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*A continuation of the last issue's report*

## AICPA HOLDS THIRD COMPUTER CONFERENCE

### PART II

*A Management Services staff report*

**T**ODAY, the ability to "go around" the computer in auditing exists in only the most limited cases, Stanley Halper, S. D. Leidesdorf, New York, last of the panelists discussing the new AICPA book, *Auditing and EDP*, told the recent semi-annual conference of CPA Computer Users at Kansas City.

The going-through-the-computer approach, while it may be more costly, is vastly more satisfactory to the auditor since the system he is auditing perforce includes the computer system, he added.

"The book's objective of providing a starting point for building the consensus of expert opinion on auditing practices has been substantially accomplished," he said. "The book, however, should, in my opinion, and I think the opinion of the people who worked on it, not be looked on as a panacea, because within the framework of the profession the art is consistently changing, and there is no one set of answers.

"Within the framework of the few minutes allotted me it obviously

would be impossible to go through a critical review of the work of this magnitude. However, I'd like to make this point. In the exercise of an art, the painter has the privilege of moving his brush to depict the picture as he sees it. The manual gives us the palette, and the way we move the brush and use the color in the palette may differ philosophically among us."

The book could have given more emphasis to utilization of statistical sampling with the computer, Mr. Halper went on, saying that he believed the use of statistical sampling today and of sampling data to be tested back to source documents is something which is in the forefront of the final union of computer capacity and statistical sampling.

#### *Sampling neglected*

"I would also have liked to have seen somewhat more emphasis on the utilization of the computer itself to test attributes of the sys-

tem," Mr. Halper declared, "for example, the scanning of a file to set out an exception to something which does not meet a predetermined norm. I feel . . . that most auditors probably spend 90 per cent of their time trying to figure out what to audit . . . 10 per cent . . . with exceptions to the system itself. I would prefer a little more emphasis in the book in terms of the utilization of the computer for exception and attribute sampling.

"This procedure, by the way of going through the computer again, becomes even more important as the printed audit trail disappears. Our experience has indicated that the printed audit trail, in fact, is disappearing. This may not be true in all installations, but the third generation computer is starting to make the concept of management by exception more prevalent. The auditor must therefore monitor the system and, I can't emphasize this strongly enough, work in conjunction with the internal auditor in doing this."

Mr. Halper also criticized *Audit-*

ing and EDP for not emphasizing the interrelationship of data files and the testing of them and the economy possible with a through-the-computer approach.

"Our experience has led us to the opinion that the cost of a computer application can usually be justified and that the benefits last more than one year," he said, adding that as labor costs go on rising, the benefits of using machines wherever possible, rather than people, will continue to increase.

One of the best-attended sessions at the automation conference was a panel discussion in which several CPAs discussed their individual experiences with their own computers, a discussion which soon revealed that each of them had solved his problem in completely different ways.

One of the panelists, Edwin T. Boyle, of Edwin Boyle, Hackensack, New Jersey, implied some dissatisfaction with the CPA's ethical stand on publicizing the profession's use of the computer.

"Is there something that the profession could be doing that it's not to assist in alleviating this problem (CPA firms investing heavily in computer knowledge and then finding themselves handicapped in making their expertise known)?" he asked. "I believe there could be more assistance in the form of institutional advertising, to compensate for the direct solicitation by others. The public should be aware that the CPA is a logical participant in computer work. The success of an individual CPA in this field is not sufficient; unless the successes are of a large enough number, they are identified with individuals, not the profession. In my opinion we must raise the level of the entire profession."

Mr. Boyle pointed out that the AICPA had last year issued an interpretive opinion which now permits AICPA members to incorporate the computer part of their practices, as long as they operate within the profession rather than for the general public.

"Why then, haven't more prac-

tioners taken advantage of this provision permitting us to join forces financially, intellectually, creatively?" Mr. Boyle asked. "Why haven't we set up the equivalent of a doctors' hospital where the less knowledgeable CPA can secure the aid he requires to be able to advise his clients at the highest level of professional development?"

The doctors' hospital approach would also solve major problems facing CPA firms because it would eliminate much of the duplicate cost of hardware, programs, and research and development, Mr. Boyle pointed out.

"Through joining forces we could change our way-back position as a profession in this race to a lead position," he continued. "It is not enough that CPAs be told of the wonderful opportunities that exist today in the computer field. The profession en masse must take advantage of these opportunities if we intend the profession and therefore ourselves to be identified with them. We now have the format in which to operate. Why not take advantage of it?"

#### **CPA first, then EDP specialist**

Jerome Farmer, J. K. Lasser & Company, New York, a panelist who spoke before Mr. Boyle, said that he considered himself a CPA first and then an EDP specialist and that his entire approach to the computer had been in terms of greater use of the computer in the audit function.

Moreover, he said he believes this is the most fruitful area for the great majority of CPAs, but one that requires a great deal of study and tremendous effort.

Believing as he does that the CPA can best use the computer to expand the audit function, he and his firm have shunned the service bureau approach, Mr. Farmer said.

"I couldn't care less about selling payroll for twenty-three cents a line when someone is selling it for nineteen cents a line," he said. "I don't think this is the sort of competition I sought to engage in

***"I believe there could be more assistance in the form of institutional advertising, to compensate for the direct solicitation [of computer business] by others. The public should be made aware that the CPA is a logical participant in computer work. The success of an individual CPA in the field is not sufficient . . ."***

**— Edwin T. Boyle**

when I embarked on a professional career.”

“Instead we oriented our programs toward the elimination of the detail which inevitably creeps into any auditing engagement and which discourages young men and disillusiones them regarding the advantages of this very exciting profession,” he said.

The computer at J. K. Lasser is used for preparation of adjusted trial balances and for preparation of extended work papers, balance sheets, income statements, consolidations, and analyses of special departmental costs. The 1120 corporate income tax return is prepared on it completely, with the exception of the bottom half of Page 3, which has not yet been adapted to computer print-out.

***“Compared to people, the computer is available 365 days a year, it does not have emotional problems, it doesn’t fall into or out of love, it doesn’t take extended lunch hours, and it doesn’t go on vacation.”***

**— Jerome Farmer**

#### ***Effective practice management***

J. K. Lasser is now programming the computer to process the New York State corporation income tax return as a by-product of doing the 1120.

“So we can,” said the speaker, “in one pass if we choose—and it wasn’t easily accomplished—run a financial statement, branch out of the financial statement into the 1120, branch out of the 1120 into the New York franchise tax return, and do it all in a fraction of the time that it would normally take a skilled individual, doing it manually. We can also get a much better job, eliminate statistical typing, meet deadlines, and perform a variety of other functions.

“I’d like to point out that, compared to people, the computer is available 365 days a year, it does not have emotional problems, it doesn’t fall into or out of love, it doesn’t take extended lunch hours, and it doesn’t go on vacation.”

“I merely alluded to the extension of auditing procedures as one use for the computer,” Mr. Farmer concluded. “Perhaps one of the greatest paybacks we’ve had is our ability to produce administrative reports that will enable us to manage our practice more effectively.

“The use of the computer to help you to administer your practice more effectively is one of the greatest things you can do for yourself.”

#### ***“Fear” approach scored***

Mr. Farmer added that he thought there had been too much emphasis on the fear approach—the theory that CPAs who do not become involved in automation will become passé, will have no clients.

“Well, it just isn’t going to happen,” he assured the audience. “You won’t be wiped out. Everybody in this room could probably finish his career without being unduly affected by the computer. But if you are thinking of building an accounting firm, if you are thinking of capitalizing on the one major asset you have, the great intangible called good will and continuity of your firm, my suggestion is you’d better get with it, because you’re not going to get the bright young men who are coming out of school. They have a greater background for this field than you have and a much greater capability for it, and if you haven’t got tools that they’ve been working with, they’re not going to work with you.”

Another of the panelists, Mr. Halper of Leidesdorf, described the distinctive operation within his company, where he heads an EDP department that is in effect a service unit and consultant to both the firm’s auditing staff and management services personnel. The EDP group reports directly to the firm’s managing partners rather than to management services.

Primary responsibility is to auditing, while work for the management services division is done on a bid basis exactly as though the EDP unit were an outside service bureau.

“If we’re good enough, we get the job,” Mr. Halper said. “I’m not kidding when I say we lost several jobs because of our prices.”

Direct service to clients is given on a very limited basis and is re-

stricted to certain selected jobs such as marketing, projections, and simulations, Mr. Halper continued.

### ***Auditing quality paramount***

But these interests are peripheral at Leidesdorf. Maintaining the quality of the audit work is always the main assignment of the EDP group.

"Our main thrust now is toward educating our auditors in the role they have to play," the speaker went on. "In order to achieve this, we feel they must lose their fear of the computer; this can only be achieved by a dynamic education program with a minimum two-week training period for each auditor so they can communicate with us. The education work is on a full-time basis. Tomorrow we plan to have a conversational mode on line with our computer for our auditors. This will enable auditors by use of a console—whether in the staff room where it is presently being worked on or at our other offices—to communicate directly with the computer in a problem-solving environment."

Some clients will be linked directly to the Leidesdorf computer so that they can be audited continually, he said.

"We hope to upgrade our equipment, to provide further capacity for simulation techniques in the management science area," Mr. Halper concluded. "This will apply whether we simulate our clients' environment, which we do for auditing purposes, or do work for them in network analyses and various other things."

What about cost of computer installations, especially for the smaller firm?

Mr. Boyle had some concrete words on the subject. He divided the majority of CPAs now involved with computers into four categories: those with third generation electronic equipment; those with less expensive, relatively primitive machines; those who have computers on order or plan to order them in the near future; and those who are

working through service firms and have no current intention of getting computers of their own.

The cost of large, modern computers is almost prohibitive for a small firm, he said. "Computer hardware in this category rents in the neighborhood of seven to eight thousand dollars a month. Personnel and other collateral costs normally are higher than the cost of the hardware, so that we're talking in budget terms of two hundred and fifty thousand dollars up a year."

Competition from banks, computer service centers, and other management consultants is also intense, he pointed out.

### ***Time serious cost factor***

Another main problem, in his view, is the amount of time that must be devoted to electronics if one is to become deeply involved in computers.

"And the time involved in this is spent, must be spent, by our top-level personnel—no-charge time at that," he went on. "Adding up all of the above factors, we must conclude that very few small to medium-size practitioners can afford this league. They must seek other alternatives." These alternatives may include associations with other CPAs, use of service centers, buying of "block" time, or other non-hardware involvement.

The second category of CPAs, those with slower and less sophisticated equipment, is handicapped because of the equipment, he said. Many of them are talking of data collection centers, with remote station terminals at their own locations. But this in turn presupposes moving into a more expensive league and facing much the same problems that affect firms in Category One.

It was here that Mr. Boyle advocated the doctors' hospital approach mentioned earlier. Such an answer, he pointed out, would begin to solve most of the problems faced by firms falling into both of the categories.

***"... if you are thinking of building an accounting firm, if you are thinking of capitalizing on the one major asset you have, the great intangible called good will and continuity of your firm, my suggestion is you'd better get with it [EDP] because you're not going to get the bright young men who are coming out of school. . . . if you haven't got tools that they've been working with, they're not going to work with you."***

***—Jerome Farmer***