

**Comments by John C. Bogle,
Founder and Former Chairman of The Vanguard Group
On the Concept Release on Auditor Independence and Audit Firm Rotation**

**Submitted as Written Testimony for the PCAOB Public Hearing
March 21, 2012**

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I'm pleased to have this opportunity to comment on my general views on auditor independence and specific views on audit firm rotation. I have been an observer of and participant in auditing issues throughout my 60-year career, most recently as one of four independent members of the Independence Standards Board (from 1997 to 2001, when it ceased operations), appointed by SEC Chairman Arthur Levitt, where we worked with the four CEOs of the major accounting firms to establish more rigorous standards for assuring that our public accountants remained truly independent of the firms that retain them for attestation services. (As it quickly became obvious, that was no mean challenge!) Earlier in 1991 I was named by SEC Chairman Richard S. Breeden to The Market Oversight and Financial Services Advisory Committee.

In the private sector, as Vanguard's chairman, and earlier, as CEO of Wellington Management Company, I was responsible for recommending the appointment of the auditor for our management company and the mutual funds we manage to our Board, and did not do so casually. Along the way, we replaced our long-time auditor Main & Co., with Price Waterhouse. (No enviable task!) But the process was smooth and essentially cost-free to our firm.

I also served for many years as the Finance Committee chairman and Audit Committee member at papermaker Mead Corporation (now MeadWestvaco); as chairman of the Audit Committee of television network provider Chris-Craft (now part of News Corporation); and as chairman of the Audit Committee at electronic stock market specialist Instinet. It was in that latter post that the firm adapted its accounting procedures to meet the tough and controversial standards of Section 404 of the Sarbanes-Oxley Act on internal controls. (Yes, compliance proved costly and burdensome, but I concluded that the

tough standards established by the Congress were worthwhile. I supported them—as did our board of directors—without reservation.)

My comments on auditor rotation are hardly the stuff of which headlines are made. While I do not believe that mandatory rotation would come close to resolving the plethora of issues surrounding auditor independence, such rotation would be a step in the right direction. “Independence” can be fairly defined as the requirement that “the audit be performed in a disinterested manner, free from influence by the client,” and that the auditor should “exercise appropriate professional skepticism and make objective auditing judgments.” But meeting that standard will call for much more than mere rotation.

As to frequency of the mandatory rotation, I would think that a formal review of the existing auditor no later than at the 10-year mark of service would be reasonable, and that there should be a flat limit of 20 years for any audit firm’s service with a client. While my own audit firm experience was limited to companies whose auditing issues seemed not particularly complex, my conclusion is that concern about the costs of rotation are generally rather exaggerated, and the benefits are understated.

Here, I take the liberty of expressing my strong reservation that the (theoretically wonderful) requirement that a “cost-benefit analysis,” a requirement of federal regulators since 1993, is the paragon of common sense. In my experience, cost is usually within the realm of calculation; benefits too often are not. The costs of auditor rotation are wide-ranging and malleable (depending on the interests of those doing the arithmetic). What’s to be said about the benefits? Surely our common sense and our instincts do not mislead us when we conclude that the benefits of auditor independence are far-reaching and create substantial (if immeasurable) value for our financial system and our society.

To reach the ideal world of audit independence, the obvious solution is to have the audit firm retained by the providers of the firm’s capital, rather than by its managers. (Don’t laugh. I’m told that when the canny Scots sent all that capital to America in the mid-18th-century to help build our nation’s vast cross country railroad system, they sent their own auditors along.) Today, however, nearly all of our publicly-held corporations have thousands of owners or even hundreds of thousands: One might have thought that as control of our corporations moved from a large group of relatively small individual owners to a small group of relatively large institutional investors, that control might be exercised. Institutional owners—mutual funds, public and private pension funds, endowment funds, trust companies, etc.—now hold 72 percent of all shares of U.S. corporations, up from 8 percent in 1950. The largest 25 of these investor/agents hold 56 percent of all shares—complete control ... if they want it.) Perhaps the federal

government should act to arouse these sleeping giants as to the rights and responsibilities of stock ownership.

Until then, I like the section of Sarbanes-Oxley that puts the audit committee—rather than management—in charge of hiring the auditor and overseeing the engagement. That extraordinary latent power is limited by the fact that it is the management that appoints the Audit Committee, and that even the most qualified of audit committee members rarely has the knowledge to analyze the issues—especially the issues *behind* the issues—in depth. Perhaps the Audit Committee should retain its own consultant to assure that the significant issues surrounding the corporation’s financial statement receive a full airing. (Management will not easily warm to this idea.)

One of the pressures of the current era is the focus on building “corporate value,” so often defined as a focus on the inevitably evanescent short-term stock price. But we all understand that it is the long-term intrinsic value of the corporation we should be focused on. Yes, over the long haul the two must be the same. (Ask Warren Buffett.¹) But corporate financial statements and reporting often seem fixated on the stock price. It must be obvious that much of the financial engineering that goes on today is only for the here-and-now, and is inevitably zeroed-out over time. But corporate managers are focused on the price of the stock and “earnings guidance” that must be met, lest Wall Street’s rancor be incurred.

I have written much on the subject of accounting, and take the liberty of attaching excerpts from my books *Don’t Count On It!* (Wiley, 2011) and *The Battle for the Soul of Capitalism* (Yale University Press, 2005), as well as my Seymour Jones Distinguished Lecture at NYU where I served as Henry Kaufman Visiting Professor in 2002. Among the subjects I take on are:

- Operating and pro forma earnings
- The role of public accountants as gatekeepers
- Earnings management
- Pension accounting and return assumptions
- Financial reporting improvements
- Fundamental accounting principles
- Option accounting

¹ In his 1996 letter to shareholders, Warren Buffett said “when the price of Berkshire-Hathaway stock temporarily over-performs or under-performs the business, a limited number of shareholders—either sellers or buyers—receive out-sized benefits at the expense of those they trade with. [But] over time, the aggregate gains made by Berkshire shareholders must of necessity match the business gains of the company.”

- Tax shelters

Thank you again for the opportunity to express my views.

These excerpts are included in Attachment A.

John C. Bogle

Enclosure

**Selected Excerpts from John C. Bogle,
Founder and Former Chairman of The Vanguard Group
Supplement to Written Testimony for the PCAOB Public Hearing
March 21, 2012**

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**Excerpts from *Don't Count On It!*, 2011
Adapted from the Keynote Speech at the “Landmines in Finance” Forum of
The Center for Economic Policy Studies at Princeton University,
October 18, 2002**

In a trend that has attracted too little notice, we have changed the very definition of earnings. While earnings reported to shareholders under generally accepted accounting principles (GAAP) had been the standard since Standard & Poor's first began to collect the data years ago, in recent years the standard has changed to *operating* earnings.

Operating earnings, essentially, are reported earnings bereft of all those messy charges like inventory revaluations and capital write-offs, often the result of unwise investments and mergers of earlier years. They are considered recurring, though for corporations as a group they recur, year after year, with remarkable consistency. For the record, reported earnings for the S&P 500 Index over the past decade have averaged \$51 per share, while operating earnings averaged \$61 per share. The illusory number that we could so easily count was 20 percent higher than the real number that we could actually trust.

What's more, we now have pro forma earnings—a ghastly formulation that makes new use (or, again, abuse) of a once-respectable term—that report corporate results net of unpleasant developments. Such “no bad stuff” calculations are one more step in the wrong direction. Even auditor-certified earnings have come under doubt, as the number of corporate earnings restatements has soared nearly 18-fold—from 90 in 1997 to 1,577 in 2006. Does that sound like punctilious corporate financial reporting? Hardly. Indeed, it sounds like precisely its opposite.

Loose accounting standards (i.e., loose *counting*) have made it possible to create, out of thin air, what passes for earnings. One popular method is making an acquisition and then taking giant charges described as nonrecurring, only to be reversed in later years when needed to bolster sagging operating results. But the breakdown in our accounting standards goes far beyond that: cavalierly classifying large items as immaterial, hyping the assumed future returns of pension plans, counting as sales those made to customers who borrowed the money from the seller to make the purchases, making special deals to force extra sales at quarter's end, and so on. If you can't merge your way into meeting the numbers, in effect, just change the numbers. But what we loosely describe as *creative* accounting is only a small step removed from *dishonest* accounting.

Our financial system has, in substance, challenged our corporations to produce earnings growth that is, in truth, unsustainable. When corporations fail to meet their numeric targets the hard way—over the long term, by raising productivity; by improving old products and creating new ones; by providing services on a more friendly, more timely, and more efficient basis; and by challenging the people of the organization to work more effectively together (and those are the ways that our best corporations achieve success)—they are compelled to do it in other ways: ways that often subtract value from you, from me, and from society.

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Excerpts from *The Battle for the Soul of Capitalism, 2005*

Public Accountants as Gatekeepers

Yes, accountants argue that their “reputation risk” provides assurance to shareholders and the public that the attestation firm will hold fast to proper accounting standards. But those standards are technical, vague, and often easily subverted.¹ Further, the auditors' position ignores the countervailing argument that a rigid, principled firm that garners the reputation of never compromising one iota with its client on matters that involve some subjectivity may be taking an even larger risk—not only the risk of losing the client who tires of their pesky primness, but of chasing away potential clients who feel the

¹ At one meeting of the Independent Standard Board, I asked the members of the profession whether the biggest reputation risk that an attestation firm faced would be a reputation for being rigid, tough, disciplined, and unyielding in demanding compliance with both the spirit and the letter of GAAP. It's unlikely that such a stand would be popular with their clients. But it goes further than that. As I have said about institutional money manager participation in corporate governance: *There are only two types of clients we don't want to offend—actual and potential.*

same way. In any event, reputation risk proved a weak reed on which to lean in maintaining audit standards. Even as Enron went down, so did its so-called independent auditor, Arthur Andersen.

As managers promised quarterly earnings growth that became impossible to deliver as an operating matter, the added pressure on accountants to accede to management's demands was multiplied. Consequently, a company's *numbers* become more important than a company's *business*. This change is a direct contradiction to the advice given to his professional colleagues by James Anyon, America's first accountant, way back in 1912: "Think and act upon facts, truths, and principles, and regard figures only as things to express them. . . . So proceeding, [you will be] a credit to one of the truest and finest professions in the land." As we came to rely on figures to present facts, truths, and principles of shaky validity, the creative accounting of the recent era took us a long, long way from Mr. Anyon's eternal wisdom.

“Pro Forma Earnings”

Our accounting gatekeepers were silent partners with the managements they were obliged to audit in the acceptance of “pro forma earnings,” the epitome of the era's financial shenanigans. As Humpty Dumpty might have told Alice, “When I report my earnings per share, it means just what I choose it to mean—neither more nor less . . . the question is who is to be the master—that's all.” And so, for example, Yahoo! makes itself the master in this example: having telegraphed that its expected earnings for the third quarter of 2001 would break even, it reported in the first paragraph of its earnings release that its net income totaled one cent per share—“beating expectations.” A footnote to the release pointed out that the pro forma earnings figure *excludes* “depreciation, amortization, payroll taxes on option exercises, investment gains and losses, stock compensation expenses, acquisition-related and restructuring costs.” The *Wall Street Journal* reported that investors were “encouraged” by the news, doubtless pleased that Yahoo! exceeded expectations, even though it didn't actually have any earnings; in fact, Yahoo! *lost* four cents per share.

Yahoo! is not alone. The fact is that in 2001, 1,500 companies reported pro forma earnings—what their earnings *would* have been *if* all those bad things hadn't happened, and *if* all those customary costs of doing business had simply vanished. Ignoring the all-too-real costs of restructuring charges, asset write-downs from continuing operations, stock option expenses, and research and development systems purchased from other companies, of course, results in the substantial overstatement of the earnings that corporations report. As a result, the gap between *reported* earnings and *operating* earnings (before write-offs) got completely out of hand. In the ten years ended 2000, for example, annual *operating* earnings per share for the S&P 500 Index typically exceeded *reported* earnings by 11 percent per year. What is more, while operating earnings as stated grew at a 9.0 percent rate, the growth rate tumbled to just 4.9 percent after adjustments only for pension and health care expenses and stock option grants, a reduction of 45

percent. Yet few voices were raised to challenge this chimera, and “operating earnings” remains the financial community’s principal measure of a stock’s value.

Managed Earnings

During the 1990s, the idea of corporations providing quarterly earnings guidance took hold and quickly was followed by earnings management. “Exceeded expectations,” or “met expectations” (or, heaven forbid, “failed to meet expectations”) became the jargon of corporate America’s financial reporting. Market participants anxiously awaited each company’s quarter announcement, quickly comparing it with the earlier “guidance.” What was ultimately revealed, however, is what we always knew to be true: relying on the accrual accounting that is the basis for corporate financial statements is an act of faith, no more, no less. As the eminent economist Peter Bernstein has written: “The financial statement records as revenues money not yet received. It excludes from expenses money actually paid out if spent on assets expected to produce revenues in the future.” And when earnings guidance is given, there seem to have been few limits on the earliest possible recognition of revenues and the latest possible recognition of expenses. On some occasions, fraud was involved.

A 2004 study by Thomson Financial found that since 1998 companies have missed their analysts’ expectations only 16 percent of the time. The remaining 84 percent of the time they at least met expectations—23 percent exactly, another 22 percent by an additional one penny per share, and 39 percent by more than one penny—remarkable predictability, during good times and bad times alike, in complicated businesses with many lines of endeavor. It was, of course, “too good to be true.”

For such performance defies common sense. Thoughtful investors know that while business growth may follow rough trend lines, quarterly surprises are inevitable. Accounting results that show otherwise are nonsense. Although it seems absurd that a company that misses its guidance by a mere penny can see its market capitalization promptly plummet by several billions of dollars, in a certain way the logic is unexceptionable: if, with all that financial pushing and pulling and stretching, the company nonetheless falls short of its guidance, it is only a matter of time before the chickens come home to roost in the form of a major negative surprise.

Future Pension Fund Returns

Nowhere is the fiction of managed earnings more apparent than in the assumptions of future returns made by corporate pension funds. Over the past decade the yield on the ten-year U.S. Treasury bond has plummeted from 7.9 percent to 4.2 percent—a drop of 45 percent—and the prospective

investment return on stocks (dividend yield plus assumed 5 percent earnings growth) has fallen by 15 percent, to 6.8 percent. For a typical pension portfolio (60 percent stocks, 40 percent bonds), the expected market return would be 5.8 percent. Yet in 2004, the average corporate pension fund assumed a future annual return of 8.6 percent, 35 percent higher. To make a bad situation worse, neither return takes into account investment costs, nor leaves a reserve against the unexpected. The fact is that pension funds should probably be counting on future annual long-term returns, net of investment costs, of something like 5 percent per year. (I cover this subject in greater depth in chapter five.)

Manipulating pension returns has played a major role in enabling corporations to manage their earnings, for in few other places on the corporate books are unbridled estimates of assets and liabilities so easy to adjust. Yet, it is only in recent years that pension projections have become the stuff of scandal—“pension deficit disorder,” using the inspired phrase of Morgan Stanley strategist Henry H. McVey—and the Securities and Exchange Commission (SEC) is investigating the issue. We shall learn much more about how corporations—in league with their highly paid actuarial consultants—have managed earnings by managing their pension assumptions.

Let the Sunlight Shine on Accounting

Given the enormous latitude accorded by the Generally Accepted Accounting Principles, owners must demand, and managers must provide, full disclosure of the impact of significant accounting policy decisions. Indeed, perhaps corporations ought to be required to report their earnings both on a “most aggressive” basis (presumably what they are reporting today) and on a “most conservative” basis as well. Seriously, why not report a range, along with reasons for the differences, and let investors decide if the differences are meaningful or not.

Another improvement would be requiring corporations to make their federal tax returns available to the public, perhaps summarized in their annual reports. (Owners of more than 1 percent of a corporation’s stock already have the right to examine its federal tax returns.) It is widely understood that the earnings that corporations report to the Internal Revenue Service are almost invariably lower than the earnings they report to shareholders, and an understanding of the differences is crucial to informed analysis. Interestingly, tax return information is the basis for the aggregated corporate earnings reported by the Department of Commerce, which found that corporations were consistently “misreporting on income tax returns.” The Commerce data are adjusted for this “understatement of income,” which totaled \$772 billion in 1996–2001 alone (most recent data available).

Over time, we must develop a set of common principles for reporting earnings and presenting balance sheets. We also must establish a rigorous standard of full financial disclosure that goes beyond simple compliance with accounting rules. Corporate books and records and corporate tax returns should be opened up to all interested parties, certainly including the millions of shareholders who together own

the corporation, either directly or through mutual and pension funds, just as we would if the corporation had a single owner.

What Were Investment Professionals Thinking?

Were professional security analysts and money managers probing deeply enough into the financial engineering that was going on behind the scenes? Let me relate a personal experience. In 1997, SEC chairman Arthur Levitt commissioned the U.S. Independence Standards Board to consider the state of financial reporting, focusing on whether auditors were in fact independent of the clients for whom they were providing attestation services.

In the course of the ISB's work, we retained a respected consulting firm (Earnscliffe Research and Communications) to prepare a study assessing the perceptions of various constituencies regarding the concept of auditor independence and objectivity. The firm interviewed 133 senior executives, from constituencies that included CEOs and CFOs of SEC registrants, audit committee chairs, audit partners, and research analysts from both the "sell side" and the "buy side."

A Clean Bill of Health for Financial Reporting?

Chairman Allen and I also met with a small group of experienced and financially astute securities analysts from eight major money management firms. In that meeting, these experts expressed comfort with the integrity of both accountants and financial statements, albeit with a general willingness to accept that the auditor, paid by the client, cannot be truly independent. They also expressed the belief that the auditor's "reputational capital" would prevent fraud. (No one noted that an auditor with a reputation for standing rigidly against the demands of management would likely not be in business for very long!) Only one analyst among the eight, Trevor Harris of Morgan Stanley, expressed a serious concern: "Auditors have stopped thinking for themselves and have become clerks who are hiding behind rules (for example, post-retirement health care benefits), and putting form ahead of substance." He expressed "serious concern with the integrity of financial statements, which are sure to be revealed when the stock market collapses."

The survey itself clearly indicated that the concerns Harris expressed were not widely shared, and financial reporting and auditing were given a clean bill of health. In its November 1999 report, Earnscliffe reported a clear consensus among executives that "the standard of financial reporting in the U.S. was excellent . . . that the actual figures being reported were painting an accurate picture of the financial health of the company involved . . . [that] very few believe the auditors have much to do with aggressive earnings management . . . [and that] most financial reporting could be trusted." As to the provision of both audit and consulting services to the same client, "almost everyone favored disclosure over prohibition." While some of those surveyed expressed concern about earnings management, the consensus was that

“the SEC had overstated the problem of auditor independence, and worried that over-regulation would drive good people out of the [auditing] profession.”

When the Earncliffe report was published, the AICPA engaged in a bit of hyperbolic breast-beating: “We share the report’s view,” the AICPA proudly proclaimed, “that the state of financial reporting in the United States is *extremely strong* . . . and agree that the media have created a perception that there is a serious problem where *none* exists.” (Italics added.)

Do tell! Six years and one great bear market later, we now know that the sunny but naive conventional wisdom of that earlier era—shared not only by CEOs and CFOs, and by audit committee chairmen and auditors, but by security analysts as well—turned out to be the platitudes of the self-interested. Most members of the investment community, broadly defined, were participants in the happy, ingenuous, and mutually advantageous, conspiracy, sometimes unwitting, sometimes clearly not. As the stock market soared to its hitherto unimaginable peak in early 2000, the madness of the crowds of investment America’s knowledgeable, professional market participants finally encompassed almost all investors.

Public Accounting: Profession or Business?

**Excerpts from The Seymour Jones Distinguished Lecture
at the Vincent C. Ross Institute of Accounting Research
Stern School of Business, New York University**

John C. Bogle

Founder, The Vanguard Group

Henry Kaufman Visiting Professor of Business, New York University

October 16, 2000

Being for independence is a bit like being for God, for motherhood, and for the American way. For the relationship between auditor and client is complex—beginning with the fact that it is the client who pays the auditor for its services, creating an interdependency that is anything but independence. Long ago, we made a societal decision to accept that conflict because, simply put, we couldn’t figure out any arrangement that was better. A system of mandatory audits by a Federal agency, for example, would probably have been intolerable even to those most disposed toward using government as the first line of attack in dealing with any other national issue.

I came to the Board with but a single preconception: A growing concern that the many of the great professions that have served our society so well are moving rapidly toward becoming businesses, a trend that, if taken to the extreme, would undermine the sound and durable principles on which they were founded. In the dog-eat-dog, money-driven, competitive world in which we live today, I suppose it would be surprising were it not so. And surely many benefits have resulted: A greater appetite for enterprise growth, likely for greater efficiency and organizational certainty, perhaps even for greater creativity and innovation. Such benefits are not to be disdained. But those benefits can carry a societal cost—a diminution of traditional standards, a reduction in focus on clients, and, at least in some fields, an increase in costs. But the heart of the matter is that there is a difference, however difficult to measure, between a business and a profession. When that line is crossed, we as a society are the losers.

Current Issues—October 2000

Disturbing issues that affect the profession today. First is the question of basic accounting principles. Can the accounting principles that have served the Old Economy so well over so many years properly be applied to the New Economy? While that seemingly omnipotent master, “the stock market” may be telling the profession that the 1930s-based model of reporting doesn’t work any more, please don’t write off too hastily the possibility that the model may be right and the market wrong. And don’t forget that no matter what “the market” may say today, its level on future tomorrows well down the road will—not may—be determined by earnings and dividends.

Second is the question of earnings management. I noted in a speech a year ago, we live in a world of managed earnings. While it is corporate executives who do the managing, they do so with at least the tacit approval of corporate directors and auditors, and with the enthusiastic endorsement of institutional investors with short-term time horizons, even speculators and arbitrageurs—a “happy conspiracy” as I called it then. Like it or not, corporate strategy and financial accounting alike focus on meeting the earnings expectations of “the Street” quarter after quarter. The desideratum is steady earnings growth—manage it to at least the 12% level if you can—and at all costs avoid falling short of the earnings expectations at which the corporation has hinted, or whispered, or “ballparked” before the year began. If all else fails, obscure the real results by merging, taking a big one-time write-off, and relying on pooling-of-interest accounting (although that procedure will soon become unavailable). All of this creative financial engineering apparently serves to inflate stock prices, enrich corporate managers, and to deliver to institutional investors what they want.

But if the stock market is to be the arbiter of value, it will do its job best, in my judgment, if it sets its valuations based on accurate corporate financial reporting and a focus on the long-term prospects of the corporations it values. The market today seems to be focusing at least a bit more on those verities, but there is still much room for improvement. For while the accounting practices of America’s corporations may well be the envy of the world, our nation’s financial environment has become permeated with the concept of managed earnings. There is a “numbers game” going on, and pro forma

operating profits permeate financial statements. Pro forma seems to mean, in an Alice-in-Wonderland-world, whatever the Corporation chooses it to mean, excluding such charges as amortization of good will, taxes on option exercises, equity losses in investees, in-process R&D, for example, as these costs vanish in the struggle to meet earnings expectations.

Third is the stock option issue. Financial statements place options in a sort-of “no man’s land” in which options are not treated as compensation. But, as Warren Buffett has long argued, if options are compensation, why aren’t they charged to earnings? And if options aren’t compensation, what are they? Surely the profession ought to play a more aggressive role in answering that question and taking a stand on proper stock option accounting. Quite important enough as an issue now, the question of accounting for stock options will rise to even greater importance as corporations whose stocks have faltered—even plummeted—in the recent market decline reprice their options. I hope that FASB interpretation 44 on repricing underwater options will help to deal with this issue.

Fourth is the case of overly-aggressive and potentially illegal tax-shelters. Earlier this year, Treasury Secretary Lawrence Summers excoriated the proliferation of “engineered transactions that are devoid of economic substance . . . with no goal other than to reduce a corporation’s tax liabilities.” The Secretary is right: Such transactions strike a blow at the integrity—here, an especially well-chosen word—of the tax system. And when companies demand—and receive—“black box” features in such transactions designed to make them impenetrable to all but those who designed them, something perilously close to fraud is going on. Faustian bargains of that nature, to the extent they may exist, could even require the addition of tax services to the list of services that public accounting firms would be barred from offering to their clients.

How attest firms respond to these independence issues—and indeed whether they do—will shape the future of the profession. Most of them are clearly framed by the over-arching issue of the proper place to draw the line between business and profession. But perhaps my comments are just the ramblings of an aging Luddite who wants to bring back a proud age of tradition that will never return. In my own mutual fund industry, I know that the age of professional stewardship will return. While I do not understand the field of accounting nearly as well, I am confident that if financial market participants come to understand that the independent oversight of financial figures plays a critical role in our system of disclosure, that independence is at the core of integrity, and that the integrity of our financial markets is essential to their well-being, the age of professional accounting too will shake off today’s challenges and return to its roots.