by filling in the blanks) in terms of the most (1) through the least (5) regulation which you believe is necessary:

(1) _____ (2) _____ (3) _____
(4) _____ (5) _____

Q-16 Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

(1) yes (2) no

Q-17 Which one of the following best describes the reason for your answer to Q-16?

- (1) present law unduly restricts the practices of non-CPA's.
- (2) present law is necessary to protect those who rely on financial statements.
- (3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
- (4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.

Q-18 Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

(1) yes (2) no

- Q-19 Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?
- (1) a 4-year accounting degree from an accredited university or college.
 - (2) the degree indicated in (1) plus sufficient courses in business, economics, and finance
 - (3) work in the field of accounting for one year or more.
 - (3) passage of an examination administered by the State.
 - (4) work in the field of accounting for one year or more.
 - (5) a continuing education requirement in accounting, business, economics, and finance.
- Q-20 Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?
- (1) yes (2) no
- Q-21 Which one or more of the following describes the reason for your response to Q-20?
- (1) present law unduly restricts the practices fo non-CPA's.
 - (2) present law is necessary to protect those who rely on financial statements.
 - (3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
 - (4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
- Q-22 Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?
- (1) yes (2) no
- Q-23 Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-19 do you deem necessary?
- (1) (2) (3) (4) (5)
- Q-24 Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?
- (1) yes (2) no
- Q-25 Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?
- (1) yes (2) no
- Q-26 Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-19 do you deem necessary?
- (1) (2) (3) (4) (5)

SURVEY OF BUSINESSES CONCERNING THE REGULATION OF ACCOUNTING

Corrected

OVERVIEW OF SURVEY

PURPOSE

Recognizing that there are benefits and costs associated with government regulation, the General Assembly has called for an evaluation of certain aspects of the law governing the practice of accounting in Virginia. As a user of accounting services, your views in this regard are important.

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(1) 1-10 (2) 11-50 (3) 51-200 (4) over 200
- Q-5 Which of the following are included in the full-time workers in Q-4?
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- Q-7 If you answered "yes" to Q-6, which of the following do you retain?
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(1) quality is adequate and cost is reasonable.
(2) quality is adequate but cost is high.
(3) quality could be better but cost is reasonable.
(4) quality could be better and cost is high.
(5) no basis to judge
- Q-9 Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?
(1) yes (2) no
- Q-10 If you answered "yes" to Q-9, do you believe that different education and experience levels are necessary to competently provide such services?
(1) yes (2) no

Q-11 If you answered "yes" to Q-10, rank (by filling in the blanks) the five services cited in Q-9 in terms of the most (1) through the least (5) education and experience which you believe are necessary to competently provide such services:

(1) _____ (2) _____ (3) _____
(4) _____ (5) _____

Q-12 Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-9 to ensure that only those with certain education and experience levels can offer such services to the public?

(1) yes (2) no

Q-13 Which one of the following best describes the reason for your answer to Q-12?

- (1) no regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.
- (2) some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.
- (3) no regulation is justified because the resulting costs to the public outweigh the benefits.
- (4) some regulation is justified because the resulting benefits to the public outweigh the costs.

Q-14 If you answered "yes" to Q-12, which one or more of the following services do you believe should be regulated to at least some degree in VA?

- (1) compilation (2) audit (3) tax preparation
- (4) review (5) bookkeeping

Q-15 Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-9 (by filling in the blanks) in terms of the most (1) through the least (5) regulation which you believe is necessary:

(1) _____ (2) _____ (3) _____
(4) _____ (5) _____

Q-16 Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

(1) yes (2) no

Q-17 Which one of the following best describes the reason for your answer to Q-16?

- (1) present law unduly restricts the practices of non-CPA's.
- (2) present law is necessary to protect those who rely on financial statements.
- (3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
- (4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.

Q-18 Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

(1) yes (2) no

- Q-19 Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?
- (1) a 4-year accounting degree from an accredited university or college.
 - (2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.
 - (3) passage of an examination administered by the State.
 - (4) work in the field of accounting for one year or more
 - (5) a continuing education requirement in accounting, business, economics, and finance.
- Q-20 Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?
- (1) yes (2) no
- Q-21 Which one or more of the following describes the reason for your response to Q-20?
- (1) present law unduly restricts the practices of non-CPA's.
 - (2) present law is necessary to protect those who rely on financial statements.
 - (3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
 - (4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
- Q-22 Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?
- (1) yes (2) no
- Q-23 Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-19 you deem necessary?
- (1) (2) (3) (4) (5)
- Q-24 Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?
- (1) yes (2) no
- Q-25 Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?
- (1) yes (2) no
- Q-26 Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-19 do you deem necessary?
- (1) (2) (3) (4) (5)

SURVEY OF USERS OF FINANCIAL STATEMENTS CONCERNING THE REGULATION OF ACCOUNTING

OVERVIEW OF SURVEY

PURPOSE

Recognizing that there are benefits and costs associated with government regulation, the General Assembly has called for an evaluation of certain aspects of the law governing the practice of accounting in Virginia. As a user of accounting services, your views in this regard are important.

The survey is designed to elicit your opinion on a number of issues. Specifically, the General Assembly requires that a study be made of: "(i) the need and desirability for additional regulation of accountants who are not CPA's; (ii) the proper parties to be involved in rendering review reports on financial statements; and (iii) the appropriateness of modifying the limitations on reference to accounting principles and standards under current law" In resolving these issues, consideration must be given to numerous factors relative to the benefits and costs of professional licensure, as well as the standards which should be used in licensing regulations.

Because of the complexity of many of the issues, the entire survey should be looked over before beginning with your written responses. To assist you, a summary of Virginia law is provided below. Upon reviewing this and the survey, please check the boxes and fill in the blanks as you deem appropriate. A return (postage-paid) envelope has been provided.

BACKGROUND

Under Virginia Law, a distinction is made between those who practice accounting as licensed certified public accountants (CPA's) and those who practice without such a license and designation (non-CPA's). This distinction, which applies to all who offer accounting, bookkeeping, tax preparation, and other such services, is designed "to aid the public in determining the qualifications of persons who give assurances on financial statements"

The law governing the distinction prevents non-CPA's from offering their services under certain professional titles, from using certain accounting terms, and from performing certain accounting functions. Specifically, non-CPA's are prohibited by law from: (1) referring to themselves in their practices as "certified public accountant, CPA, public accountant, PA, certified accountant, CA, chartered accountant, licensed accountant, LA, registered accountant, RA, independent auditor or auditor", and (2) using such terms in their practices as "generally accepted accounting principles" or "standards", "public accountancy standards" or "principles", "generally accepted auditing principles" or "standards", "audit", "audit report", "independent audit", "attest", "attestation", "examine", "examination", "opinion", or "review" Because of the restrictions on the terms which can be used by non-CPA's, they are prevented from legally performing the accounting functions associated with these terms for the general public. These restrictions, however, do not apply to accounting services performed by individuals directly for their employers or to those performed by government employees.

Some claim that the restrictions under present law are necessary to protect individuals who rely on financial statements of others in making business decisions such as bank loan officers. Others argue that these users need no such protection and that the encompassing nature of the law makes it difficult if not impossible for non-CPA's to provide accounting services to the public. And still others contend that these competing interests are reconcilable only through additional regulation. Your views on these and other matters are vital in resolving the issues.

SURVEY OF USERS OF FINANCIAL STATEMENTS CONCERNING THE REGULATION OF ACCOUNTING

- Q-1 Is your firm's main office located outside VA?
(1) yes (2) no
- Q-2 Which one of the following best describes the business of your firm?
(1) banking (2) securities brokerage (3) securities investment
(4) investment banking (5) other financial services
- Q-3 How big is your firm in terms of the number of full-time workers employed in VA?
(1) 1-10 (2) 11-50 (3) 51-200 (4) over 200
- Q-4 Which one or more of the following types of financial statements of other companies does your firm rely upon to conduct its own business?
(1) compilations (2) reviews (3) audits (4) tax returns (5) other
- Q-5 Please rank the five types of financial statements cited in Q-4 (by filling in the blanks) in terms of the most frequently (1) through least frequently (5) relied upon.
(1) _____ (2) _____ (3) _____
(4) _____ (5) _____
- Q-6 Are the types of financial statements indicated in your response to Q-5 prepared in accordance with "generally accepted accounting principles"?
(1) yes (2) no (3) uncertain
- Q-7 If you answered "no" or "uncertain" to Q-6, which one of the following best describes your response?
(1) unfamiliar with the meaning of the term "generally accepted accounting principles"
(2) some of the financial statements do not disclose the principles employed in their preparation.
(3) financial statements need not be prepared in accordance with such principles to meet the needs of users.
- Q-8 Please mark all of the following statements with which you agree:
(1) reviewed financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide limited assurance.
(2) compiled financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide virtually no assurance.
(3) audited financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide substantial assurance
(4) tax returns and other financial statements need not be prepared in accordance with generally accepted accounting principles, but are determined by the needs of the user

Q-9 Which one or more of the following services do you believe should be regulated to at least some degree in VA?

- (1) compilation (2) audit (3) tax preparation
(4) review (5) bookkeeping

Q-10 Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-9 (by filling in the blanks) in terms of the most (1) through the least (5) regulation which you believe is necessary.

- (1) _____ (2) _____ (3) _____
(4) _____ (5) _____

Q-11 Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

- (1) yes (2) no

Q-12 Which one of the following best describes the reason for your answer to Q-11?

- (1) present law unduly restricts the practices of non-CPA's.
(2) present law is necessary to protect those who rely on financial statements.
(3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
(4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.

Q-13 Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

- (1) yes (2) no

Q-14 Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following best describes the licensing requirements that you deem necessary?

- (1) a 4-year accounting degree from an accredited university or college
(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance
(3) passage of an examination administered by the State.
(4) work in the field of accounting for one year or more.
(5) a continuing education requirement in accounting, business, economics, and finance.

Q-15 Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

- (1) yes (2) no

- Q-16 Which one or more of the following describes the reason for your response to Q-15?
- (1) present law unduly restricts the practices of non-CPA's.
 - (2) present law is necessary to protect those who rely on financial statements.
 - (3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
 - (4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
- Q-17 Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to them being able to use professional titles such as public accountant?
- (1) yes (2) no
- Q-18 Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-14 do you deem necessary?
- (1) (2) (3) (4) (5)
- Q-19 Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?
- (1) yes (2) no
- Q-20 Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to them being able to use professional titles such as public accountant?
- (1) yes (2) no
- Q-21 Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?
- (1) (2) (3) (4) (5)
- Q-22 Which one of the following do you regard as most important in determining whether compiled or reviewed (i.e., unaudited) financial statements that you rely upon have been properly prepared?
- (1) they have been approved by a government agency
 - (2) they have met our own internal standards.
 - (3) they have been prepared by a CPA.
 - (4) not applicable since I only rely upon audited financial statements.
- Q-23 Which one or more of the following best describes your educational and professional background in accounting?
- (1) on the job experience (2) undergraduate courses
(3) bachelors degree (4) graduate degree (5) CPA

SURVEY OF ACCOUNTING PROFESSIONALS CONCERNING THE REGULATION OF ACCOUNTING

OVERVIEW OF SURVEY

PURPOSE

Recognizing that there are benefits and costs associated with government regulation, the General Assembly has called for an evaluation of certain aspects of the law governing the practice of accounting in Virginia. As a user of accounting services, your views in this regard are important.

The survey is designed to elicit your opinion on a number of issues. Specifically, the General Assembly requires that a study be made of: "(i) the need and desirability for additional regulation of accountants who are not CPA's, (ii) the proper parties to be involved in rendering review reports on financial statements; and (iii) the appropriateness of modifying the limitations on reference to accounting principles and standards under current law" In resolving these issues, consideration must be given to numerous factors relative to the benefits and costs of professional licensure, as well as the standards which should be used in licensing regulations.

Because of the complexity of many of the issues, the entire survey should be looked over before beginning with your written responses. To assist you, a summary of Virginia law is provided below. Upon reviewing this and the survey, please check the boxes and fill in the blanks as you deem appropriate. A return (postage-paid) envelope has been provided.

BACKGROUND

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The law governing the distinction prevents non-CPA's from offering their services under certain professional titles, from using certain accounting terms, and from performing certain accounting functions. Specifically, non-CPA's are prohibited by law from: (1) referring to themselves in their practices as "certified public accountant, CPA, public accountant, PA, certified accountant, CA, chartered accountant, licensed accountant, LA, registered accountant, RA, independent auditor or auditor", and (2) using such terms in their practices as "generally accepted accounting principles" or "standards", "public accountancy standards" or "principles", "generally accepted auditing principles" or "standards", "audit", "audit report", "independent audit", "attest", "attestation", "examine", "examination", "opinion", or "review." Because of the restrictions on the terms which can be used by non-CPA's, they are prevented from legally performing the accounting functions associated with these terms for the general public. These restrictions, however, do not apply to accounting services performed by individuals directly for their employers or to those performed by government employees.

Some claim that the restrictions under present law are necessary to protect individuals who rely on financial statements of others in making business decisions such as bank loan officers. Others argue that these users need no such protection and that the encompassing nature of the law makes it difficult if not impossible for non-CPA's to provide accounting services to the public. And still others contend that these competing interests are reconcilable only through additional regulation. Your views on these and other matters are vital in resolving the issues.

SURVEY OF ACCOUNTING PROFESSIONALS CONCERNING THE REGULATION OF ACCOUNTING

- Q-1 Is your firm's main office located outside VA?
(1) yes (2) no
- Q-2 How big is your firm in terms of the number of full-time workers employed in VA?
(1) 1-10 (2) 11-50 (3) 51-200 (4) over 200
- Q-3 Which of the following are included in the full-time workers in Q-2?
(1) CPA's (2) accountants (3) bookkeepers
- Q-4 Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?
(1) yes (2) no
- Q-5 If you answered "yes" to Q-4, do you believe that different education and experience levels are necessary to competently provide such services?
(1) yes (2) no
- Q-6 If you answered "yes" to Q-5, rank (by filling in the blanks) the five services cited in Q-4 in terms of most (1) through the least (5) education and experience which you believe are necessary to competently provide such services:
(1) _____ (2) _____ (3) _____
(4) _____ (5) _____
- Q-7 Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-4 to ensure that only those with certain education and experience levels can offer such services to the public?
(1) yes (2) no
- Q-8 Which one of the following best describes the reason for your answer to Q-7?
(1) no regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.
(2) some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.
(3) no regulation is justified because the resulting costs to the public outweigh the benefits.
(4) some regulation is justified because the resulting benefits to the public outweigh the costs.
- Q-9 If you answered "yes" to Q-7, which one or more of the following services do you believe should be regulated to at least some degree in VA?
(1) compilation (2) audit (3) tax preparation
(4) review (5) bookkeeping

- Q-10 Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-4 (by filling in the blanks) in terms of the most (1) through the least (5) regulation which you believe is necessary
- (1) _____ (2) _____ (3) _____
 4) _____ (5) _____
- Q-11 Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?
- (1) yes (2) no
- Q-12 Which one of the following best describes the reason for your answer to Q-11?
- (1) present law unduly restricts the practices of non-CPA's.
 (2) present law is necessary to protect those who rely on financial statements.
 (3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
 (4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
- Q-13 Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?
- (1) yes (2) no
- Q-14 Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?
- (1) a 4-year accounting degree from an accredited university or college
 (2) the degree indicated in (1) plus sufficient courses in business, economics, and finance
 (3) passage of an examination administered by the State
 (4) work in the field of accounting for one year or more
 (5) a continuing education requirement in accounting, business, economics, and finance
- Q-15 Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?
- (1) yes (2) no
- Q-16 If you answered "yes" to Q-15, which one or more of the following describes the reason for your response?
- (1) present law unduly restricts the practices of non-CPA's.
 (2) present law is necessary to protect those who rely on financial statements.
 (3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance
 (4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance

Q-17 Would you favor regulation of non-CPA's, such as the licensing indicated in Q-13, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

(1) yes (2) no

Q-18 Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

(1) (2) (3) (4) (5)

Q-19 Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

(1) yes (2) no

Q-20 Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to their being able to use professional titles such as public accountant?

(1) yes (2) no

Q-21 Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

(1) (2) (3) (4) (5)

SURVEY OF BUSINESSES CONCERNING
THE REGULATION OF ACCOUNTING
RESULTS OF ALL BUSINESSES VS. 1ST 675

Q-1. Is your firm a subsidiary of a company headquartered outside VA?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes -	25, 3.7%	114, 3.8%
Answered No -	649, 96.3%	2,880, 96.2%

Q-2. Is your firm involved in providing accounting services to the public?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes -	15, 2.3%	69, 2.3%
Answered No -	659, 97.7%	2,932, 97.7%

Q-3. If you answered "no" to Q-2, which one of the following best describes the business of your firm?

	<u>1st 675</u>	<u>All Business</u>
Retail Trade -	179, 28.2%	833, 29.7%
Wholesale Trade -	44, 6.9%	184, 6.6%
Manufacturing -	48, 7.6%	175, 6.3%
Legal Services -	14, 2.2%	82, 2.9%
Health Services -	53, 8.3%	217, 7.7%
Financial -	17, 2.7%	78, 2.8%
Other -	280, 44.1%	1,232, 44.0%

Q-4. How big is your firm in terms of the number of full-time workers employed in VA?

	<u>1st 675</u>	<u>All Business</u>
1-10 -	459, 68.9%	2,087, 70.6%
11-50 -	147, 22.1%	625, 21.1%
51-200 -	36, 5.4%	165, 5.6%
Over 200 -	24, 3.6%	80, 2.7%

Q-5. Which of the following are included in the full-time workers in Q-4?

	<u>1st 675</u>	<u>All Business</u>
CPA's -	37, 5.0%	151, 4.6%
Accountants -	88, 11.9%	317, 9.7%
Bookkeepers -	299, 40.6%	1,265, 38.5%
No accounting personnel -	313, 42.5%	1,548, 47.2%

Q-6. To meet your firm's internal accounting needs, do you retain outside bookkeepers, accountants, or CPA's?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes -	523, 77.8%	2,318, 77.6%
Answered No -	149, 22.2%	670, 22.4%

Q-15. Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-9 (by filling in the blanks) in terms of the most (1) through least (5) regulation which you believe is necessary.

1st 675

		<u>Audit</u>	<u>Bookkeeping</u>	<u>Compilation</u>	<u>Taxes</u>	<u>Review</u>	<u>Total</u>
Most	1	277	22	9	197	9	514
	2	152	45	20	187	95	499
	3	33	65	94	55	222	469
	4	28	144	155	50	80	457
Least	5	16	182	173	14	66	451
	TOTAL	506	458	451	503	472	2,390

All Businesses

		<u>Audit</u>	<u>Bookkeeping</u>	<u>Compilation</u>	<u>Taxes</u>	<u>Review</u>	<u>Total</u>
Most	1	1,239	98	50	885	48	2,320
	2	661	201	143	802	438	2,245
	3	176	360	375	277	946	2,134
	4	105	641	686	237	415	2,084
Least	5	97	794	817	60	286	2,054
	TOTAL	2,278	2,094	2,071	2,261	2,133	10,837

Responses interpreted as follows: Reading across - no. of times a service received a particular ranking. Reading down - no. of times a particular service was ranked.

Q-16. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes	- 253, 40.2%	1,090, 38.9%
Answered No	- 377, 59.8%	1,715, 61.1%

Q-17. Which one of the following best describes the reason for your answer to Q-16?

(1) Present law unduly restricts the practices of non-CPA's.
1st 675 - 74, 12.2% All Businesses - 384, 14.3%

(2) Present law is necessary to protect those who rely on financial statements.
1st 675 - 132, 21.8% All Businesses - 589, 22.0%

(3) The use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
1st 675 - 180, 29.8% All Businesses - 696, 26.0%

(4) The use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
1st 675 - 219, 36.2% All Businesses - 1,008, 37.7%

Q-18. Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes -	380, 59.8%	1,674, 59.4%
Answered No -	255, 40.2%	1,144, 40.6%

Q-19. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?

(1) a 4-year accounting degree from an accredited university or college.

1st 675* - 221, 17.3% All Businesses* - 977, 17.7%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.

1st 675* - 128, 10.0% All Businesses* - 525, 9.5%

(3) passage of an examination administered by the State.

1st 675* - 290, 22.7% All Businesses* - 1,229, 22.2%

(4) work in the field of accounting for one year or more.

1st 675* - 374, 29.3% All Businesses* - 1,680, 30.4%

(5) a continuing education requirement in accounting, business, economics, and finance.

1st 675* - 265, 20.7% All Businesses* - 1,118, 20.2%

Q-20. Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes -	246, 40.5%	1,071, 39.6%
Answered No -	361, 59.5%	1,632, 60.4%

Q-21. Which one or more of the following describes the reason for your response to Q-20?

(1) present law unduly restricts the practices of non-CPA's.

1st 675* - 89, 13.8% All Businesses* - 439, 15.6%

(2) present law is necessary to protect those who rely on financial statements.

1st 675* - 215, 33.4% All Businesses* - 966, 34.2%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.

1st 675* - 176, 27.4% All Businesses* - 706, 25.0%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.

1st 675* - 163, 25.3% All Businesses* - 712, 25.2%

Q-22. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes	- 364, 60.9%	1,646, 62.0%
Answered No	- 234, 39.1%	1,013, 38.0%

Q-23. Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-19 do you deem necessary?

	<u>1st 675*</u>	<u>All Business*</u>
(1) -	229, 19.4%	952, 19.1%
(2) -	146, 12.4%	565, 11.3%
(3) -	258, 21.9%	1,093, 21.9%
(4) -	322, 27.3%	1,442, 28.9%
(5) -	223, 18.9%	931, 18.7%

Q-24. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes	- 249, 39.0%	1,143, 41.0%
Answered No	- 385, 61.0%	1,644, 59.0%

Q-25. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?

	<u>1st 675</u>	<u>All Business</u>
Answered Yes	- 404, 66.3%	1,818, 66.9%
Answered No	- 205, 33.7%	901, 33.15

Q-26. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-19 do you deem necessary?

	<u>1st 675*</u>	<u>All Business*</u>
(1) -	248, 19.6%	1,037, 19.7%
(2) -	150, 11.9%	577, 10.9%
(3) -	269, 21.3%	1,141, 21.6%
(4) -	347, 27.5%	1,528, 28.9%
(5) -	250, 19.7%	1,001, 18.9%

* Percentages based on the total number of responses rather than the number of persons responding.

SURVEY OF BUSINESSES CONCERNING
THE REGULATION OF ACCOUNTING
RESULTS OF 1ST 675
Comparison of Those Businesses That Responded They
Distinguished Between Accounting Services
and Total Business Responses

Q-12. Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-9 to ensure that only those with certain education and experience levels can offer such services to the public?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 454, 68.6%	343, 74.6%
Answered No	- 208, 31.4%	117, 25.4%
No Answer	- 13	5

Q-13. Which one of the following best describes the reason for your answer to Q-12?

(1) No regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.

Total - 147, 22.7% Distinguished - 91, 20.0%

(2) Some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.

Total - 316, 48.8% Distinguished - 230, 50.5%

(3) No regulation is justified because the resulting costs to the public outweigh the benefits.

Total - 48, 7.4% Distinguished - 24, 5.3%

(4) Some regulation is justified because the resulting benefits to the public outweigh the costs.

Total - 137, 21.1% Distinguished - 110, 24.2%

Q-14. If you answered "yes" to Q-12, which one or more of the following services do you believe should be regulated to at least some degree in VA?

Responses of those who answered Yes to Q-12:

	<u>Total *</u>	<u>Distinguished *</u>
Compilation	- 82, 8.1%	59, 7.6%
Audit	- 354, 35.1%	281, 36.4%
Tax Preparation	- 360, 35.7%	273, 35.4%
Review	- 150, 14.9%	124, 16.15%
Bookkeeping	- 62, 6.2%	35, 4.5%

Q-16. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 253, 40.2%	182, 41.2%
Answered No	- 377, 59.8%	260, 58.8%

Q-17. Which one of the following best describes the reason for your answer to Q-16?

Responses of those who answered Q-16:

- (1) Present law unduly restricts the practices of non-CPA's.
Total - 74, 12.2% Distinguished - 49, 11.5%

(2) Present law is necessary to protect those who rely on financial statements.
Total - 132, 21.8% Distinguished - 82, 19.3%

(3) The use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
Total - 180, 29.8% Distinguished - 127, 29.9%

(4) The use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
Total - 219, 36.2% Distinguished - 167, 39.3%

Q-18. Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 380, 59.8%	262, 59.1%
Answered No	- 255, 40.2%	181, 40.9%

Q-20. Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 246, 40.5%	172, 39.45%
Answered No	- 361, 59.5%	264, 60.6%

Q-21. Which one or more of the following describes the reason for your response to Q-20?

(1) present law unduly restricts the practices of non-CPA's.
Total*- 89, 13.8% Distinguished*- 59, 12.8%

(2) present law is necessary to protect those who rely on financial statements.
Total*- 215, 33.4% Distinguished*- 142, 30.7%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
Total*- 176, 27.4% Distinguished*- 131, 28.4%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
Total*- 163, 25.3% Distinguished*- 130, 28.1%

Q-22. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 364, 60.9%	266, 62.4%
Answered No	- 234, 39.1%	160, 37.6%

Q-24. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 249, 39.0%	173, 39.1%
Answered No	- 385, 61.0%	270, 60.9%

Q-25. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?

	<u>Total</u>	<u>Distinguished</u>
Answered Yes	- 404, 66.3%	291, 67.5%
Answered No	- 205, 33.7%	140, 32.5%

* Percentages based on the total number of responses rather than on the number of persons responding.

SURVEY OF BUSINESSES CONCERNING
THE REGULATION OF ACCOUNTING
RESULTS OF 1ST 675
Comparison of Large Business Respondants
and Total Business Respondants^{1/}

Q-5. Which of the following are included in the full-time workers in Q-4?

	<u>Total</u>	<u>Large Businesses</u>
CPA's	- 37, 5.0%	11, 11.8%
Accountants	- 88, 11.9%	37, 39.8%
Bookkeepers	- 299, 40.6%	42, 45.2%
No accounting personnel	- 313, 42.5%	3, 3.2%

Q-6. To meet your firm's internal accounting needs, do you retain outside bookkeepers, accountants, or CPA's?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 523, 77.8%	44, 73.3%
Answered No	- 149, 22.2%	16, 26.7%

Q-7. If you answered "yes" to Q-6, which of the following do you retain?

	<u>Total</u>	<u>Large Businesses</u>
Bookkeepers	- 49, 8.7%	1, 2.3%
Accountants	- 111, 19.6%	2, 4.5%
CPA's	- 406, 71.7%	41, 93.2%

Q-8. Which one or more of the following best describes the quality and cost of the accounting services available in the general vicinity of your office?

	<u>Total</u>
Quality is adequate and cost is reasonable.	- 331, 49.4%
Quality is adequate but cost is high.	- 174, 26.0%
Quality could be better but cost is reasonable.	- 36, 5.4%
Quality could be better and cost is high.	- 32, 4.8%
No basis to judge.	- 97, 14.5%

	<u>Large Businesses</u>
Quality is adequate and cost is reasonable.	- 31, 52.6%
Quality is adequate but cost is high.	- 17, 28.8%
Quality could be better but cost is reasonable.	- 3, 5.1%
Quality could be better and cost is high.	- 2, 3.4%
No basis to judge.	- 6, 10.2%

^{1/} Large business is defined as more than 50 employees.

Q-9. Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 465, 70.0%	54, 90.0%
Answered No	- 199, 30.0%	6, 10.0%

Q-10. If you answered "yes" to Q-9, do you believe that different education and experience levels are necessary to competently provide such services?

Responses of those who answered Yes to Q-10:

	<u>Total</u>	<u>Large Businesses</u>
Yes	- 431, 93.5%	51, 94.4%
No	- 30, 6.5%	3, 5.6%

Q-12. Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-9 to ensure that only those with certain education and experience levels can offer such services to the public?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 454, 68.6%	44, 66.7%
Answered No	- 208, 31.4%	16, 33.3%

Q-14. If you answered "yes" to Q-12, which one or more of the following services do you believe should be regulated to at least some degree in VA?

Responses of those who answered Yes to Q-12:

	<u>Total*</u>	<u>Large Businesses*</u>
Compilation	- 82, 8.1%	11, 10.3%
Audit	- 354, 35.1%	42, 39.3%
Tax Preparation	- 360, 35.7%	32, 29.9%
Review	- 150, 14.9%	21, 19.6%
Bookkeeping	- 62, 6.2%	1, 0.9%

Q-16. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 253, 40.2%	28, 46.7%
Answered No	- 377, 59.8%	32, 53.3%

Q-18. Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 380, 59.8%	33, 55.9%
Answered No	- 255, 40.2%	26, 44.1%

Q-19. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?

(1) a 4-year accounting degree from an accredited university or college.

Total* - 221, 17.3% Large Businesses* - 25, 17.1%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.

Total* - 128, 10.0% Large Businesses* - 16, 11.0%

(3) passage of an examination administered by the State.

Total* - 290, 22.7% Large Businesses* - 32, 21.9%

(4) work in the field of accounting for one year or more.

Total* - 374, 29.3% Large Businesses* - 42, 28.8%

(5) a continuing education requirement in accounting, business, economics, and finance.

Total* - 265, 20.7% Large Businesses* - 31, 21.2%

Q-20. Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 246, 40.5%	24, 40.7%
Answered No	- 361, 59.5%	35, 59.3%

Q-22. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 364, 60.9%	33, 60.0%
Answered No	- 234, 39.1%	22, 40.0%

Q-24. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 249, 39.0%	23, 39.0%
Answered No	- 385, 61.0%	36, 61.0%

Q-25. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?

	<u>Total</u>	<u>Large Businesses</u>
Answered Yes	- 404, 66.3%	37, 62.7%
Answered No	- 205, 33.7%	22, 37.3%

* Percentages based on the total number of responses rather than the number of persons responding.

SURVEY OF BUSINESSES CONCERNING
THE REGULATION OF ACCOUNTING
RESULTS OF REMAILED BUSINESS SURVEYS (1-90)

Q-1. Is your firm a subsidiary of a company headquartered outside VA?

Answered Yes - 3, 3.3%
Answered No - 87, 96.7%
No Answer - 0

Q-2. Is your firm involved in providing accounting services to the public?

Answered Yes - 3, 3.3%
Answered No - 87, 96.7%
No Answer - 0

Q-3. If you answered "no" to Q-2, which one of the following best describes the business of your firm?

Retail Trade - 16, 19.8%
Wholesale Trade - 7, 8.6%
Manufacturing - 5, 6.2%
Legal Services - 2, 2.5%
Health Services - 5, 6.2%
Financial - 4, 4.9%
Other - 42, 51.8%
No Answer - 6

Q-4. How big is your firm in terms of the number of full-time workers employed in VA?

1-10 - 58, 65.2%
11-50 - 24, 27.0%
51-200 - 5, 5.6%
Over 200 - 2, 2.2%
No Answer - 1

Q-5. Which of the following are included in the full-time workers in Q-4?

CPA's - 3, 3.1%
Accountants - 8, 8.2%
Bookkeepers - 45, 45.9%
No accounting personnel - 42, 42.9%

Q-6. To meet your firm's internal accounting needs, do you retain outside bookkeepers, accountants, or CPA's?

Answered Yes - 73, 81.1%
Answered No - 17, 18.9%
No Answer - 0

Q-7. If you answered "yes" to Q-6, which of the following do you retain?

Bookkeepers*	- 5, 6.5%
Accountants*	- 14, 18.2%
CPA's *	- 58, 75.3%
No Answer *	- 0

Q-8. Which one or more of the following best describes the quality and cost of the accounting services available in the general vicinity of your office?

Quality is adequate and cost is reasonable.	- 37, 42.0%
Quality is adequate but cost is high.	- 30, 34.1%
Quality could be better but cost is reasonable.	- 5, 5.7%
Quality could be better and cost is high.	- 5, 5.7%
No basis to judge.	- 11, 12.5%
No Answer	- 2

Q-9. Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?

Answered Yes	- 65, 72.2%
Answered No	- 25, 27.8%
No Answer	- 0

Q-10. If you answered "yes" to Q-9, do you believe that different education and experience levels are necessary to competently provide such services?

Responses of those who answered Yes to Q-10:

Yes	- 59, 92.2%
No	- 5, 7.8%
No Answer	- 1

Q-12. Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-9 to ensure that only those with certain education and experience levels can offer such services to the public?

Answered Yes	- 57, 64.0%
Answered No	- 32, 36.0%
No Answer	- 1

Q-13. Which one of the following best describes the reason for your answer to Q-12?

(1) No regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.
16, 18.2%

(2) Some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.
35, 39.8%

(3) No regulation is justified because the resulting costs to the public outweigh the benefits.
12, 13.6%

(4) Some regulation is justified because the resulting benefits to the public outweigh the costs.
25, 28.4%

No Answer - 1

Q-14. If you answered "yes" to Q-12, which one or more of the following services do you believe should be regulated to at least some degree in VA?

Responses of those who answered Yes to Q-12:*

Compilation	- 10, 8.0%
Audit	- 46, 36.8%
Tax Preparation	- 43, 34.4%
Review	- 16, 12.8%
Bookkeeping	- 10, 8.0%
No Answer	-

Q-16. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

Answered Yes	- 28, 32.2%
Answered No	- 59, 67.8%
No Answer	- 3

Q-17. Which one of the following best describes the reason for your answer to Q-16?

Responses of those who answered Q-16:

(1) Present law unduly restricts the practices of non-CPA's.
7, 8.0%

(2) Present law is necessary to protect those who rely on financial statements.
18, 20.7%

(3) The use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
21, 24.1%

(4) The use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
41, 47.1%

No Answer - 0

Q-18. Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

Answered Yes - 61, 68.5%

Answered No - 28, 31.5%

No Answer - 1

Q-19. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary? *

(1) a 4-year accounting degree from an accredited university or college.
37, 19.5%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.
22, 11.6%

(3) passage of an examination administered by the State.
67, 35.3%

(4) work in the field of accounting for one year or more.
35, 18.4%

(5) a continuing education requirement in accounting, business, economics, and finance.
29, 15.2%

Q-20. Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

Answered Yes - 37, 43.5%

Answered No - 48, 56.5%

No Answer - 5

Q-21. Which one or more of the following describes the reason for your response to Q-20?

(1) present law unduly restricts the practices of non-CPA's.
11, 12.1%

(2) present law is necessary to protect those who rely on financial statements.

28, 30.8%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.

31, 34.1%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.

21, 23.1%

Q-22. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-18, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

Answered Yes - 62, 72.9%

Answered No - 23, 27.1%

No Answer - 5

Q-23. Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-19 do you deem necessary?*

(1) - 35, 18.8%

(2) - 27, 14.5%

(3) - 62, 33.3%

(4) - 33, 17.7%

(5) - 29, 15.7%

No Answer - 0

Q-24. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

Answered Yes - 37, 41.1%

Answered No - 53, 58.9%

No Answer - 0

Q-25. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-18, as a prerequisite to them being able to use professional titles such as public accountant?

Answered Yes - 67, 76.1%

Answered No - 21, 23.9%

No Answer - 2

Q-26. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-19 do you deem necessary?

- (1) - 41, 21.7%
- (2) - 21, 11.7%
- (3) - 67, 35.4%
- (4) - 30, 15.9%
- (5) - 30, 15.9%

* Percentages based on the total number of responses rather than on the number of persons responding.

SURVEY OF BUSINESSES CONCERNING
THE REGULATION OF ACCOUNTING
RESULTS OF 1ST 675
Comparison of Results by Geographic Area*

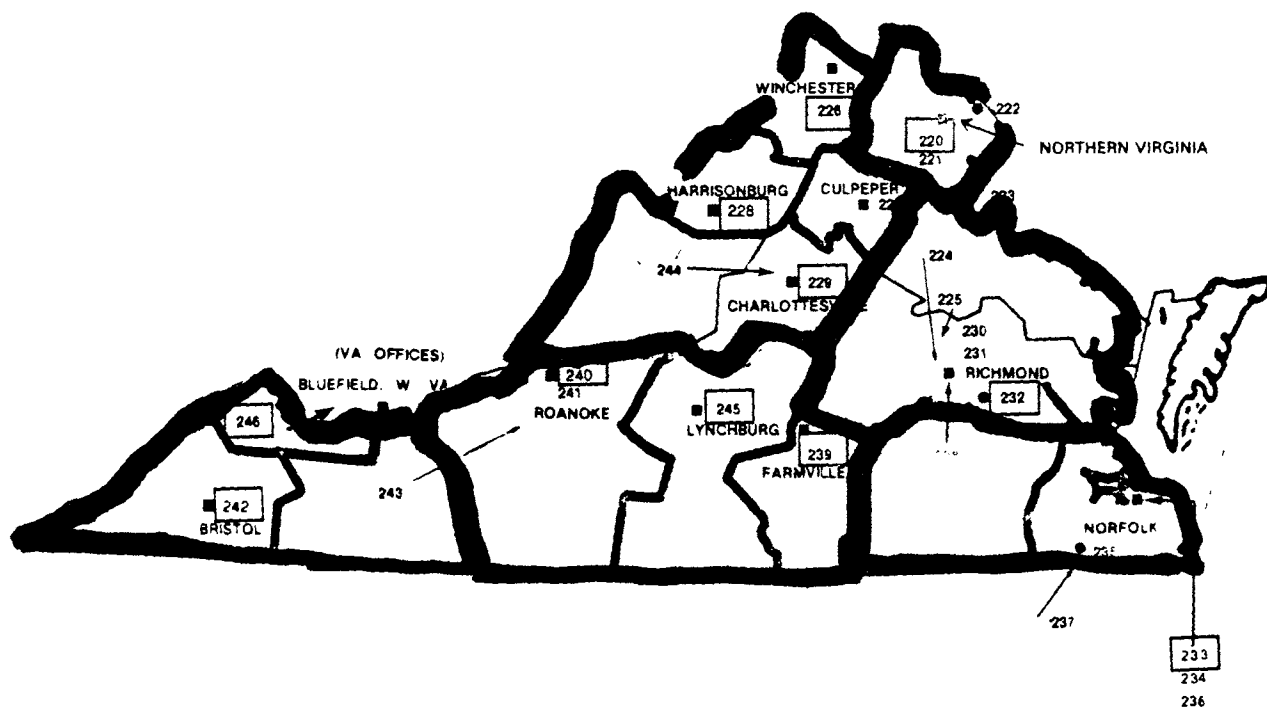
	OVERALL SURVEY	CENTRAL VALLEY	NORTHERN	SOUTHSIDE	SOUTHWEST	TIDEWATER	
# of Responses	675	130	89	190	100	23	137
Q5. (1) CPA	5.0%	4.9%	1.1%	7.1%	4.1%	4.5%	4.5%
(2) Account.	11.9%	11.2%	10.6%	13.6%	7.1%	13.6%	13.6%
(3) Bookk.	40.6%	43.3%	52.1%	34.7%	38.8%	45.5%	38.7%
(4) None	42.5%	40.6%	36.2%	44.6%	50.0%	36.4%	43.2%
Q6. Yes	77.8%	76.7%	72.7%	76.2%	80.0%	73.9%	82.5%
No	22.2%	23.3%	27.3%	23.8%	20.0%	26.1%	17.5%
Q7. (1) Bookk.	8.7%	7.4%	8.4%	8.0%	11.9%	11.1%	8.6%
(2) Account.	19.6%	14.8%	15.5%	20.8%	22.6%	11.1%	22.4%
(3) CPA	71.7%	77.8%	76.1%	71.2%	65.5%	77.8%	69.0%
Q8. (1) Quality is adequate and cost is reasonable.							
(2) Quality is adequate but cost is high.							
(3) Quality could be better but cost is reasonable.							
(4) Quality could be better and cost is high.							
(5) No basis to judge.							
(1)	49.4%	47.7%	54.0%	47.6%	54.5%	56.5%	46.0%
(2)	26.0%	24.6%	24.1%	29.6%	21.2%	8.7%	29.2%
(3)	5.4%	6.1%	11.5%	3.2%	1.0%	8.7%	5.8%
(4)	4.8%	3.1%	2.3%	4.2%	5.1%	4.4%	8.8%
(5)	14.5%	18.5%	8.1%	15.4%	18.2%	21.7%	10.2%
Q9. Yes	70.0%	72.1%	76.1%	69.0%	64.6%	69.6%	69.6%
No	30.0%	27.9%	23.9%	31.0%	35.4%	30.4%	30.4%
Q10. Yes	93.5%	98.9%	94.1%	94.4%	87.3%	87.5%	90.4%
No	6.5%	1.1%	5.9%	5.6%	12.7%	12.5%	9.6%
Q12. Yes	68.6%	78.3%	61.6%	69.7%	65.3%	54.5%	65.9%
No	31.4%	21.7%	38.4%	30.3%	34.7%	45.5%	34.1%
Q14. (1) Compil.	8.1%	8.3%	8.6%	8.5%	8.0%	7.1%	6.7%
(2) Audit	35.1%	35.6%	36.2%	34.8%	32.6%	39.3%	35.1%
(3) Tax Pr.	35.7%	33.9%	34.5%	36.9%	37.6%	39.3%	35.1%
(4) Review	14.9%	16.5%	16.4%	13.0%	13.8%	10.7%	17.0%
(5) Bookk.	6.2%	5.7%	4.3%	6.8%	8.0%	3.6%	6.1%

	OVERALL SURVEY	CENTRAL	VALLEY	NORTHERN	SOUTHSIDE	SOUTHWEST	TIDEWATER
Q16. Yes	40.2%	36.1%	42.7%	38.5%	43.2%	50.0%	42.4%
No	59.8%	63.9%	57.3%	61.5%	56.8%	50.0%	57.6%
Q18. Yes	59.8%	62.7%	57.5%	57.2%	54.6%	66.7%	64.6%
No	40.2%	37.3%	42.5%	42.8%	45.4%	33.3%	35.4%
Q20. Yes	40.5%	34.8%	44.4%	41.1%	42.9%	42.9%	41.7%
No	59.5%	65.2%	55.6%	58.9%	57.1%	57.1%	58.3%
Q22. Yes	60.9%	58.4%	57.9%	58.9%	61.5%	65.0%	66.7%
No	39.1%	41.6%	42.1%	41.1%	38.5%	35.0%	33.3%
Q24. Yes	39.0%	30.3%	43.4%	41.6%	39.8%	45.5%	42.1%
No	61.0%	69.7%	56.6%	58.4%	60.2%	54.5%	57.9%
Q25. Yes	66.3%	62.3%	68.8%	68.2%	69.8%	50.0%	65.0%
No	33.7%	37.7%	31.2%	31.8%	30.2%	50.0%	35.0%

Notes: (1) 6 zip codes unknown in the 675 subgroup so total for the geographic areas is 669.

(2) percentages for overall survey exclude responses of those who were not supposed to answer certain questions.

VIRGINIA



TIDEWATER: 233, 234, 235, 236, 237, 238

SOUTHSIDE: 239, 240, 241, 245

SOUTHWEST: 242, 243, 246

VALLEY: 226, 227, 228, 229, 244

NORTHERN VIRGINIA: 220, 221, 222, 223

CENTRAL: 224, 225, 230, 231, 232

LEGEND:

- A sectional center which serves associate post offices within that three-digit ZIP Code area.
- A city which has been assigned its own three-digit ZIP Code but which is not a sectional center, unless denoted also with ■.

xxx — Indicates three-digit postmark used for three-digit area.

NOTE: This map provides an approximation of the service area of each sectional center facility. Consult Section 3 of this Directory for specific information.

UNSOLICITED COMMENTS FROM SURVEYS OF BUSINESS USERS

<u>Ques. No.</u>	<u>Comment</u>
Q-9.	"Why have you omitted cost accounting? This is the most important field in manufacturing."
Q-10.	"However, the education is interwoven in all areas; keep the VA CPA exam as a professional standard. From this CPA profession, customer can choose person for each type job."
Q-12.	"This is a leading question and not answerable by a yes or no!"
Q-12.	"Yes and No. Only by examination and licensing for CPA's."
Q-12.	"No - too much regulation now - it should be left up to the discretion of the private firm to obtain their accounting services and to investigate credentials."
Q-12.	"I am openly oppose to licensing requirements that are strictly based on educational requirements, and any form of educational requirements. In my years of business in dealing with both CPA's and non-CPA's I have found the education does not necessary mean that person knows what he/she is doing. I have also found having the difference of classes - CPA and non-CPA would be a great help to the small businesses who doesn't really need an audit or "certified" financial statements."
Q-13.	"It (Q-12) arbitrarily says the State knows the best method of bookkeeping which may or may not be true."
Q-13.	"Most people know the difference in levels of training available."
Q-15.	"I assume no such thing"
Q-15.	"No more regulation!"
Q-18.	"No - let the consumer be responsible for his own safety."
Q-18.	"Yes, if law is changed - requirements should change but current law should remain!"
Q-18.	"Non-CPA's do not have the educational background (as a general rule) to know what is "generally accepted accounting principles" in complex

accounting situations. Keep accounting a profession."

"P.S. Don't use public accountant - if you regulate, call it public bookkeeper."

- Q-18. "If you allow them to use the terms at all, which I disfavor."
- Q-18. "Do not favor non-CPA's at all doing above. Most I have come in contact have no idea what this means and public would be detrimentally affected. Many I know have no education and give accounting bad name with their loose standards and methods of doing business. State would not be able to police adequately with budget constraints, etc."
- Q-18. "Should not use the term."
- Q-19. "You are assuming us into unneeded additional regulation!"
- Q-19. "a 2-year accounting degree from accredited school or college."
- Q-19. "Should not use the term at all."
- Q-19. "Do not get into this licensing of non-CPA's. There are enough CPA's for the involved work, and we need no more regulations on anything in this field."
- Q-19. "I am not in favor of a non-CPA acting and/or presenting himself as a CPA. If he wants to do the work of a CPA then he should have the education and pass the licensing requirements of a CPA. In other words - only a CPA should be allowed to do the work of a CPA. This should also apply to all professions - medicine, law, architecture."
- Q-19. "If a person is able to pass the exam, it should not matter if they were self-taught or formally educated."
- Q-21. "I believe that non-CPA's who wish to perform the functions of CPA's should become CPA's."
- Q-22. "Should not be able to issue review statements."
- Q-22. "Non-CPA's should not be allowed to issue such reports."
- Q-22. "Do not favor at all."
- Q-23. "Do not license."

- Q-24. "No - may confuse or mislead public."
- Q-24. "No - confusing and misleading."
- Q-25. "If you allow them to use the title at all, which I disfavor."
- Q-25. "Neither - they should not be able to use the title."
- Q-25. "However, I feel that a non-CPA should have as much education as a CPA plus pass an exam..."
- Q-25. "Should not be able to use "public accountant" if not CPA."
- Q-25. "No usage!"
- Q-26. "Do not license."
- Note "Case example: A simple financial statement from a CPA/CPA firm cost @ \$1400, when the same statement can be done by someone with general accounting knowledge for less than \$100, of no cost if done by member of their own organization."
- Note "This survey should be done on 3 levels: acct. firms, tax preparation firms, bookkeeping service."
- Note "I do not favor any changes which would allow similar titles or phrases which would allow the public to be confused."
- Note "CPA's are fine for big businesses. However, so many small businesses like ourselves do not need the assistance of a CPA. Too much government regulation is slowly choking out small business, hurting our economy, and killing the idealism of capitalism in our country."
- Note "Let's make my position crystal clear - the CPA exam is not that difficult. What you ought to be regulating is fly-by-night schools that take money for inadequate training. That way, you wouldn't have all those applicants with a large investment of time and money who just can't hack the CPA exam. The world is knee-deep in CPA's. We don't need any journeymen setting up for themselves - especially not incompetent ones. Remember - they are not competing with me (I'm a Govt. auditor) - I'm having to cope with the ___ ___ ___ they (and some CPA's) turn out."

- Note "What has happened to freedom of choice by the user. It should be my prerogative to choose either licensed or unlicensed. Why set up another bureaucratic regulation - our country is grossly over-regulated now."
- Note "Why do you repeat the questions - the questionnaire was long enough. Why not copy Alabama's law?"
- Note "Yellow pages lists two sources, (1) Accounts - public and (2) Accountants - certified public. How can they use this [prohibition bylaw] if they can prohibit such a listing?"
- Note "There is an increasing need for accountants, both CPA & non-CPA, to handle the expanding governmental requirement for bookkeeping and tax preparation. Bookkeeping and tax laws are much more complicated. As a result, we need more competent CPA's and non-CPA's. Licensure law is the best way to protect the public interest in this matter."
- Note "Our bookkeeper has more experience and knowledge than some CPA's. It's a shame to penalize and restrict her because she is not a CPA."
- Note "I am a practicing accountant (non-certified) with 41 years experience and a master's degree in accounting. I think non-certified should be controlled in some manner and required to continue their education." [did not fill in survey]
- Note "What's the use in all a CPA has gone through (requirements) if non-CPA's can represent the same for less - does this amount to a Class A & B license? How will the general public know the difference in actual work done?"
- Note "To give a non-CPA the authority to prepare and/or express an opinion on financial statements would be like allowing a first-year medical student to perform a heart transplant."
- Note "Licensing is not the answer. Education is required for someone to be a CPA. If they don't have the required education, then they should not do the work. Don't license a title to a dum-dum."
- Note "I suggest you review the Fed. Civil Service Standards in the X-118 Handbook for their requirements on accountants and auditor. I am a rated qualified accountant/auditor with the fed. gov't. with 24 hours of accounting college credit." [Copy was attached to survey]

Letter

"Gentlemen: It is obvious that this questionnaire was prepared for someone more involved in the business world than we. While we were at one time involved in business other than farming we are presently retiring from farming due to a radical cancer surgery and treatment. We have employed a public accountant over the years and were well pleased with the work and the costs of this service. By contrast, one of the family hired a CPA to do less work than ours and paid over twice the price. This year this same CPA did the same work as a year ago and more than doubled his last years charges. If we are going to "squeeze" the public accountants, bookkeepers, etc. naturally some will drop out and others may not enter in because of restrictions. If CPA's are given more work and less competition it is not hard to imagine what follows. It always hurts to see the nations freedoms give way to restrictions, but with honesty on the wane maybe controls have some merit."

Letter

"In answer to questions 11 through question 26, I feel the government at City, State, and Federal need to keep their nose out of the private sector of business and clean up their internal problems. About eighty percent of our accounting is done at our time and expense to supply the government with the required numbers for their taxes and accounting. My problems don't come from the private sector but from the government end. If you don't understand what I am saying, try to correct any problem with any government agency in any tax or accounting Dept. It is damn near impossible because of the lack of training of government employees. I have had to deal with employees in tax departments that could not read or write. In order, Federal is the worst, City is second, and State is probably the best of the three. If our government wants to improve please work out your internal problems and then worry about how to regulate what is going on out here. I mean this very much with all that is in me."

Letter

"I find it difficult to answer your questions with the questions as they are presented. My business is very small but I use an accounting firm headed by a CPA who was previously a professor at VPI/SU in the College of Business. I highly doubt that all of his people are registered CPA's but are under his direction and when they have questions can go to him for help. My recommendation would be that each accounting firm have at least one CPA. Much can be done adequately by someone with less training but

Q-20. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to them being able to use professional titles such as public accountant?

	<u>1st 150</u>	<u>All Users</u>
Yes -	99, 71.2%	133, 75.1%
No -	40, 28.8%	44, 24.9%

Q-21. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>1st 150*</u>	<u>All Users*</u>
(1)	60, 18.1%	80, 18.2%
(2)	38, 11.4%	47, 10.7%
(3)	110, 33.1%	144, 32.8%
(4)	60, 18.1%	81, 18.5%
(5)	64, 19.3%	87, 19.8%

Q-22. Which one of the following do you regard as most important in determining whether compiled or reviewed (i.e., unaudited) financial statements that you rely upon have been properly prepared?

(1) they have been approved by a government agency.
1st 150 - 1, 0.7% All Users - 3, 2.1%

(2) they have met our own internal standards.
1st 150 - 41, 30.1% All Users - 44, 31.0%

(3) they have been prepared by a CPA.
1st 150 - 82, 60.3% All Users - 79, 55.6%

(4) not applicable since I only rely upon audited financial statements.
1st 150 - 12, 8.8% All Users - 16, 11.3%

Q-23. Which one or more of the following best describes your educational and professional background in accounting?

	<u>1st 150*</u>	<u>All Users*</u>
(1) on the job experience	- 101, 39.1%	125, 38.7%
(2) undergraduate courses	- 66, 25.6%	82, 25.4%
(3) bachelors degree	- 52, 20.2%	64, 19.8%
(4) graduate degree	- 22, 8.5%	29, 9.0%
(5) CPA	- 17, 6.6%	23, 7.1%

* Percentages based on the total number of responses rather than on the number of persons responding.

SURVEY OF USERS OF FINANCIAL STATEMENTS
RESULTS OF 1ST 150
Total In Comparison to Bankers

Q-3. How big is your firm in terms of the number of full-time workers employed in VA?

	<u>Total</u>	<u>Bankers</u>
(1) 1-10	- 31, 20.9%	4, 3.9%
(2) 11-50	- 39, 26.4%	26, 25.5%
(3) 51-200	- 21, 14.2%	17, 16.7%
(4) Over 200	- 57, 38.5%	55, 53.9%

Q-4. Which one or more of the following types of financial statements of other companies does your firm rely upon to conduct its own business?

	<u>Total *</u>	<u>Bankers *</u>
(1) compilations	- 101, 22.0%	80, 22.8%
(2) reviews	- 89, 19.4%	68, 19.4%
(3) audits	- 110, 24.0%	86, 24.5%
(4) tax returns	- 106, 23.1%	84, 23.9%
(5) other	- 48, 10.5%	33, 9.4%

Q-6. Are the types of financial statements indicated in your response to Q-5 prepared in accordance with "generally accepted accounting principles"?

	<u>Total</u>	<u>Bankers</u>
Yes	- 94, 67.1%	65, 67.0%
No	- 21, 15.0%	14, 14.4%
Uncertain	- 25, 17.9%	18, 18.6%

Q-7. If you answered "no" or "uncertain" to Q-6, which one of the following best describes your response?

(1) unfamiliar with the meaning of the term "generally accepted accounting principles".

Total - 1, 2.4% Bankers - 1, 3.4%

(2) some of the financial statements do not disclose the principles employed in their preparation.

Total - 31, 73.8% Bankers - 24, 82.8%

(3) financial statements need not be prepared in accordance with such principles to meet the needs of users.

Total - 10, 23.8% Bankers - 4, 13.8%

Q-8. Please mark all of the following statements with which you agree:

(1) reviewed financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide limited assurance.

Total*- 121, 30.2% Bankers*- 86, 29.7%

(2) compiled financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide virtually no assurance.

Total*- 74, 18.5% Bankers*- 59, 20.3%

(3) audited financial statements should be prepared in accordance with generally accepted accounting principles (unless otherwise disclosed) and should provide substantial assurance.

Total*- 134, 33.4% Bankers*- 94, 32.4%

(4) tax returns and other financial statements need not be prepared in accordance with generally accepted accounting principles, but are determined by the needs of the user.

Total*- 72, 18.0% Bankers*- 51, 17.6%

Q-9. Which one or more of the following services do you believe should be regulated to at least some degree in VA?

	<u>Total</u>	<u>Bankers</u>
(1) compilation	- 59, 18.7%	47, 19.7%
(2) audit	- 107, 34.0%	80, 33.5%
(3) tax preparation	- 63, 20.0%	43, 18.0%
(4) review	- 62, 19.7%	50, 20.9%
(5) bookkeeping	- 24, 7.6%	19, 7.9%

Q-11. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>Total</u>	<u>Bankers</u>
Yes	- 38, 25.9%	24, 23.5%
No	- 109, 74.15	78, 76.5%

Q-12. Which one of the following best describes the reason for your answer to Q-11?

(1) present law unduly restricts the practices of non-CPA's.

Total - 11, 8.0% Bankers - 5, 5.2%

(2) present law is necessary to protect those who rely on financial statements.

Total - 36, 26.3% Bankers - 27, 27.8%

(3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.

Total - 23, 16.8% Bankers - 17, 17.5%

(4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
 Total - 67, 48.9% Bankers - 48, 49.5%

Q-13. Would you favor regulation of non-CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>Total</u>	<u>Bankers</u>
Yes	- 94, 64.8%	68, 66.7%
No	- 51, 35.2%	34, 33.3%

Q-14. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following best describes the licensing requirements that you deem necessary?

(1) a 4-year accounting degree from an accredited university or college.

Total* - 55, 16.9% Bankers* - 36, 16.4%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.

Total* - 34, 10.5% Bankers* - 23, 10.4%

(3) passage of an examination administered by the State.

Total* - 107, 32.9% Bankers* - 79, 35.9%

(4) work in the field of accounting for one year or more.

Total* - 62, 19.1% Bankers* - 38, 17.3%

(5) a continuing education requirement in accounting, business, economics, and finance.

Total* - 67, 20.6% Bankers* - 44, 20.0%

Q-15. Should present VA law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>Total</u>	<u>Bankers</u>
Yes	- 42, 29.2%	25, 24.8%
No	- 102, 70.8%	76, 75.2%

Q-16. Which one or more of the following describes the reason for your response to Q-15?

(1) present law unduly restricts the practices of non-CPA's.
 Total*- 15, 9.7% Bankers* - 9, 8.4%

(2) present law is necessary to protect those who rely on financial statements.
 Total*- 66, 42.6% Bankers* - 51, 47.7%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
 Total*- 35, 22.6% Bankers* - 21, 19.6%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
 Total*- 39, 25.2% Bankers* - 26, 24.3%

Q-17. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-13, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>Total</u>	<u>Bankers</u>
Yes	- 116, 80.6%	81, 80.2%
No	- 28, 19.4%	20, 19.8%

Q-18. Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>Total *</u>	<u>Bankers*</u>
(1)	60, 19.0%	39, 18.3%
(2)	33, 10.5%	22, 10.3%
(3)	103, 32.7%	74, 34.8%
(4)	59, 18.7%	36, 16.9%
(5)	60, 19.0%	42, 19.7%

Q-19. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>Total</u>	<u>Bankers</u>
Yes	- 42, 29.6%	28, 28.6%
No	- 100, 70.4%	70, 71.4%

Q-20. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to them being able to use professional titles such as public accountant?

	<u>Total</u>	<u>Bankers</u>
Yes	- 99, 71.2%	74, 75.5%
No	- 40, 28.8%	24, 24.5%

Q-21. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>Total*</u>	<u>Bankers *</u>
(1)	60, 18.1%	40, 17.8%
(2)	38, 11.4%	25, 11.2%
(3)	110, 33.1%	79, 35.3%
(4)	60, 18.1%	38, 17.0%
(5)	64, 19.3%	42, 18.7%

Q-22. Which one of the following do you regard as most important in determining whether compiled or reviewed (i.e., unaudited) financial statements that you rely upon have been properly prepared?

(1) they have been approved by a government agency.

Total - 1, 0.7% Bankers - 1, 1.0%

(2) they have met our own internal standards.

Total - 41, 30.1% Bankers - 32, 33.7%

(3) they have been prepared by a CPA.

Total - 82, 60.3% Bankers - 57, 60.0%

(4) not applicable since I only rely upon audited financial statements.

Total - 12, 8.8% Bankers - 5, 5.3%

Q-23. Which one or more of the following best describes your educational and professional background in accounting?

	<u>Total</u>	<u>Bankers</u>
(1) on the job experience	- 101, 39.1%	74, 40.2%
(2) undergraduate courses	- 66, 25.6%	51, 27.7%
(3) bachelors degree	- 52, 20.2%	36, 19.6%
(4) graduate degree	- 22, 8.5%	17, 9.2%
(5) CPA	- 17, 6.6%	6, 3.3%

* Percentages based on the total number of responses rather than on the number of persons responding.

UNSOLICITED COMMENTS OF SURVEY OF FINANCIAL STATEMENT USERS

Ques.No.	Comment
Q-13.	"I do not favor non-CPA's using this terminology."
Q-13.	"It is not that tough to become a CPA."
Q-17.	"non-CPA's should operate only in staff positions and not issue statements."
Q-17.	"I do not favor non-CPA's using the title of public accountant."
Q-17.	"If a non-CPA is allowed to use a title of public accountant then he/she should be regulated."
Q-17.	"Should not use public accountant if not CPA."
Q-19.	"none beyond now [regulation]."
Q-20.	"I do not believe non-CPA's should use the title of public accountant as it would only add confusion to the proliferation of titles used in the profession."
Q-20.	"Should not use public accountant if not CPA."
Note	"VA Government should take care of itself and leave private enterprise accounting to licensed CPA's."
Note	"In my opinion there is <u>entirely</u> too much regulation as it is. Present laws are not adequately enforced. This is the <u>3rd</u> contact I have had regarding current, new, or proposed state legislation within the past month. At this rate I and most small businesses are being slowly strangled by ever increasing regulation and reporting requirements. Current legislation is more than adequate and a competitive market for financial services eliminates those who are not competent or qualified. This smacks of bureaucracy looking for an excuse to grow and proliferate even further. This relentless encroachment of government interference into America's small business is forcing many of us out of business and raising costs to the public for those who stay and must <u>waste</u> countless hours of non-productivity in compliance and fulfillment of regulatory requirements."
Note	"In that professions are somewhat similar, does it seem inconsistent to have non-CPA's - in relation to

medical doctors or attorneys or others that pass an examination to enter that profession?"

SURVEY OF ACCOUNTING PROFESSIONALS
RESULTS OF ALL ACCOUNTING VS. 1ST 358

Q-1. Is your firm's main office located outside VA?

	<u>1st 358</u>	<u>All Accounting</u>
Yes -	64, 18.0%	71, 17.6%
No -	291, 82.0%	332, 82.4%

Q-2. How big is your firm in terms of the number of full-time workers employed in VA?

	<u>1st 358</u>	<u>All Accounting</u>
(1) 1-10 -	246, 70.9%	281, 71.3%
(2) 11-50 -	65, 18.7%	72, 18.3%
(3) 51-200 -	23, 6.6%	26, 6.6%
(4) Over 200 -	13, 3.7%	15, 3.8%

Q-3. Which of the following are included in the full-time workers in Q-2?

	<u>1st 358</u>	<u>All Accounting</u>
(1) CPA's -	233, 36.6%	260, 36.6%
(2) accountants -	230, 36.2%	264, 37.1%
(3) bookkeepers -	173, 27.2%	187, 26.3%

Q-4. Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?

	<u>1st 358</u>	<u>All Accounting</u>
Yes -	346, 90.6%	394, 91.6%
No -	36, 9.4%	36, 8.4%

Q-5. If you answered "yes" to Q-4, do you believe that different education and experience levels are necessary to competently provide such services?

	<u>1st 358</u>	<u>All Accounting</u>
Yes -	337, 98.0%	382, 97.7%
No -	7, 2.0%	9, 2.3%

Q-6. If you answered "yes" to Q-5, rank (by filling in the blanks) the five services cited in Q-4 in terms of the most (1) through least (5) education and experience which you believe are necessary to competently provide such services:

<u>1st 358</u>		<u>Compil.</u>	<u>Book.</u>	<u>Review</u>	<u>Tax Prep.</u>	<u>Audit</u>	<u>Total</u>
Most	1	8	0	4	48	270	330
	2	9	6	151	117	46	329
	3	78	22	144	78	33	355
	4	197	32	27	69	3	328
Least	5	38	267	4	14	4	327
	TOTAL	330	327	330	326	356	1,669

All Accounting

		<u>Compil.</u>	<u>Book. Review</u>	<u>Tax Prep.</u>	<u>Audit</u>	<u>Total</u>
Most	1	8	2	6	50	304
	2	11	6	172	133	49
	3	88	24	154	94	35
	4	224	33	32	77	3
Least	5	41	302	5	14	6
	TOTAL	372	367	369	368	397
						1,873

Responses interpreted as follows: Reading across - No. of times a service received a particular ranking. Reading down - no. of times a particular service was ranked.

Q-7. Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-4 to ensure that only those with certain education and experience levels can offer such services to the public?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 316, 88.3%	359, 88.4%
No	- 42, 11.7%	47, 11.6%

Q-8. Which one of the following best describes the reason for your answer to Q-7?

(1) no regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.
1st 358 - 38, 10.8% All Accounting - 42, 10.6%

(2) some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.
1st 358 - 213, 60.5% All Accounting - 239, 60.4%

(3) no regulation is justified because the resulting costs to the public outweigh the benefits.
1st 358 - 3, 0.9% All Accounting - 4, 1.0%

(4) some regulation is justified because the resulting benefits to the public outweigh the costs.
1st 358 - 98, 27.8% All Accounting - 111, 28.0%

Q-9. If you answered "yes" to Q-7, which one or more of the following services do you believe should be regulated to at least some degree in VA?

	<u>1st 358*</u>	<u>All Accounting*</u>
(1) compilation	- 154, 17.3%	171, 17.0%
(2) audit	- 300, 33.8%	339, 33.8%
(3) tax preparation	- 174, 19.6%	197, 19.6%
(4) review	- 240, 27.0%	275, 27.4%
(5) bookkeeping	- 20, 2.3%	22, 2.2%

Q-10. Assuming that some regulation of accounting will continue to prevail in VA, rank the services listed in Q-4 (by filling in the blanks) in terms of the most (1) through least (5) regulation which you believe is necessary.

1st 358

	<u>Compil.</u>	<u>Book.</u>	<u>Review</u>	<u>Tax Prep.</u>	<u>Audit</u>	<u>Total</u>
Most 1	5	2	5	29	306	347
2	15	3	206	88	28	340
3	135	18	97	74	5	329
4	141	31	25	124	3	324
Least 5	30	266	5	19	4	324
TOTAL	326	320	338	334	346	1,664

All Accounting

	<u>Compil.</u>	<u>Book.</u>	<u>Review</u>	<u>Tax Prep.</u>	<u>Audit</u>	<u>Total</u>
Most 1	5	4	6	31	344	390
2	16	3	231	100	31	381
3	150	18	108	88	6	370
4	163	33	29	137	3	365
Least 5	32	302	41	19	5	399
TOTAL	366	360	415	375	389	1,905

Responses interpreted as follows: Reading across - No. of times a service received a particular ranking. Reading down - no. of times a particular service was ranked.

Q-11. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 112, 31.5%	136, 33.7%
No	- 244, 68.5%	267, 66.3%

Q-12. Which one of the following best describes the reason for your answer to Q-11?

(1) present law unduly restricts the practices of non-CPA's
1st 358 - 35, 10.1% All Accounting - 48, 12.3%

(2) present law is necessary to protect those who rely on financial statements.
1st 358 - 49, 14.1% All Accounting - 54, 13.8%

(3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.

1st 358 - 73, 21.0% All Accounting - 83, 21.3%

(4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.

1st 358 - 190, 54.8% All Accounting - 205, 52.6%

Q-13. Would you favor regulation of non CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 174, 50.7%	202, 51.9%
No	- 169, 49.3%	187, 48.1%

Q-14. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?

(1) a 4-year accounting degree from an accredited university or college.

1st 358* - 161, 17.1% All Accounting* - 179, 16.8%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.

1st 358* - 122, 13.0% All Accounting* - 136, 12.7%

(3) passage of an examination administered by the State.

1st 358* - 223, 23.7% All Accounting* - 252, 23.6%

(4) work in the field of accounting for one year or more.

1st 358* - 197, 20.9% All Accounting* - 229, 21.4%

(5) a continuing education requirement in accounting, business, economics, and finance.

1st 358* - 239, 25.4% All Accounting* - 273, 25.5%

Q-15. Should present Virginia law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 110, 30.8%	133, 32.9%
No	- 247, 69.2%	271, 67.1%

Q-16. If you answered "yes" to Q-15, which one or more of the following best describes the reason for your response?

(1) present law unduly restricts the practices of non-CPA's
1st 358 - 51, 41.5% All Accounting - 67, 43.2%

(2) present law is necessary to protect those who rely on financial statements.
1st 358 - 1, 0.8% All Accounting - 2, 1.3%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.
1st 358 - 68, 55.3% All Accounting - 81, 52.3%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.
1st 358 - 3, 2.4% All Accounting - 5, 3.2%

Q-17. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-13, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 201, 58.3%	230, 59.1%
No	- 144, 41.7%	159, 40.9%

Q-18. Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>1st 358*</u>	<u>All Accounting*</u>
(1)	175, 17.8%	192, 17.5%
(2)	128, 13.0%	141, 12.8%
(3)	236, 24.0%	260, 23.6%
(4)	210, 21.4%	241, 21.9%
(5)	234, 23.8%	266, 24.2%

Q-19. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 135, 38.1%	161, 40.0%
No	- 219, 61.9%	241, 60.0%

Q-20. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to their being able to use professional titles such as public accountant?

	<u>1st 358</u>	<u>All Accounting</u>
Yes	- 212, 61.4%	243, 62.5%
No	- 133, 38.6%	146, 37.5%

Q-21. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>1st 358*</u>	<u>All Accounting*</u>
(1)	176, 17.8%	192, 17.2%
(2)	126, 12.7%	141, 12.6%
(3)	243, 24.5%	273, 24.4%
(4)	215, 21.7%	247, 22.1%
(5)	231, 23.3%	265, 23.7%

* Percentages based on the total number of responses rather than on the number of persons responding.

SURVEY OF ACCOUNTING PROFESSIONALS
RESULTS OF FIRST 358
CPA's and Non-CPA's

Q-4 Do you distinguish among the following types of accounting services: compilation, bookkeeping, review, tax preparation, and audit?

	<u>CPA's</u>	<u>Non-CPA's</u>
(1) Yes -	230, 92.0%	116, 77.3%
(2) No -	2, 8.0%	34, 22.7%

Q-5. If you answered "yes" to Q-4, do you believe that different education and experience levels are necessary to competently provide such services?

	<u>CPA's</u>	<u>Non-CPA's</u>
(1) Yes -	223, 97.8%	124, 98.4%
(2) No -	5, 2.2%	2, 1.6%

Q-7. Do you believe it is necessary for VA to regulate, to at least some degree, the provision of any of the five accounting services cited in Q-4 to ensure that only those with certain education and experience levels can offer such services to the public?

	<u>CPA's</u>	<u>Non-CPA's</u>
(1) Yes -	223, 95.7%	93, 77.4%
(2) No -	10, 4.3%	32, 22.6%

Q-8. Which one of the following best describes the reason for your answer to Q-7?

(1) no regulation is necessary because free market forces and/or traditional legal remedies are sufficient to protect the consuming public against incompetent or unethical practitioners.

<u>CPA's</u>	<u>Non-CPA's</u>
8, 3.5%	30, 24.6%

(2) some regulation is necessary because free market forces and/or traditional legal remedies are insufficient to protect the consuming public against incompetent or unethical practitioners.

<u>CPA's</u>	<u>Non-CPA's</u>
153, 66.5%	60, 49.2%

(3) no regulation is justified because the resulting costs to the public outweigh the benefits.

<u>CPA's</u>	<u>Non-CPA's</u>
2, 0.9%	1, 0.8%

(4) some regulation is justified because the resulting benefits to the public outweigh the costs.

<u>CPA's</u>	<u>Non-CPA's</u>
67, 29.1%	31, 25.4%

Q-9. If you answered "yes" to Q-7, which one or more of the following services do you believe should be regulated to at least some degree in VA?

	<u>CPA's*</u>	<u>Non-CPA's *</u>
(1) compilation	- 131, 19.4%	23, 10.7%
(2) audit	- 217, 32.2%	83, 38.8%
(3) tax preparation	- 121, 18.0%	53, 24.8%
(4) review	- 189, 28.0%	51, 23.8%
(5) bookkeeping	- 16, 2.4%	4, 1.9%

Q-11. Should present VA law be changed to allow non-CPA's to use such terms as "generally accepted accounting principles" in their practices?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 17, 7.3%	95, 76.6%
No	- 215, 92.7%	29, 23.4%

Q-12. Which one of the following best describes the reason for your answer to Q-11?

(1) present law unduly restricts the practices of non-CPA's
 CPA's - 3, 1.3% Non-CPA's - 32, 26.9%

(2) present law is necessary to protect those who rely on financial statements.
 CPA's - 44, 19.3% Non-CPA's - 5, 4.2%

(3) the use of and reference to such principles and standards is essential in most accounting work (whether performed by CPA's or non-CPA's) and need not necessarily imply an assurance about the reliability of financial statements.
 CPA's - 11, 4.8% Non-CPA's - 62, 52.1%

(4) the use of and reference to such principles and standards, by their very nature, implies an assurance about the reliability of financial statements and, therefore, should be limited to CPA's.
 CPA's - 170, 74.6% Non-CPA's 20, 16.8%

Q-13. Would you favor regulation of non CPA's, such as a licensing requirement similar but not necessarily identical to the licensing of CPA's, as a prerequisite to non-CPA's being able to use such terms as "generally accepted accounting principles"?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 104, 46.8%	70, 57.9%
No	- 118, 53.2%	51, 42.1%

Q-14. Assuming that licensing of non-CPA's was a requirement before they could use the term "generally accepted accounting principles", which one or more of the following describes the licensing requirements that you deem necessary?

(1) a 4-year accounting degree from an accredited university or college.

CPA's* - 122, 17.8% Non-CPA's* - 39, 15.2%

(2) the degree indicated in (1) plus sufficient courses in business, economics, and finance.

CPA's* - 104, 15.2% Non-CPA's* - 18, 7.0%

(3) passage of an examination administered by the State.

CPA's* - 169, 24.6% Non-CPA's* - 54, 21.1%

(4) work in the field of accounting for one year or more.

CPA's* - 134, 19.5% Non-CPA's* - 63, 24.6%

(5) a continuing education requirement in accounting, business, economics, and finance.

CPA's* - 157, 22.9% Non-CPA's* - 82, 32.0%

Q-15. Should present Virginia law be changed to allow non-CPA's to use the term "review" and to issue review reports with respect to financial statements they have prepared?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 15, 6.4%	95, 76.6%
No	- 218, 93.6%	29, 23.4%

Q-16. If you answered "yes" to Q-15, which one or more of the following best describes the reason for your response?

(1) present law unduly restricts the practices of non-CPA's

CPA's* - 5, 33.3% Non-CPA's* - 46, 42.6%

(2) present law is necessary to protect those who rely on financial statements.

CPA's* - 0 Non-CPA's* - 1, 0.9%

(3) a review differs from an audit in that it may involve less complex accounting services and only limited assurance.

CPA's* - 10, 66.7% Non-CPA's* - 58, 53.7%

(4) a review is similar to an audit in that it may involve complex accounting services and substantial assurance.

CPA's* - 0 Non-CPA's* - 3, 2.8%

Q-17. Would you favor regulation of non-CPA's, such as the licensing indicated in Q-13, as a prerequisite to non-CPA's being able to use the term "review" and issue review reports?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 119, 53.6%	82, 66.7%
No	- 103, 46.4%	41, 33.3%

Q-18. Assuming that licensing of non-CPA's was a requirement before they could use the term "review" or issue review reports, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>CPA's *</u>	<u>Non-CPA's *</u>
(1)	134, 18.4%	41, 16.0%
(2)	108, 14.9%	20, 7.8%
(3)	179, 24.6%	57, 22.3%
(4)	144, 19.8%	66, 25.8%
(5)	162, 22.3%	72, 28.1%

Q-19. Should present VA law be changed to allow non-CPA's to use professional titles, such as public accountant, as long as they do not use the title of certified public accountant?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 32, 14.0%	102, 82.3%
No	- 197, 86.0%	22, 17.7%

Q-20. Would you favor regulation of non-CPA's, such as the licensing requirement indicated in Q-13, as a prerequisite to their being able to use professional titles such as public accountant?

	<u>CPA's</u>	<u>Non-CPA's</u>
Yes	- 122, 55.0%	90, 73.2%
No	- 100, 45.0%	33, 26.8%

Q-21. Assuming that licensing of non-CPA's was a requirement before they could use professional titles, which one or more of the licensing requirements listed in Q-14 do you deem necessary?

	<u>CPA's *</u>	<u>Non-CPA's *</u>
(1)	133, 18.3%	43, 16.3%
(2)	106, 14.6%	20, 7.6%
(3)	185, 25.4%	58, 22.0%
(4)	146, 20.1%	69, 26.1%
(5)	157, 21.6%	74, 28.0%

* Percentages based on the total number of responses rather than the number of persons responding.

UNSOLICITED COMMENTS OF SURVEY OF ACCOUNTING PROFESSIONALS

<u>Ques.No.</u>	<u>Comment</u>
Q-5.	"Each requires a great deal of training in a specific subject, none more than others."
Q-6.	"First four are interrelated - all require high skill levels."
Q-8.	"IRS and Federal Govt. regulation already in place."
Q-8.	"The industry is capable of regulating itself."
Q-11.	"Yes, I received same education as CPA's!"
Q-11.	"Should not be allowed at all."
Q-12.	"Some CPA's have passed exam but still do extremely poor work."
Q-12.	"CPA's have passed an independently administered and graded examination wherein they demonstrate that they know "generally accepted accounting principles". How do non-CPA's demonstrate that they know GAAP?"
Q-13.	"Non-CPA's, if they know GAAP, can pass the examination and be licensed as CPA's. Why create junior varsity CPA's?"
Q-13.	"Yes, if they are allowed to use the terms."
Q-13.	"Yes, such as IRS special enrollment exam."
Q-13.	"There should not be any non-CPA using the term public accountant."
Q-13.	"They should not be allowed to use these terms."
Q-13.	"Watered down standards for use of identical terms protects no one except politicians."
Q-13.	"Should not be allowed at all."
Q-13.	"Enrolled agent is sufficient."
Q-14.	"None of below would be enough regardless of the assumption."
Q-14.	"None of the above: Let them become CPA's or use non-CPA terminology."

- Q-14. "I don't agree with 2 classes under any conditions!"
- Q-14. "or the IRS enrolled agent exam."
- Q-15. "Yes, I would only have to do a small amount of work after once preparing tax returns in order to give a review report."
- Q-15. "Reviews are done in accordance with AICPA standards and GAAP. Non-CPA's not regulated by AICPA so why adhere to AICPA standards."
- Q-15. "Public would not understand the distinction."
- Q-16. "It unofficially occurs now anyway and there is no way to police it."
- Q-17. "Do not favor allowing non-CPA's to use the term 'review'."
- Q-17. "Should not be allowed at all."
- Q-17. "Yes, if they are allowed to use the terms."
- Q-17. "They are not qualified until Q-14. is accomplished."
- Q-17. "Non-CPA's should not use 'review' reports because of reference to GAAP & AICPA."
- Q-18. "Should not be licensed, only confuses public. Licensed CPA/licensed non-CPA - what is difference to public?"
- Q-18. "None are sufficient."
- Q-18. "Faulty assumption."
- Q-18. "None - we don't need 2 classes of CPA's."
- Q-18. "I do not feel a non-CPA should be allowed to do a 'review'. I believe the investor, banks, and public would be hurt."
- Q-20. "Should not be allowed at all."
- Q-20. "If they are allowed to use the titles of public accountant, which I do not believe they should, they should be regulated."
- Q-21. "Assumption is still faulty! Based upon the answers the assumption is illogical."
- Q-21. "We don't need a second class of CPA. If bookkeepers want to do CPA work, let them pass the required exam."

If they don't or can't pass they should not be seen by the public as someone a third party can place a high level of assurance on their financial statements."

Q-21. "All enrolled agents (who are not licensed CPA's) presently meet the requirements of (3), (4), & (5); I believe the enrollment exam given by IRS and requirements for continuing education do provide the public with very competent individuals (non-CPA's) who can provide the very best of services in the field of accounting and tax preparation at much less of a cost than what CPA's charge."

Note "I feel a 4 yr. education is not necessary if someone who majors in accounting obtains an associates degree in 2 yrs. If a person is an enrolled agent licensed to practice before the IRS - VA should accept that."

Note "This is a one-sided survey and is presented to the people who are the least qualified to answer the questions. In most cases they do not understand what makes a good accountant and would naturally want strict regulations, but on CPA's also. In my experience I have seen many CPA's using their title to hide incompetent work. Non-CPA's are more competent because they do not have a title which makes people think that what they say and do is gospel."

Note "Would you let someone other than a medical doctor perform brain surgery on you while you were of sound mind? Why confuse the public needlessly? If anything, requirements for existing CPA's and ones hoping to become CPA's should be made more rigorous."

Note "Q-14, Q-18, and Q-21 are questions that presume a certain acceptance by the respondent. As a respondent, I do not favor non-CPA's receiving a license to practice or a professional title. There is a vehicle in place already for such goals -- the CPA exam."

Note "Regulation of non-CPA's in the areas of audit and review of financial statements will inappropriately enhance their credibility."

Note "Virginia law indicated who can provide assurances on financial statements and the professional training required. Individuals who wish to provide these services, therefore, know what is required to provide them."

Letter "In compliance with your request in your letter of July 10, 1987, I am returning the survey of accounting professionals concerning the regulation of accounting."

You will notice that I have not answered Q-13, Q-17, or Q-20. To give a yes answer to any one of these questions might imply that the respondent is in favor of additional regulation. To give a no answer to any one of these questions might imply that the respondent was in favor of unrestricted use of the term "generally accepted accounting principles", the unrestricted use of the term "review" in connection with financial statements, or the unrestricted use of professional titles. Therefore, any answer given to any one of these three questions would be misleading."

Letter

"The intent of questions 13, 17, and 20 is not clear to me. I do not favor the regulation of non-CPA's since I believe that the present qualifications as a CPA are the minimum standards necessary to attain the expertise associated with the terms "GAAP", "Review", and "public accountant". Therefore I answered NO to each question. However, if it were permissible for non-CPA's to be associated with these terms (over my objections), then I would answer YES, I favor regulation of those allowed to use these terms.

I want the physician who does the diagnosis and exploratory surgery to be as qualified as the surgeon who does the actual operation."



TECHNICAL ASSOCIATES INCORPORATED

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September 2, 1987

Ms. Catherine Walker
Department of Commerce
3600 West Broad Street
Richmond, VA 23220

Dear Cathy:

Attached please find six copies (one unbound) of our final report on the study of accounting. We look forward to presenting our conclusions on the 11th.

Sincerely,

Temple Bayliss, Ph.D.
Senior Analyst

TB/dg

Enclosures

APPENDIX B

**AN OVERVIEW OF THE REGULATION OF
ACCOUNTING IN NEIGHBORING JURISDICTIONS**

AN OVERVIEW OF THE REGULATION OF ACCOUNTING IN NEIGHBORING JURISDICTIONS

The District of Columbia and the States of Maryland, West Virginia, Kentucky, Tennessee, and North Carolina, all of which adjoin Virginia, exhibit enough variety in the regulation of accounting so that even if Virginia were compelled to choose a system of regulation like that of one of these, the choices available to the Commonwealth would be limited only slightly.

North Carolina, for example, does not restrict the function of non-CPA accountants at all. They can perform audits or provide any other services provided by CPAs as long as they do not call themselves anything except accountants. All accountants who offer service to the public must register and pay a fee, but this does not imply any regulation and appears to be intended to raise funds. There is no board or other authority to discipline non-CPA registrants if there are complaints against them, and the registration fee is paid to the North Carolina Revenue Department.

Tennessee, on the other hand, has a clear-cut, two-tiered regulatory system with "Public Accountants" as the lower tier. A license in one tier or the other is required for anyone who offers accounting services to the general public. Public Accountants can perform any accounting services, except only CPA's can perform audits. Public Accountants in Tennessee take a different (and presumably much simpler) exam than that for Certified Public Accountants, and their required educational levels are considerably lower. They are required to have at least an associate (2 year) degree with twenty-four quarter hours in accounting subjects, for example, rather than a bachelor's degree with a major in accounting or with accounting courses equivalent to a major.

By far the strictest nearby state in terms of what non-CPA's can do is West Virginia. Under West Virginia law only CPA's are now being licensed (some Public Accountants are still practicing under "grandfather" provisions of the law) and unlicensed persons

are prohibited from "holding themselves out to the public as ...accountants or auditors offering...services to all who choose to apply". The West Virginia statute also limits to licensed persons "any investigation or review of financial transactions or accounting records" and "assistance to the public for compensation in any and all matters related to counting procedure and to the recording and presentation of financial facts or data".

In spite of its inclusive language, this statute has not been interpreted to bar the offer of simple bookkeeping services to the public by unlicensed persons. Bookkeeping and probably some accounting services are also being offered to the public by unlicensed firms and individuals in West Virginia under the title "management services". Enforcement action has been taken, however, against firms offering service as "accountants" even though courts in other states have overturned statutes which restrict the use of this title (see Appendix C).

The states of Kentucky and Maryland and the District of Columbia all have similar regulatory systems for accounting, and these systems are not too different from that of Virginia. Like Virginia, they permit bookkeeping and accounting services to be offered to the public by unlicensed persons and they permit the use of the title "Accountant" but restrict "Public Accountant". Although the wording of the statute is different in each jurisdiction, they all prohibit an unlicensed person from presenting a written opinion as to the reliability of a financial statement.

None of the surrounding states, however, has a broad prohibition like that of Virginia on the use by unlicensed persons of certain words and phrases, such as "review", "examination", "examine", "generally accepted accounting principles", and "audit", in connection with a financial statement. In many cases, the prohibition on any opinion as to the reliability of a financial statement would also preclude the use of accounting terms such as those listed above, but there could be cases where it did not. For example, an accountant who observed a departure from GAAP in a financial statement he was preparing might wish to call attention to that departure with

language such as, "This statement omits disclosure of ...which is required by generally accepted accounting principles". Such language would probably be permissible in Maryland and Kentucky and the District of Columbia if there were no general comment of the reliability of the financial statement as a whole. The language in question would, of course, be illegal in Virginia under present law.

APPENDIX C

LEGAL ASPECTS OF THE REGULATION OF
ACCOUNTING WITH EMPHASIS ON STATES ADJOINING VIRGINIA

LEGAL ASPECTS OF THE REGULATION OF
ACCOUNTING WITH EMPHASIS ON STATES ADJOINING VIRGINIA

1. Accountancy Law History

It was only in the latter half of the 19th Century that the modern public accounting profession originated in Great Britain. The first state law in this country to create the title "Certified Public Accountant" was passed in 1896 in New York. This law established a pattern for regulation of the public accounting profession throughout the United States. Under the New York law, persons were prohibited from holding themselves out as a "certified public accountant," or from using the term "C.P.A." or any other words, letters or figures to indicate that the person using them was a certified public accountant unless they had been so authorized by the appropriate authorities. The alleged need to protect the public against fraud and deception, when coupled with the expanding nature and complexity of accounting, led to further legislative efforts to restrict unlicensed persons from using certain titles and performing certain functions. A model bill to regulate the practice of public accountancy was first published in 1916 by the American Institute of Accountants, a predecessor of AICPA. The AICPA model accountancy bills, at least as to principal provisions, have been followed by a substantial majority of the states.

2. Titles

Certified Public Accountants

In each state, persons meeting the statutory requirements for a certified public accountant are entitled to receive a license or certificate. The requirements cover such factors as age, residence, character, education, the passing of an examination, and experience. The statutes and regulations cover such questions as the form of practice as an individual, partnership or corporation (professional); the use of trade names and titles; the maintenance of current registration; the payment

of required fees, annually or otherwise; the maintenance of offices in the state; the residency of managing partners; continuing education requirements, etc.

All states issue CPA certificates. In a majority of the states, the classification "A.P." (Accounting Practitioner), or "C.A." (chartered accountant) is used as a term to designate and preserve the practice rights acquired prior to the enactment of a current law, or as non-residents, staff accountants or governmental accountants. Some states preserve such rights by a simple savings clause in a new law, while others, by the issuance of C.P.A. certificates under the current law. There are some states in which the classification "P.A." (public accountant) is provided for reduced qualifications. Because of the slightly different terms and form of language used in the different statutes, it is not always easy to make a direct comparison or contrast among all of the statutory provisions of the various states. Even the nature of the authorization may carry a different term, depending upon the states, i.e., certificate versus license, versus registration, etc.

The accompanying Table I analyzes the nature of the authority required for the indicated title in each of the states, along with the source of that requirement, whether statute or rule/regulation, including citation (where available).

The practice of public accountancy now embraces many intricate and technical matters of tax laws, trade practices, rate regulations, "blue-sky laws", stock exchange regulations, reports required by various governmental agencies and the like. As a Maryland court stated in 1979, "Public accountancy is a highly-skilled and technical profession which affects public welfare, and which the state, in the exercise of its police powers, may regulate, within reasonable limits, to protect the public against fraud, deception, or the consequences of ignorance, incompetence, and incapacity".*

* Comprehensive Accounting Service Co. v. Maryland State Board of Accountancy, 284 Md. 474, 397 A 2d. 1019, 4 ALR 4th 1188 (1979).

Statutes or regulations which have restricted the use of terms such as "accountant", "public accountant", or "certified public accountant" have not always been given uniform validity or construction. Under their police powers, states may enact laws to protect the public against fraud, deception or the consequences of ignorance and incompetency, and may exact the requisite degree of skill and learning of persons in professions and pursuits which affect the public welfare, including accountancy. In Comprehensive Accounting Service Company v. The Maryland State Board of Public Accountancy, 284 Md. 474, 397 8 2e. 1019, 4 ALR 4th 10188 (1979), the Court of Appeals of Maryland struck down as violative of the First Amendment a provision that provided that no person or firm "shall practice or hold himself or itself out to the public as 'accountant' or 'auditor' in connection with his own or any other name, nor describe or designate the services offered or performed by him or it as 'accounting' or 'auditing', with or without any other designation or description..." The court found that, under the circumstances, a prohibition of a non-certified accountant's use of the words "accountant" and "accounting" was inconsistent with the First Amendment under the rationale of Virginia Pharmacy Board v. Virginia Consumer Council, 425 U.S. 748, 96th S. Ct., 1817, 48 L. ed. 2d. 346 (1976).

It is well established, as expressly held or recognized by the courts in many cases, that a state has the power, in the public interest and for the general welfare, to prohibit the use of the terms "certified public accountant" and "public accountant" and similar terms, as well as the abbreviation "C.P.A.", by persons who have not complied with statutory requirements for licensing or certification of public accountants or certified public accountants. 4 ALR 4th, "Accountant-Restriction on Use of Term", §2(a), p. 1203. The terms "licensed accountant", "registered accountant", "certified accountant", and "enrolled accountant" might similarly be prohibited because these terms might mislead the public into believing that persons designated themselves as such were certified. Id., quoting Florida Accountants Association v. Dandelake, 98 So. 2d., 323, 70 ALR 425 (Florida 1957). In Dandelake, it was also stated by the Court that a Board could reasonably require that a letterhead, card, or advertisement indicating that a person was a member of

"Florida Accountants Association" be followed by a notation that "not certified by the State Board of Accountancy" in order not to mislead the public.

Courts have also held that prohibitions against the use of the term "public accountant" and "public accounting officers" are valid. Heller v. Abess, 134 FLA 610 at 184 Sol. 122 (1938). In Fulcher v. Texas State Board of Public Accountancy, 571 S.W. 2d. 366 (Tex. Civ. App., 1978), an injunction against persons holding themselves out as having expert accounting knowledge, and prohibiting, inter alia, the use of the term "public accounting officers", by persons who were not registered accountants, was upheld.

Differing results and conclusions have followed attempted prohibitions against the use of the terms "accountant" or "accounting", or similar terms, by persons who are not licensed to practice accounting. In Fulcher v. Texas State Board of Public Accountancy, 571 S.W. 2d. 366 (Tex. Civ. App. 1978), it was held that the First Amendment rights of a person who was not a registered accountant were not violated by a court order enjoining him from using the words "public accounting officers", "accounting officers", "accounting practitioner, account, accounting, accountant", or any abbreviation or derivation thereof. However, in Comprehensive Accounting Service Co. v. Maryland State Board of Public Accountancy, 284 Md. 474, 397 A. 2d 1019, 4 ALR 4th 1188, discussed above, the court held that a statute's prohibition against the use of the work "accountant" and "accounting" by uncertified practitioners was a violation of their right to free speech.

In upholding the prohibition against the use of the word "accountant" in Fulcher, the court not only found that there had not been a violation of the First Amendment, but also found that the due process clause was not violated since the statute was reasonably related to the legislature's intention to protect the public by regulating the practice of public accounting through the issuance of permits and licenses to those who were qualified to engage in the practice. Therefore, the statute did not amount to an unwarranted regulation of private business or the right of a citizen to pursue an ordinary occupation. Nor did the statute

abridge the rights of private property or infringe upon rights of contract in matters of purely private concern bearing no perceptible relationship to the public interest.

Similarly, in the case of People v. Hill, 66 Cal. App. 3d., 320, 136 Cal. Rptr. 30 (California First District, 1977), CCH ¶64,122, the Court upheld the issuance of a preliminary injunction requiring a defendant who was not licensed as a certified public accountant or as a public accountant to stop using the words "accountant" and "accounting" in conjunction with his business title. Even though the statute contained no express prohibition against using those words, the Court pointed out that the statute did prohibit persons from engaging in the practice of public accountancy, unless they had valid permits and that people were deemed to be engaged in that practice of public accountancy, when they held themselves out to the public as being skilled in the knowledge, science, and practice of accounting, and also as qualified and ready to render professional services as public accountants for compensation. The Court found that the use of the designation "A-Accounting" in his business title constituted a misleading holding-out to the public that the person was engaged in the practice of public accountancy so that he could be enjoined from using the terms "accountant" and "accounting". (It does not appear that this case was taken to a higher court or that arguments regarding First Amendment violations were pursued or considered by the Court to any degree.)

In Dandelake, on the other hand, the court held that while prohibitions against the use of the designations "certified public accountants" and "public accountants" were valid, any attempt to statutorily prohibit uncertified persons doing routine accounting work from designating themselves as "accountants", would be unconstitutional. The Court further stated that to require such uncertified persons to designate themselves as "bookkeepers", rather than as "accountants", would abridge the right of private property and infringe upon the right of contract in purely private matters bearing no relationship to the general or public welfare, and would tend to create a monopoly for the benefit of certified public accountants, as well as denying uncertified accountants the equal protection of the laws and the

enjoyment of the gains of their own industry. 90 So. 2d. 323 (Fla. 1957).

In other cases where statutes prohibited unregistered or unlicensed persons from describing themselves as "certified public accountants" or "public accountants", the courts have held that the use of the term "accountant" and "accounting" by such persons was not unlawful. Welch Accounting Service v. Walby, 29 Wisc. 2d. 123, 138, N.W. 2d. 139 (1965). CCH ¶64,026. By its express terms, the statute in Walby did not apply to persons who kept books, made trial balances or statements, and prepared audits or reports, "provided such audits or reports are not used or issued by the employers as having been prepared by a public accountant". Id.

In the case of Burton v. Accountant's Society of Virginia, 213 Va. 642, 194 S.E. 2d. 684 (1973), the earlier statute enacted in 1928 which made it a misdemeanor for a person who is not registered as a public accountant to represent himself in any way as a public accountant was found to only prohibit persons who are not certified or registered public accountants from using the title "public accountants", not the title "accountant". Persons who are neither certified nor registered public accountants therefore were free to use the title "accountant" in describing themselves to the public.

The Burton decision found ambiguity as to its prohibitory nature in statutory language indicating that:

"Nothing contained in this chapter shall prohibit any person from engaging in any accountancy work for one or more persons so long as such person does not hold himself out to the public as a certified public accountant, public accountant, or accountant or auditor, offering his or her services to all those who may choose to apply..."

Whereas, the lower court had found the language appearing to prevent the use of the term "accountant" to be unconstitutional, the appellate court in Burton did not reach the constitutional

question but found the statute to be ambiguous on its face. Therefore, the use of the term "accountant" was not prohibited. As to those not registered as public accountants nor licensed as CPA's, the court stated:

This leaves them free to employ the title 'accountant' in distinguishing themselves to the public".

213 VA. at 645.

A prohibition against the use of the term "accountant" or a prohibition against the performance for others by a non-CPA of certain accounting functions is also subject to challenge as violative of the right to substantive due process. Although such a challenge is theoretically possible, it is difficult to establish. One who attacks a statute on due process grounds bears the burden of proving the absence of the existence of a rational basis for the statute, viz, that the statutory prohibition does not need to be a real and substantial relationship to the governmental object sought to be obtained. Under the protection of the public from fraud and deception objective of the accountancy laws a challenger would have to prove the absence of a rational basis by showing that the public would not be deceived if uncertified practitioners were permitted to refer themselves as "accountants". Evidentiary hearings would have to be held to permit such a showing.

In Manning v. Nevada State Board of Accountancy, 673 p.2d 494, it was held that the state board was not entitled to injunctions restraining the use of the word "accountant" in a business pursuant to a statute which prohibited use of the work "accountant" by a person unless that person held live permits, where there was not a bit of evidence suggesting that defendants' accounting services had not been satisfactory, where the board had actual knowledge for many years of defendants' use of work "accountant" in his practice, and where the board did not promptly enforce its right to enjoin practice but waited 15 years while defendant worked hard to build a practice that enabled him to make a tolerable living. The case relied upon the theory of estoppel, and the overriding goal of equity to achieve justice

and prevent the unconscientious and inequitable assertion or enforcement of claims. The court found that to now bar Manning from the practice he had carried on under the described circumstances would be unfair and unjust.

3. Permissible Functions

There are various provisions in statutes, in regulations, and in case law which set forth functions which may be performed for more than one person, partnership or corporation by a person who is neither a licensed CPA nor a registered PA. Generally, the only kinds of professional services or functions for which licensing may be required are: (a) the audit function, the expression of opinions or financial statements; (b) the review function,--the issuance of reports in standard form upon reviews of financial statements; and (c) the compilation function--the issuance of reports in standard form upon compilations of financial statements.

The certified accountants assert that it is a point of fundamental significance that the audit function is defined, not in terms of the work actually done, but rather in terms of the issuance of an opinion or report, that is, the making of assertions, explicit or implied, about work that has been done.

Reflecting such a concept, some states by statute prohibit a non-CPA or non-PA from signing or offering his name with any work indicating expert knowledge in accounting to any opinion or attestation regarding the reliability of financial information. Limitations, either by statute or regulation, on the ability to serve the public as an accountant are often expressed through the concept of "practice of public accountancy" and the definition thereof. The "Model Public Accountancy Bill" approved for publication by Boards of Directors of the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) defines the concept as follows:

" 'Practice of (or practicing) public accountancy' means the performance or the offering to perform by a person or firm

holding itself out to the public as a licensee, for a client or potential client, of one or more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements, or of one or more kinds of management advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters."

The Virginia code also uses the term but defines it somewhat differently:

"'Practice of public accountancy' or 'public accounting' means the giving of an assurance, in a report or otherwise, whether expressly or implicitly, unless this assurance is given by an employee to his employer."

Code of Virginia, Title 54, §54-102.24.

Although the Virginia code prohibits the practice of public accountancy by persons who do not hold valid licenses, it also clearly provides that non-licensed persons may use the title "accountant"^{1/} and may perform services involving the use of accounting skills by stating:

"Section 54.102.33. Inapplicability of chapter.-A. Nothing contained in this chapter shall be construed to prevent any person from describing himself as an 'accountant' or a 'bookkeeper' or from stating that he practices accountancy or bookkeeping; nor shall this chapter be construed to prevent any person from performing services involving the use of accounting skills, from rendering tax services, management advisory or consulting services, or from the keeping of books of

^{1/} Cf., discussion of Burton case, supra.

account and related accounting records, or from preparing financial statements without the expression of an opinion or an assurance.

"B. Nothing contained in this chapter shall be construed to prevent any person from stating that he has prepared, compiled, assembled or drafted a financial statement, provided he does not use any additional language which comprises an assurance."

Even though there have been concerted efforts by groups such as the AICPA to urge the adoption of a more uniform, complete and restrictive statutes and regulations in the various states, there is still a hodge-podge of regulation. The existing statutes and regulations are often unclear, ambiguous, and apparently incomplete. Some of that lack of clarity and ambiguity is evidenced in the discussion of the statutes and cases dealing with the use of titles, discussed earlier in this Memorandum. Because of the lack of clarity, the ambiguity, and the different definitions given for the same or similar terms, it is difficult to provide definitive comparisons and evaluations of even the different provisions among the states regarding the use of titles such as CPA, PA or "accountant". The problem becomes even more complex and frustrating when trying to determine what functions may be performed or services provided by non-CPA's or non-PA's under the statutes and regulations of the various states.

A further complicating factor is the tendency of some regulations to go beyond the apparent scope of authority in the statute or to give terms new definitions that may not be consistent with the statute. It is to be remembered that in the absence of judicial review and affirmation it may well be that regulations and administrative interpretations and rulings may not be supportable and may, upon challenge, be set aside.

It has already been pointed out that the effort to regulate the practice of accountancy and the use of titles may not always be consistent. The same problem is even more pronounced when

evaluating the attempted regulation of the performance of certain functions.

Because of the slightly different language used in the statutes and the regulations of the differing states, it is difficult to make a precise comparison or contrast between each of the states in any simplified "chart". Therefore, to avoid an attempt at categorically listing matters that cannot be fully categorized without possible confusion, the approach will be to summarize the basic regulatory treatment of CPA's, public accountants, accountants, and the tasks or functions which each can perform on a state-by-state analysis. The start of that state-by-state analysis will begin with the states closest to Virginia, where there would be a greater likelihood of accountants operating in each of the jurisdictions.

* * *

North Carolina: North Carolina provides certificates for certified public accountants, registers public accountants, and also recognizes the category of "accountant". Accountant is defined as: "a person engaged in the public practice of accountancy, who is neither a certified public accountant nor a public accountant". CCH Accountancy Reports, ¶135,001, General Statutes of North Carolina, 1981, Section 93-1(a).

Section 93-1(a)(5) provides:

"A person is engaged in the 'public practice of accountancy' who holds himself out to the public as a certified public accountant or an accountant and in consideration of compensation received or to be received offers to perform or does perform, for other persons, services which involve the auditing or verification of financial transactions, books, accounts, or records, or the preparation, verification or certification of financial, accounting, and related statements intended for publication or renders professional services or assistance in or

about any and all matters of principle or detail relating to accounting procedure and systems, or the recording, presentation or certification and the interpretation of such service through statements and reports."

From this language, it can be seen that an accountant can be engaged in the public practice of accountancy. There is a specific provision that makes such actions not unlawful. Section 93.6 provides:

"Practice as accountants permitted - use of misleading titles prohibited. It shall be unlawful for any person to engage in the public practice of accountancy in this state who is not a holder of a certificate as a certified public accountant issued by the Board, or is not registered as a public accountant under the provisions of this Chapter, unless such person uses the term 'accountant' and only the term 'accountant' in connection with his name on all reports, letters of transmittal, or advice, and on all stationery in documents used in connection with his service as an accountant, and refrains from the use in any manner of any other title or description in such practice."

Id. at ¶35,006.

From the foregoing, it can be seen that in North Carolina a person can practice public accountancy as an "accountant", as long as he does not use the term "certified public accountant" or "public accountant" and only describes himself with the term "accountant". It is clear from Section 93-6 that an accountant can prepare a "report" and he can perform the other named acts listed in Section 93-1(5) under the description of "public practice of accountancy", as provided in the plain language of the statute.

North Carolina provides a license tax on public practice of accountants, whereby each person engaged in the public practice of accounting as a principal or as a manager of the business of public accountant, must pay a license of \$25.00 and, in addition, pay a license of \$12.50 for each person employed who is engaged in the capacity of supervising or handling the work of auditing, devising, or installing, systems of accounts. Id. at ¶35,031, Statute Section 105-41(c).

According to an opinion of the Attorney General of North Carolina of August 21, 1931, directors of local governments are authorized to approve contracts for auditing executed by boards of education with persons not registered as "certified public accountants" under the state accountancy law. The state accountancy law is held not to exclude persons of ordinary skill from making simple audits where no claims are advanced to professional skill "in analysis, verification and audit of financial records and the interpretation of such service through statements and reports".

In the case of Duggins v. North Carolina State Board of Certified Public Accountant Examiners, Id., ¶63,109; 212 S.E. 2d. 656 (1975), the North Carolina Court of Appeals ruled that a lawyer who worked for a CPA, where over 50% of his work was in tax accounting matters, still did not satisfy the experience requirement of at least two years on the field staff of a certified public accountant in public practice, or have served two or more years as an Internal Revenue agent, or special agent, or shall have served at least two years on the field staff of the North Carolina state auditor. Duggins had passed the written examination and then had gone to law school and become a lawyer and had practiced law for more than four years with a Greensboro firm under the supervision of an individual who was both a lawyer and a CPA, and where over 50% of Duggins' work was on tax accounting matters.

* * *

Maryland: A license is required before an individual may practice certified public accountancy. Id., ¶22,047, Annotated Code of Maryland, Section 2-301(a). The "practice of public

accountancy" means to perform any of the following accountancy services:

"(1) Conducting an audit or an examination of financial statements; or

"(2) Providing a written certification or opinion as to the correctness of the information or as to the fairness of the presentation of the information in any: (i) financial statement; (ii) schedule; (iii) report; or (iv) exhibit."

Id., ¶22,033; Section 2-101(e).

There is a specific provision in Maryland that provides if the person does not engage in any activity expressly included in the practice of certified public accountancy, the title does not prohibit:

"(1) Any individual from serving as an employee of or assistant to a licensee or permit holder; or

"(2) Any person from providing or offering to the public bookkeeping and accounting services, including the following activities: (i) developing or installing a bookkeeping system; (ii) recording or presenting financial information; (iii) preparing: 1. a financial statement; 2. a schedule; or 3. a report and exhibits; or (iv) any similar activity."

In Maryland, Section 2-603 of the Annotated Code provides that unless a person is authorized to practice certified public accountancy, a person may not represent to the public by use of the titles "licensed certified public accountant", "certified public accountant", "public accountant", or "auditor", by use of the abbreviation "CPA", or by other title, by description of services, methods or procedures, or otherwise that the person is

authorized to practice certified public accountancy. CCH, Accountancy Law Reports, ¶22,095. The Maryland statute does not directly provide for a separate category, whether registered or licensed or otherwise, known as "public accountant".

* * *

District of Columbia: The accountancy law of the District of Columbia, like other jurisdictions, provides for the licensing of certified public accountants and the registration of "public accountants" and prohibits non-licensed and non-registered persons from using such titles, or similar titles, as designated in the statute. D.C. Code, Title 2, Sec. 2-105; CCH ¶1,005. The statute contains no direct prohibition against the use of the term "accountant". However, there is a statutory prohibition against the indication in any opinion or certificate that a person "is either an accountant or an auditor or has expert knowledge in accounting or auditing" unless he is a licensed PA or CPA. Such prohibition does not, however, apply to an employee with reference to the affairs of the organization when the employee designates his position, title or office. The prohibition relates to the signing or affixing of a name:

"...to any opinion or certificate attesting in any way to the reliability of any representation or estimate in regard to any person or organization embracing financial information or facts concerning compliance with conditions established by law or contract, including but not limited to statutes, ordinances, regulations, grants, loans and appropriations, together with any wording accompanying or contained in the opinion or certificate...."

D.C. Code, Title 2, Sec. 2-105(f) and (g); CCH ¶10,005. This provision apparently indicates that a person who is not a licensed CPA or registered public accountant cannot affix his name to an opinion or certificate dealing with financial information in a capacity as "accountant".

* * *

West Virginia: Certified public accountants are required to have a certificate and a current registration card. A Public Accountant or P.A. must be registered and have a current registration card. CCH Accountancy Law Reports, ¶52,061, West Virginia Code of 1931, as amended, Sec. 30-9-10. In West Virginia, the term "Public Accountant" is used to apply to a person who is in practice as a public accountant on the date the law governing CPA's was enacted. It serves as a grandfather provision to permit such a "Public Accountant" to continue practice without having met all of the requirements subsequently imposed on a CPA. A public accountant must obtain a registration card each year in order to continue practice. The Statute provides that a person shall be deemed in practice as a public accountant:

"(a) who holds himself out to the public in any manner as one skilled in the knowledge, science and practice of accounting, and as qualified and ready to render professional service therein as a public accountant for compensation; or...

"(c) who offers to the public to perform for compensation, or who does perform for the public for compensation, professional services that involve or require an examination, verification, investigation, or review of financial transactions and accounting records; or...

"(d) who prepares reports on examinations of books or records of account, balance sheets, and other financial, accounting and related schedules, exhibits and statements or reports which are to be used for publication, credit purposes or are to be filed with any governmental agency; or...

"(e) who, in general or as an incident to such work, renders professional assistance to the public for compensation in any or all matters relating to counting procedure and to the recording and presentation of financial facts or data."

West Virginia Laws 1959, Ch. 128, Sec. 30-9-3; CCH ¶52,053.

The prohibitions and penalties regarding the unauthorized practice as a CPA or as a public accountant have certain provisos outlining what can be done by someone who does not hold such certificates or registrations. First, persons can engage "in any accountancy work" for others so long as they do not hold themselves out to the public as CPA's, public accountants, "or accountant or auditor, offering his or her services to all those who may choose to apply". Further, nothing prevents the employment of uncertified persons who are not public accountants "in subordinate capacities", by a properly certified or registered person. Id., Sec. 30-9-10; ¶52,061.

* * *

Tennessee: The Tennessee law provides that no person "shall engage in the practice of public accountancy" unless such person is either a certified public accountant or a licensed public accountant, both as defined in the law. The practice of public accountancy is defined as follows:

"'Practice of public accountancy' means representing oneself to the public as skilled in the knowledge, science and practice of accounting; as qualified and ready to render professional services therein as a public accountant or certified public accountant for compensation, and performing such work of an accountant for more than one employer on a fee basis, or otherwise, in any of the following services: auditing; devising and installing systems; recording and presentation of financial information or

data; preparing financial statements, schedules, reports, and exhibits for publication, credit purposes, use in courts of law and equity, and for other purposes...."

Tennessee Accountancy Act of 1980, Acts 1980, Ch. 518, Sec. 62-1-103; CCH ¶45,003. The prohibition against the practice of public accountancy does not apply to: (1) any persons serving as an employee of any other person and performing accountancy functions for his employer; or (2) to a person serving as an employee of or an assistant to a CPA or a public accountant if that person works under the control and supervision of a CPA or public accountant; and (3) to an officer, employee, partner, or principal of an organization affixing his signature to a statement or report in reference to the financial affairs of the organization, with any wording designating the person, title or office which he holds. Id., Sec. 62-1-106; CCH ¶45,006.

* * *

Kentucky: The Kentucky accountancy law broadly defines the "practice of public accountancy" to encompass the offering to perform, or the performance for a client or potential client of "one or more types of services involving the use of accounting or auditing skills, or one or more types of management advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters". Kentucky Revised Statutes, CA. 325, Sec. 325.220(5); CCH ¶19,031. The Kentucky definition of practice of public accountancy specifically provides that the definition "does not prohibit anyone who is not a certified public accountant from performing accounting services, such as the preparation of tax returns or financial statements, for which attestation by the preparer is not required". Id. Uncertified persons may work as employees in the offices of CPA's but cannot issue accounting or financial statements under their own names. Opinion of Attorney General, 7/20/48; CCH ¶19,036.10.

The Kentucky statute places restrictions on the use of the name or of the title of "certified public accountant", "public accountant", or similar designation. Id. at Sec. 325.380, CCH

¶19,051. The same section prohibits persons from assuming or using such titles or designations as "certified accountant, chartered accountant, enrolled accountant, licensed accountant, registered accountant, accredited auditor, accounting practitioner, accredited accountant, expert accountant, expert auditor, certified auditor, 'or any other title or designation likely to be confused with certified public accountant and public accountant" or any of the abbreviations, CA, AP, PA, EA, RA, LA, or AA or similar abbreviations likely to be confused with CPA. It is to be noted that the single term, not modified, of "accountant" is not expressly prohibited as to its use. However, there is a further prohibition in the terms that:

"No person shall sign or affix his name or any trade or assumed name used by him in his profession or business to any opinion or certificate attesting in any way to the reliability of any representation or estimate in regard to any person or organization embracing (a) financial information or (b) facts respecting compliance with conditions established by law or contract, including but not limited to statutes, ordinances, regulations, grants, loans, and appropriations, together with any wording accompanying or contained in such opinion or certificate, which indicates (i) that he is an accountant or auditor, or (ii) that he has expert knowledge in accounting or auditing", unless he holds a permit..."

* * *

The foregoing review of some of the provisions of the accountancy laws of the jurisdictions which border Virginia shows the variation in the regulation of the accounting profession. A review covering more states would compound that complexity and confusion.

Conclusion

Accountants who are not CPA's or PA's are not specifically regulated in most states. Some states do prohibit the use of the term/title "accountant", standing alone, by persons who are not CPA's or PA's; most states do not prohibit such use. Most states restrict the practice of public accountancy to licensed CPA's and registered PA's and then try to define the term so that the performance of those functions or services which call for the greatest reliance on the expertise and competence of the practitioner in such matters as audits, reports, and compilations, where opinions and assurances are provided, are restricted to licensed CPA's and registered PA's. The definition of what constitutes the practice of public accountancy, and those functions which can be performed by unlicensed, plain "accountants" (if the use of the term is not prohibited) varies significantly from state-to-state.

Matrix of State Authorization for Practice as
Certified Public Accountants (CPAs),
Public Accountants (PAs), and "Third Tier" Practitioners," etc.

State	Certified Public Accountant	Public Accountant ¹	Third Tier ²
Alabama	Certificate §34-1-4, ¶2004 ³	Registered §34-1-8, ¶2008 (10/1/73)	No
Alaska	Certificate §08.04.100, ¶3011	License §08.04 180, ¶3019 (4/26/60)	No
Arizona	Certificate §32-721, ¶4011	(Repealed, 1980)	No
Arkansas	Certificate §71-613, ¶5003	Registration §71-615 (7/1/80), ¶5006	
California	Certificate §5033, ¶6054	Registered §5034, repealed 1968, §5070.1, ¶6055, 6091	No
Colorado	Certificate §12-2-108 ¶7008	"Registered Accountant" (R.A.) title used §12-2-116, ¶7016 (Designation: "Public Accountant" may be used without certificate or authority, without violation, CCH &7015.10)	No
Connecticut	Certificate §20-282, ¶8057	Authority §20-283 (for vets) 6/29/55, ¶8059	No
Delaware	Certificate §106, ¶9006	Permit, §110, ¶9010	No
D.C.	Certificate §2-107, ¶10,007	Registered §2-109, ¶10,009	No
Florida	Certificate/License §473.302 ¶11,002	None	No

¹Also encompasses the use of similar titles of Licensed Public Accountant (L.P.A.), Chartered Accountant (C.A.).

²Authorized/licensed/permitted form of "public accountant," "accounting practitioner," or similar designation other than CPA and "grandfathered" public accountants.

³References preceded by "¶" symbol are to the indicated paragraph in Commerce Clearing House's (CCH) "Accountancy Law Reporter." Date references are to grandfather date where indicated in statute.

State	Certified Public Accountant	Public Accountant	Third Tier
Georgia	Certificate §43-3-6, ¶12,006	Registered §43-3-13, ¶12,013	Registered §43-3-13, ¶12,013
Hawaii	Certificate §466-5, ¶13,005	Registered §466-6, ¶13,006	No
Idaho	Certificate §54-211, ¶14,011	Registration §54-214, ¶14,014	No
Illinois	Certificate §1[5501], ¶15,004	License §9[5510], 15,013	No
Indiana	Certificate §25-2-1-4, ¶16,004	Registered §25-2-1-7 (repealed) ¶16,010	License: "A.P." "Accounting Practitioner" §25-2-1-20, ¶16,010
Iowa	Certificate §116.5, ¶17,005	Registered §116.6, ¶17,006 (7/1/75)	License "Accounting Practitioner" §116.7 ¶17,007
Kansas	Certificate §1-302, ¶18,012	None	No
Kentucky	Certificate §325.261, ¶19,036	Registration: §325.310, ¶19,042	No
Louisiana	Certificate §§77, 81 ¶20,007, 20,011	None. (See §77, ¶20,007)	No
Maine	Certificate §§3980, 3981 ¶21,011, 29,012	Certificate; §§3984, 3985, ¶21,021, 21,022	License §3986 ¶21,024
Maryland	Certificate/License §2-301 ¶22,047	No category separate from CPA §2-603, ¶22,095	No
Massachusetts	Certificate §87B, ¶23,123	Registration/License §87C (11/17/73), ¶23,125	

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