

University of Mississippi

eGrove

Guides, Handbooks and Manuals

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1962

Public Relations Clinic: Notes for Discussion Leaders

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_guides



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Public Relations Clinic: Notes for Discussion Leaders" (1962). *Guides, Handbooks and Manuals*. 886.

https://egrove.olemiss.edu/aicpa_guides/886

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Guides, Handbooks and Manuals by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC RELATIONS CLINIC
NOTES FOR DISCUSSION LEADERS

1962

Throbal



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

270 MADISON AVENUE
NEW YORK 16, N.Y.

March, 1962

INTRODUCTORY REMARKS

This program is what its name implies. You don't go to a medical clinic because you are in perfect health. You go there to determine the extent, if any, of your physical or mental disorders, and how your diagnosed trouble can be cured. You go through prescribed examinations, answer probing questions, and are made to recognize your ailment. Finally you come to know its causes and its remedies.

We have just spent some time analyzing national and local attitudes toward CPAs as a first step in this diagnosis. It is assumed that both positive and negative attitudes toward the profession as a whole are problems to some extent for every CPA firm. But the extent will vary.

So we need to diagnose further. You need to understand, as far as possible, what the business community thinks of you and of your firm. In diagnosing your problems, and in deciding what to do about them, it is important to realize that there is no cut-and-dried solution to the public relations problems of all firms. All public relations programs must be custom-made to fit the needs of a particular firm.

Gentlemen, analyzing what's wrong and what's right in our own image is not easy. If we were business men, selling a product instead of a professional service, we would hire marketing researchers who could find out what we need to know. But few if any CPAs are in a position to hire interviewers to query their clients. So we are forced to rely on our own judgment. This is dangerous, since all of us, being human, may not appraise perfectly what our clients and others really do think of us. But this self-diagnosis, with all its obvious limitations, seems the only feasible approach.

We try to help you to be objective by listing specific questions that probe a few of the most crucial attitudes involved in a relationship between CPAs and others who are important to CPAs. The first group of these questions begins on page one of Your Public Relations -- A Questionnaire for Certified Public Accountants.

I. CLIENT RELATIONS

In this program we stress client relations as the single most important part of public relations. In a word, our clients are our most important public. What they think of us determines in large measure and in the long run what the rest of the public thinks of us. And the image of the profession as a whole is determined primarily by the sum of all the relationships between CPAs and their clients.

A. DIAGNOSIS (What is your image among clients?)

How can we go about answering these questions under "Diagnosis" in an objective spirit?

One test of our objectivity is this: do you find that clients resist fees unreasonably, because they don't comprehend the significance or expensiveness of some aspect of your service? Or we might ask this: are you charging a lower fee than you should be charging because you realize that clients don't appreciate either the value or the expensiveness of your service, and that you therefore don't dare to raise fees when you should? Are you running around in a squirrel-cage of unprofitable engagements? Is there unwarranted friction in your relationships with clients? Is there a sterile coldness in your relationship with clients, so that they really don't know the significance of what you do?

If there is, or if there is even a degree of these ills, let's try to identify specifically what the client doesn't know about your services, and what may therefore be responsible for murky areas in your image.

We fully realize that the questions in this questionnaire cannot be answered with a simple YES or NO. You won't be able to apply the questions inflexibly to all clients, credit grantors, and others. That is why we ask for the answers "In general YES" or "In general NO." Also, if you feel that the question has no significance in determining a desirable image of your firm, you should check NO in Column 4. If you feel that the question does have significance, but that a straight answer is for some reason just plain impossible, you should check YES in Column 3.

The most desirable column to check is Column 1. But it is probable that no firm in the country would check column 1 for every question. If a CPA firm did check "In general YES" for every question, it might conceivably have little time left for accounting. Indeed, the whole object of this analytical approach is to increase efficiency in locating problems, and the appropriate and feasible solutions. Good public relations procedures should be integrated with efficient management of a practice, and should not become a strain upon efficient management.

Do you wish to discuss the QUESTIONNAIRE and its use?

Or any other matter that occurs to you?

I-A-1. DO YOU BELIEVE YOUR CLIENTS HAVE A GENERAL IDEA OF THE REQUIREMENTS FOR CERTIFICATION?

162 CPA offices: 131 -- yes; 30 -- no.

EXPLANATION:

What should an "accurate general idea" include?

The following:

Education and training.

Code of ethics.

Membership in professional societies.

Licensing by state board of accountancy and what this connotes.

Personal responsibilities.

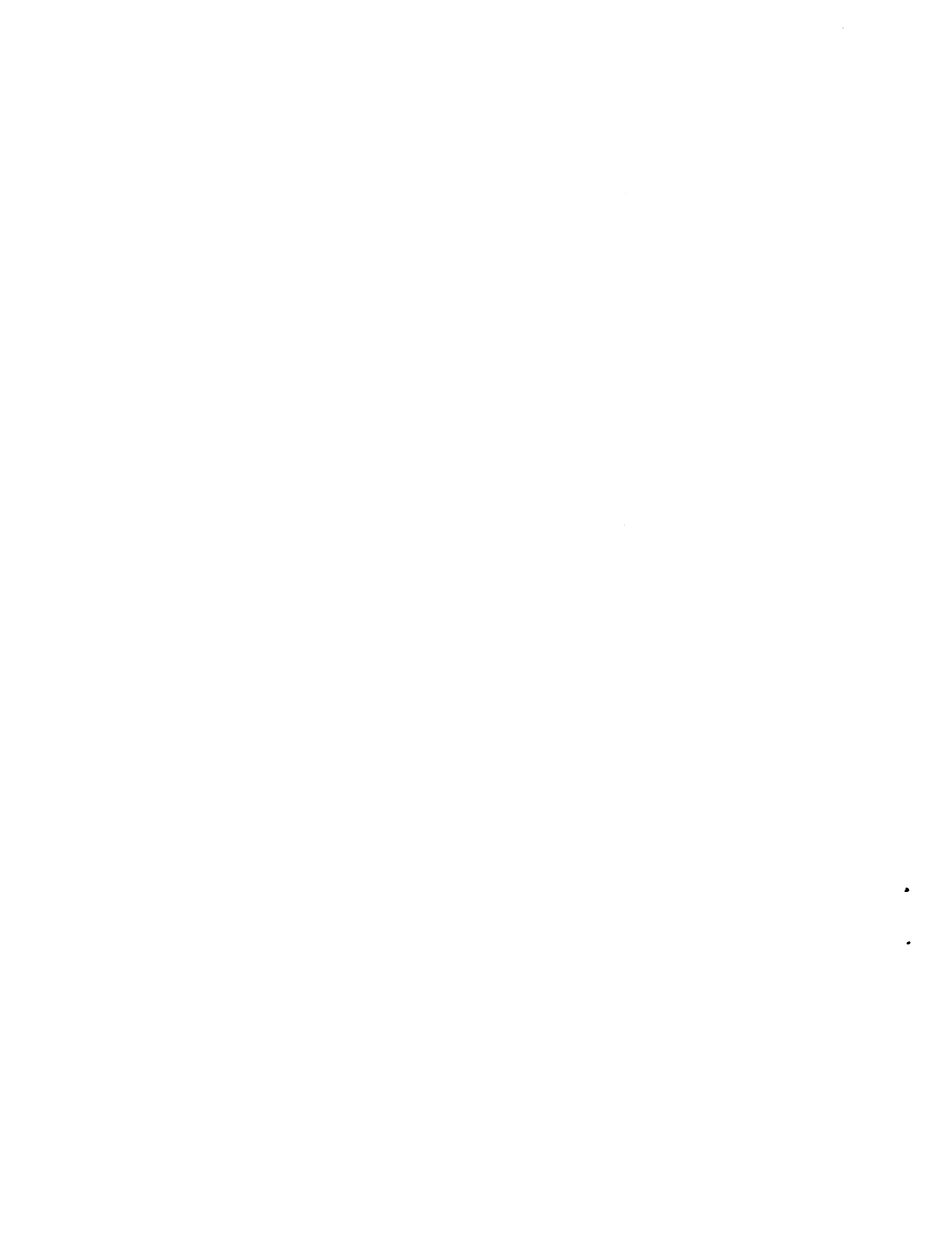
A corrolary question: Do your clients realize that there is a difference between a certified public accountant and a public accountant?

COMMENT:

Although the knowledge that we are certified and what this means would seem to be basic to any identification of us at all, 30 out of 162 CPA offices said they didn't think their clients did, in general, have this knowledge.

If there are firms here that are in doubt about whether their clients know what their certificate means, they might begin by identifying themselves clearly in their letterheads. Also, you might show in your letterhead that you are a member of your state society and of the Institute. The Institute's leaflet, Your CPA's Responsibility, might be usefully mailed to some clients.

Sample copy for display.



March, 1962

4

I-A-2. DO YOU BELIEVE YOUR CLIENTS KNOW ABOUT THE RESPONSIBILITIES IMPOSED ON AND ASSUMED BY YOU UNDER THE RULES OF YOUR PROFESSION?

162 CPA offices: 110 -- yes; 50 -- no.

COMMENT:

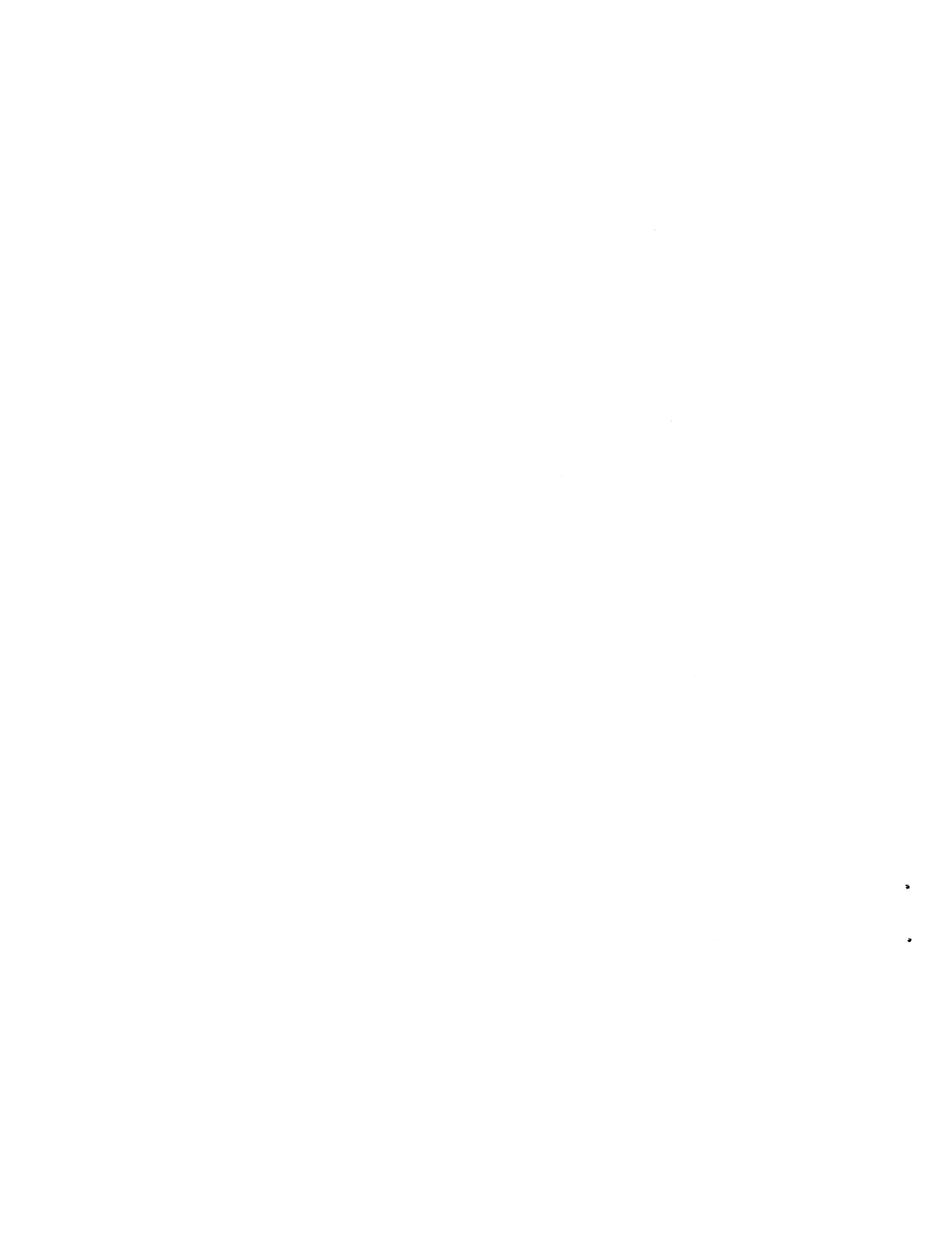
Surprising number who answered "In general NO."

I-A-3. DO YOU BELIEVE YOUR CLIENTS UNDERSTAND WHY AUDITING PROCEDURES ARE OFTEN TIME-CONSUMING?

162 CPA offices: 109 -- yes; 51 -- no.

COMMENT:

Do you wish to discuss this question?



I-A-4. DO YOU BELIEVE YOUR CLIENTS UNDERSTAND THAT MAINTAINING PROPER AUDITING STANDARDS REQUIRES COMPETENT STAFF, WHICH IS CORRESPONDINGLY WELL COMPENSATED?

162 CPA offices: 110 -- yes; 51 -- no.

COMMENT:

The Clinic surveys of businessmen have exposed in several areas some discontent with the work of CPAs' staff men. With the personnel shortage, this is a problem of professional performance as well as a public relations problem. In fact, it's a good example of how the two are often inextricably interlinked. The discontent of the businessmen has been expressed in this way: "Some men are spectacularly better than others," one businessman commented. And another said, "I don't like to pay the same rates for men who are doing a good job and men who aren't."

If a firm has a staff man who is really not doing a good job, obviously this problem needs to be solved before we start to sell clients on the abilities of staff men. If juniors are really too slow are are spending too much time on minor details, the senior should be controlling this factor by keeping track of the time budget of the engagement day by day as the work progresses.

At the same time, there is undoubtedly a public relations problem of clients not being aware of the experience, training and real ability that is concentrated on their affairs during audits.

Here are three ways of making clients aware of the abilities of staff men, and/or creating an image of a firm deeply concerned with training and therefore standards:

- a. Include a staff man in conferences with clients on such matters as the resolution of some issues regarding evaluation, proper procedure, or a reporting standard.
- b. Place an article on your staff in the house organ of your client. Title: Here Come the Auditors. Show that auditors don't in the long run disrupt the work of company employees -- immediate time required is made up by increased efficiency.

Tell who the people are on the staff. If they change on the next engagement, place another article! Show that CPAs are people -- not an abstract function or a necessary evil. Company employees, including future management, can be taught to respect the standoffishness that is often necessary for auditors.

- c. Even where staff men are not sufficiently advanced to participate in conferences with clients, have them sit in and listen. The client sees the interest of your firm in training personnel.
- d. Can you think of other ways of making your clients aware of the special abilities of your staff men?

I-A-5. DO YOU BELIEVE YOUR CLIENTS SHOW REASONABLE RECOGNITION OF THE VALUE TO THEM OF YOUR FIRM'S REPUTATION IN CONNECTION WITH FINANCIAL STATEMENTS LEADING TO A LINE OF CREDIT?

162 CPA offices: 131 -- yes; 30 -- no.

COMMENT:

Although most CPAs who have attended the clinics have answered "In general YES" to this question, the Institute's surveys of businessmen show quite a bit of skepticism about the value of the work of CPA firms in connection with financial statements leading to a line of credit. A very large proportion of the businessmen interviewed have declared that they don't see much relation between their CPA's audit and their ability to get a loan.

It seems likely that many businessmen feel they are getting the highest possible credit rating anyway, and fail to realize that a CPA audit is partly responsible. (Of course, in an interview with a representative of the Institute, they may be expressing a businessman's normal reluctance to admit to any but a high credit standing. In any case, if they really do fail to see the value of an audit to credit, both CPAs and bankers should be concerned to correct this situation.)

It is possible that we CPAs tend to be too optimistic about the business community's evaluation of our audits and in particular their use in getting credit. If you have any reason to believe that your clients doubt this value of your audits, a planned program to talk with bankers "across the banker's desk" may do more than anything else to do away with this skepticism -- particularly if the client attends these conferences.

March, 1962

7

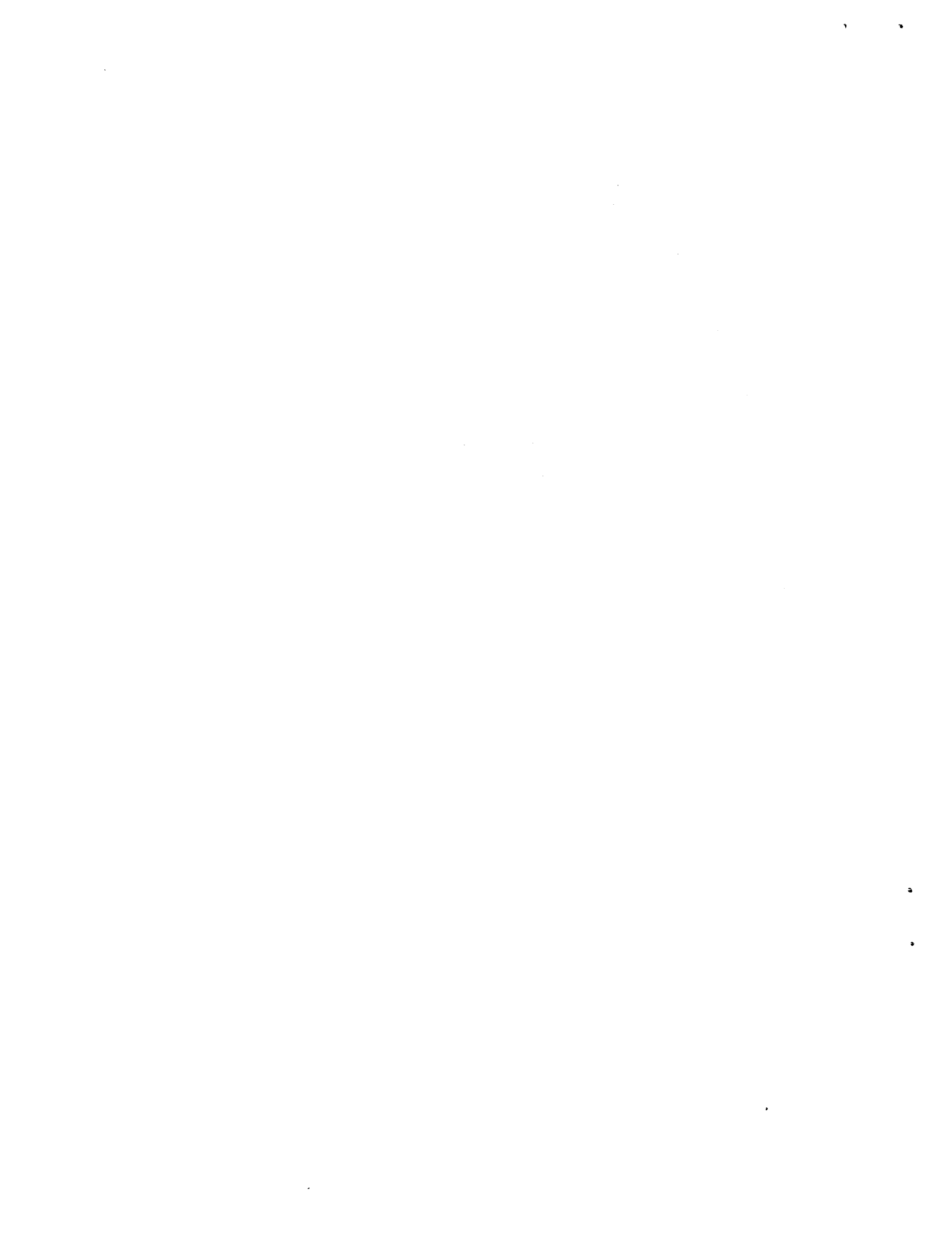
I-A-6. DO YOU BELIEVE YOUR CLIENTS SHOW REASONABLE RECOGNITION OF THE VALUE TO THEM OF YOUR FIRM'S REPUTATION AND STANDING WITH THE FEDERAL, STATE AND LOCAL TAXING AUTHORITIES?

162 CPA offices: 149 -- yes; 12 -- no.

COMMENT:

What is the actual value of your firm's reputation and standing with the IRS and the state taxing authorities? Some CPAs express the private opinion that it means little. Do the actual number of tax cases in your office correspond, as far as you know, with the actual number in other offices?

One CPA was told this by a Chief in the Internal Revenue Service: "Your good reputation may be costing you some tax case work. But if the potential erroneous returns run high for checking, we give preference to your firm's returns by not checking them. We check others filed by less reputable accountants."



I-A-7. DO YOU BELIEVE YOUR CLIENTS HAVE A CLEAR IDEA WHAT MANAGEMENT SERVICES YOUR FIRM IS PREPARED TO RENDER?

COMMENT:

In answering this question, we must bear in mind two things: that we don't undertake services we can't render properly -- the worst public relations mistake; and on the other hand that clients and others are aware of services we can render.

(Louis Pilie): "How far should you attempt to climb? What do you consider your obligation to be -- to your present clients, to your environmental publics, even to other CPAs with whom you are now, or may become, involved in referral relationships?"

"We are more frequently coming face to face with one prime duty. I speak of the duty to equate our varying obligations to our respective publics to our competencies. These are measurable.

"Let's take one general example, applying to all of us in life. If a person's life is in danger, and we can do something to remove that danger, to do so is our duty. If, from your 10-foot high wharf you can throw a rope to a drowning enemy, you must throw the rope. But, even if your best friend is drowning in 20 feet of water and you can't swim, you are obliged, morally, not to jump if other means of saving your friend are of no avail. Having two drownings is worse than having one.

"The same goes for all practicing CPAs. It is impossible for each of us to become qualified in every phase, in every specialty, of the practice of public accounting. You should not throw yourself in after a drowning client if you will drown too!

"So your goal in the uphill climb must be set with due regard to your strength and stamina. If, for example, the installation of an adequate 'responsibility' budget stands three-quarters of the way up the slope, you'll collapse after less than a third of that distance if your sole qualification is the book you read casually on the subject of budgets.

"With this analogy I intend to stress a factor of real significance in the development of a proper public relations program for yourself. It is a two-pronged factor:

"The first is to refrain from any service in which you do not possess competence. If you are partially competent -- on speaking terms with it-- you'll fare much better by referring that work to someone capable of delivering the goods. If you persist in attempting to serve in ways in which you are not qualified, you are your own worst enemy -- public relations-wise.

"The second is, once possessing the capability, it helps nobody if you keep your precious knowledge in the solitary confinement of your own mind. You must communicate it, effectively, to the people who can and should use it."

A letter to your clients, explaining what management services are rendered by your firm, may be useful for this purpose. A sample of such a letter is on page 14 of Visual Aids -- Pattern Letters -- Etc.

I-A-8. DO YOU BELIEVE YOUR CLIENTS APPRECIATE THE VALUE OF YOUR SERVICES IN TERMS OF PROFITS -- TAX AND OTHER SAVINGS OR INCREASED EFFICIENCY?

162 CPA offices: 109 -- yes; 51 -- no.

COMMENT:

About one-third of the 145 firms responding to this questionnaire said "In general NO."

That the business community does not always appreciate the value of CPA services in terms of increased profits has been shown by a survey made for the Institute back in 1957 (Economics of Accounting Practice: Bulletin #2, "Small Business Looks at the CPA"), and by the current clinic surveys. One of the questions the clinic interviewers ask businessmen is: "Do you feel that your CPA is now important to the profitable management of your business?"

Often the answer is no; or a qualified no -- he is frequently said to help profits through his tax work. Then the interviewers pursue this subject a bit. Has he prepared a budget for you? Well -- yes, he did prepare the first one and the controller now does it every year. Has he reviewed the adequacy of your insurance coverage? Yes, he does comment on that every year during our conversation following the audit. Then, to a variety of other questions, the businessman also answers yes, questions having to do with analysis and control of costs, systems, analysis of receivables, forecasting working capital requirements, and so on.

The fact that many businessmen do not relate these matters to profits, unless an Institute interviewer draws a picture for them, suggests how greatly many invaluable services have been underappreciated.

Obviously, a lot of us ought to be drawing the right kind of pictures too. How? Does anybody have some ideas about this?

Example: Increased profits through tax savings. (Cited by Louis Pillie) A \$14,600 assessment in personal property taxes was levied against a client who had no audit of his inventories. The Review man apprehended this apparent excess and reported it

to the in-charge partner. A selective testing program was adopted, and the assessor was shown that the reported inventory made no provision for near-useless, slow-moving goods. Result: several thousands of dollars in savings the same year; and an up-to-date machine system of control was installed. The client was naturally very happy, and regretted it was the first year he had engaged this firm of CPAs. The same reporting fault had been committed in the previous year. The client will have inventories tested and observed in the future.

Example of how to make clear the relation between profits and systems, a little lesson in economics for some clients. (From a talk by Richard C. Rea, following the Ohio Clinic.) "Have you ever had a client say to you, 'Now what is this going to cost?' Have you ever sat down and thought out ahead of time the various ways to answer this question? We (my partners and I) spent a lot of time discussing the ways this question can be answered, and here is just one of the persuaders which we use.

"This is not going to cost you anything. A good accounting system is a tool. Since it is a tool it must contribute its share of profit just the same as any piece of equipment in your plant. Now just like any high-priced tool, it can do its best work only for those who have the skill to use it. But once you have this tool installed and have acquired skill in its use, it will cost you nothing because it will pay you a profit.'

"Now that one appeals to most cost-minded businessmen. Since it is in terms they understand and appreciate, they are more than likely to repeat it themselves.

"Here is another.

"The trouble is, Mr. Jones, that this business is running you. With our help, we can turn this situation around to where you are running the business.'"

I-A-9. DO YOU BELIEVE YOUR CLIENTS UNDERSTAND THAT OVERHEAD IS INCURRED IN ALL OF YOUR ENGAGEMENTS, AND UNUSUAL COSTS IN SOME?

162 CPA offices: 95 -- yes; 99 -- no.

COMMENT:

Expensive machines are idle much of the time. . . CPAs operate out of spacious and comfortable offices. . . High costs for stationery, work papers, reproducing, typing non-productive work, reports, checking and proving.

I-A-10. DO YOU MAINTAIN ADEQUATE STAFF SO THAT THERE IS NO UNDUE DELAY IN RENDERING PROMPT AND TIMELY SERVICE?

162 CPA offices: 73 -- yes; 86 -- no.

COMMENT:

Idle time is one effect of having some one on the spot when he is needed.

I-A-11. DO YOU BELIEVE YOUR CLIENTS KNOW THAT SUBSTANTIAL TIME ON THEIR PROBLEMS IS SPENT AWAY FROM THEIR PREMISES BY YOUR STAFF AND PRINCIPALS?

162 CPA offices: 100 -- yes; 60 -- no.

COMMENT:

In the first place, for good client relations, it is better to do as much work as possible in the client's office.

But when work away from clients' premises is necessary --

Do they realize that you have superior equipment in your office?

Do they realize that you give time to their problems outside of office hours? When 162 CPA firms were asked whether their clients realized that they had given time to clients' problems outside of office hours, 77 CPA firms said YES -- 84 CPA firms said NO. The concern of CPAs for their clients' affairs is probably unappreciated a good part of the time.

What can be done about this?

It is important, in letting clients know about your concern, not to appear harrassed. The clinic surveys have shown that quite a number of businessmen do think of CPAs in this light. Sometimes, they have stated that they didn't consider their CPAs for some kinds of services because the CPAs were too busy. On occasion, these were the kinds of services that can usually command high fees.

If your client doesn't realize you are concerned about his problems, try making statements like this: "I jotted down this memo while working on the affairs of another client. His problem is like yours in this way. . . Therefore I think you should do thus-and-so. . . The reasons are. . ."

This approach makes the client realize that he is kept in mind even when you are not around.

I-A-12. DO PRINCIPALS OF CLIENTS FREQUENTLY SOLICIT YOUR ADVICE?

162 CPA firms: 152 -- yes; 9 -- no.

COMMENT:

Any questions or comments on this?

I. CLIENT RELATIONS

A. DIAGNOSIS -- CONCLUSION

COMMENT:

The questions we have asked are only a sample of those that might be asked in diagnosing a fairly typical CPA firm's relations with clients.

Perhaps you would like to ask other questions. I am sure that there are many others that could and should be asked, if we had time, and if we could cover in one session of this clinic all the kinds of relationships that many different CPA firms face.

In diagnosing your problems, and in deciding what to do about them, it is important to recognize that there is no cut-and-dried solution to the public relations problems of all firms. All public relations programs must be custom-made to fit the needs of a particular firm.

I. CLIENT RELATIONS

B. COMMUNICATIONS

COMMENT:

Now that we have completed a brief diagnosis, what are we going to do about it? How are we going to communicate in order to influence clients? This is the heart, the dynamic part of any CPA firm's public relations.

I-B-1. DO YOU CONFIRM YOUR AGREEMENT WITH NEW CLIENTS IN WRITING, SETTING FORTH THE SCOPE AND TERMS OF YOUR ENGAGEMENT, SO THAT THERE CAN BE NO MISUNDERSTANDING?

162 CPA offices: 3 -- yes; 26 -- no.

EXPLANATION:

If you cannot be exact as to fee, you can commit yourself to sit down with the client to arrive at a mutually satisfactory fee prior to your rendering the final billing.

COMMENT:

In this statistic, showing the proportion of CPA offices that don't do this, is reason for some concern. No wonder clients are often not clear about a lot of things! The profession hasn't been informing clients adequately about the nature and usefulness of CPA services -- from the beginning of the engagement.

Howard Kahn, president of the Albany Chapter of CPAs, volunteered this story during the clinic in Albany: Howard related that within the past year he took one of his youngsters to an orthodontist. This professional man had what Howard described as a "fixed ritual". He didn't want to see just the mother -- but both father and mother. He gave both parents an hour-and-a-half dissertation. As Howard described it, "He produced a sample of my little monster's teeth." He had everything spelled out -- "By the way, here's how charges are made, here's how you pay it." The client, in this case a CPA, said he was spellbound. The following day he received in the mail a letter and pamphlet.

Howard Kahn passed the letter along to us, at our request, and it's a good example of how a professional man can make a very good impression by setting down the terms of an engagement in black-and-white. It begins: "Dear Mr. and Mrs. Kahn: This is just a customary memorandum I send to the parents of my patients for the purpose of coordinating viewpoint and understanding between you and this office in regard to the effort which is being made to correct William's orthodontic problem." Then, paragraph by paragraph, the letter asks for cooperation of parents, explains the value of orthodontic treatment, explains estimates as to the length of treatment expected, makes a recommendation about regular dental care, and explains the fees as follows:

"The financial arrangements for William's orthodontic treatment are as follows: There will be an initial payment of \$200" -- and so on, outlining the terms. The orthodontist commented: "The financial arrangements are entered into for your convenience in making payments and the payment per month is not predicated upon the number of visits or amount of attention during any one month. They are determined solely to budget the financial obligation for your convenience." And so on.

Even from these short excerpts, I think it is clear that this orthodontist is not doing anything so undignified as to make anything resembling a pitch. Rather he gives a clear statement of responsibilities, and what the service will do. When the bills came, there was no question why this or that was done.

Misunderstanding can be avoided in like manner by CPAs who spell out what will be covered in an engagement -- that is, an audit plus any unusual services. This is just good business. Gentlemen, this is one thing which -- if you aren't doing -- will be a very useful habit for you to acquire. You avoid misunderstanding. You make clear the scope of the engagement.

After a proper letter, you are not exposed to: "Oh, I thought you were going to do this or that for me" -- and so on. A proper letter of this kind is an insurance policy for four cents.

Any comments or questions?

(Some CPAs have felt at the clinics that such letters were necessarily technical and rather cold. John Ring commented on this feeling as follows: "The letter need not be too technical. Something like this would do: It was a pleasure meeting you yesterday to review your accounting system and to meet your

personnel. This is to confirm that we will begin our engagement the first of October and that the terms of our engagement as agreed on in our conversation yesterday are to perform an examination which will conclude with an unqualified opinion.")

In some firms, this writing is done every time there is any restriction on audit work. The only engagements which do not require this letter setting down the terms are the unlimited audit engagements.

I-B-2. DO YOU CONFIRM IN WRITING TO OLD CLIENTS, SETTING FORTH THE REVISION OF AN ENGAGEMENT AS TO SCOPE AND/OR TERMS, SO THAT THERE CAN BE NO MISUNDERSTANDING?

162 CPA offices: 23 -- yes; 137 -- no.

COMMENT:

What has been said regarding the last question applies here, with a slight difference.

A change in rates for fees should very seldom be communicated to an old client in writing. It is often well to talk about this a year in advance, when discussing a completed engagement. It's too cold to write to an old client to the effect that this year we are going to have to charge more. This can be handled better in face-to-face meetings.

However, letters outlining changes in scope of an engagement are usually advisable. Naturally, they can often be friendly and informal in tone.

The advantages of communicating agreements with clients from another point of view are discussed in Chapter 6 of The CPA Handbook, "Legal Responsibility and Civil Liability."

I-B-3. DO YOU IN PERSON REVIEW REPORTS WITH CLIENTS WHERE WARRANTED?

162 CPA offices: 116 -- yes; 43 -- no.

EXPLANATION:

In small firms, some system for singling out the larger clients for delivery of reports and/or appointment for discussion may be necessary. There isn't time, in some kinds of practice, for doing this with every client. However, this puts a premium on systematic selection of those who should be involved in discussion.

COMMENT:

Large firms are probably more derelict in this practice than small firms. Of 145 CPA offices, 2 large offices with over 50 staff men and principals did arrange such discussions while 7 did not; in the middle-sized offices of 5 to 50 staff men and principals, 33 did arrange such discussions while 18 did not; and in the small offices of 5 or less staff men and principals, 51 arranged these discussions while 6 did not.

(Louis Pillie): "The CPA who approaches this profession with the idea that he's going to give a client a balance sheet or profit and loss statement and a few schedules, and stops there -- he's missing the boat! Your client wants you to go further than that. He wants you to sit down and give him the information that will be useful to him in the management of his business and affairs. If you just stop with your audit report and think your responsibility is over, you are on the wrong track.

"You've got to remember that your client is a layman. He's not capable of interpreting inventory turnover, or ratio of current assets and current liabilities, or whether he's taking on more obligations than his profits show he can properly amortize. I think you have to sit down and properly guide him."

This is an opportunity to acquaint the client with the scope and standards of the work done. It is a chance to discuss further problems you have discovered in his organization. Taking a leaf from the results of surveys, you might ask yourself these

basic questions about matters that many businessmen don't clearly grasp. Does he appreciate the relationship between your audit and his ability to borrow money? Does he comprehend the need for systematic tax planning as well as preparing returns? Does he understand the advantage of having his tax return reviewed prior to typing? Is he aware of the management services rendered by your firm and how particular services might make or are making his business more profitable?

Preparation for these discussions, with full realization of what the client needs and what you are prepared to give him, can pay off in expansion of your practice among existing clients.

Two incidental points:

- a. It is a good policy to get the client into your office as much as possible for these conferences. He's away from interruptions by his own executives, secretaries, or telephone. He sees tangible evidence of professional practice -- library, equipment and so on. And he also absorbs intangibles -- an atmosphere of calm and thoughtfulness that is lacking in some business offices.
- b. These meetings are opportunities to make clients aware of your staff men's abilities. While you are present, it is easier for the staff man to show that he is no mere neophyte.

I-B-4. DO YOU ENCOURAGE INVITATIONS FOR YOU TO PARTICIPATE IN MEETINGS WITH CLIENTS AT WHICH BASIC POLICIES ARE DECIDED?

162 CPA offices: 77 -- yes; 84 -- no.

COMMENT:

The clinic surveys have shown, especially in some areas where most of the business is small and most CPA firms are also small, that many businessmen feel that CPAs are not "forward" enough in making their knowledge available to clients.

It is appropriate to keep this attitude in mind in considering these questions, since the natural reaction to the question is: "How do I get myself invited?"

While great variety in circumstances make specific answers difficult, a general rule on who should initiate contact with whom in relations with clients may be helpful. Unless this is settled easily by long-established relationship with the client, the client should do the initiating -- and generally does, as our surveys show.

But when is initiating the contact proper for a CPA? Observing what doctors do may be helpful. You would find it strange if your family doctor called every month to inquire about your health. On the other hand, your doctor probably does make clear the circumstances on which you should call him -- "If temperature is over 101 in the morning, be sure to call me." And where the patient is not competent to evaluate the contingency requiring a call, the doctor himself makes the decision -- "Stay on a liquid diet. I'll call in the morning."

Evidence of concern and knowledge, continuously and systematically shown, is fairly certain to lead to your presence being requested at your clients' policy meetings.

(Additional problem here: How should this time be billed? If the client comes out of such a meeting with helpful ideas, or simply with a feeling of security because the CPA has reviewed what is being done, there should be no question about billing for the time.)



I-B-5. WHERE FEASIBLE, DO YOU POINT OUT TO CLIENTS THE ADVANTAGES OF HAVING REPORTS COMMENTING ON ITEMS OF INTEREST NOT GENERALLY PART OF CONVENTIONAL FINANCIAL STATEMENTS?

162 CPA offices: 136 -- yes; 22 -- no.

EXPLANATION:

"Feasible" relates to the fee, or to the technical accounting involved in a particular problem.

COMMENT:

What does the client need? This should determine the extent to which this is done. If the client is a small business, and the bank gives the small loans it needs without an opinion report, the practitioner should go along.

Where a sole practitioner is involved too much in preparing reports from the books without audit, the question of a staff man becomes for him to some extent a public relations problem. Would it be better for him to acquire a staff man to do the kind of work he is now doing, so that he can give time to expanding the scope of his services? What the effect of so doing is likely to be on his developing reputation should be a factor in his decision.

Some firms have found that a small amount of typing attached to a short form report can make clear to the non-technical reader the actual responsibility assumed by the CPA. Notes to Financial Statements or Comments on Financial Statements, having nothing to do with the scope of the engagement, is an essential form of communication in many situations. Often, these are likely to contain brief comments on receivables and inventories.

I-B-6. WHERE USEFUL, DO YOU WRITE LETTERS TO CLIENTS, SETTING FORTH THE KIND OF RECOMMENDATIONS THAT ARE USUALLY NOT MADE PART OF YOUR REGULAR AUDIT REPORT?

162 CPA offices: 104 -- yes; 44 -- no.

COMMENT:

A "management letter" is involved here. The advantage of the management letter is that matters of interest to management, but not necessarily to banks or others who may see the audit report, are set forth in writing. It is desirable and proper to set forth some ideas in writing, so that you go on record. For example, if you point out a weakness in internal control, in the event of a defalcation your reputation has additional protection. Also, by putting creative suggestions on record you make it more likely that you will get credit for what you do.

These letters are so important in our client relations that it may be helpful to discuss them in some detail -- how they are written, a couple of problems that come up in using them, and how to check on the implementation of your suggestions.

It is important that the letters not be merely impressionistic -- and that they make genuinely creative suggestions. To assure this, the work of staff from the beginning of the engagement should point toward writing the management letter at the end of the engagement. A variety of documents under a variety of titles may be useful for this purpose. There are standard audit programs that may reveal some of the information you will want to put in a management letter. An internal control questionnaire, filled out by a staff man on the job, may yield more information. There are useful checklists in management controls that are likely to provide a pattern for recording a lot of the information that is useful for this purpose.

(BIBLIOGRAPHICAL NOTE: There are many sample checklists available. The following list is merely suggestive:

Accountant's Office Manual, by Charles S. Rockey, Prentice-Hall, N. Y. (includes an internal control questionnaire.

Audit Guide, Local Practitioners' Round Table of the Minnesota Society of Certified Public Accountants (includes Internal Control Questionnaire provided by Louis Pillie).

How to Appraise Management -- a Checklist in Management Controls, Vol. VII, No. 2, February 1960, of Bulletin of Peat, Marwick, Mitchell & Co.

Management Audit Reports, by James J. Hickey, Kevmar Publications, Stratford, Connecticut (includes management checklist and sample letters).

Management Service Questionnaire provided by Gordon Ford of Louisville for "The Practitioner's Forum in The Journal of Accountancy of February 1960.

Montgomery's Auditing, Appendix of 7th Edition, Ronald Press, N. Y.

Standard Audit Program, by C. Oliver Wellington, D. Van Nostrand Company, 120 Alexander St., Princeton, N. J.

Whatever the title of the questionnaire or checklist you use, the important thing is its function -- whether it elicits from clients the information you need in making creative suggestions regarding proper management. One firm uses a Planning and Control Questionnaire, which yields information on the following subjects:

- Who in your own firm got the information
- Who in the client's office were consulted in getting the information
- The kind of business the client is engaged in, and its organization
- How the client sells -- through outside salesmen, direct mail, or whatever
- How the business is organized -- by departments, functions, and so on
- Responsibilities of officers -- especially for operating costs
- What accounting records are maintained
- What office machines are used, and what work-simplification devices are not used
- What reports are prepared for management
- What further reports are needed
- Length of time required to close books each month and prepare a trial balance

Analysis of clerical functions
 Good procedures and/or controls that might be used
 to advantage by other businesses
 Valuations of taxable property
 Use or consideration of pension plan, profit sharing
 plan, and deferred compensation
 Wage-hour and overtime problems
 Proper records regarding unemployment compensation
 and claims of ex-employees
 The trend for the past five years in sales, gross profit
 percent, operating expenses, net income as
 percent of sales
 The company's long range planning -- or absence of it
 Method of financing
 Insurance coverage and requirements

(NOTE: The Planning and Control Questionnaire used by Louis Pillie's firm follows this page, and shows in detail the method for recording information about the general areas listed above.)

Two cautions are in order, to assure that management letters are proper in themselves, and that they effectively serve their purpose:

1. Before a management letter is mailed, the partner in charge should have the letter and the audit report in front of him at the same time. There should be no contradiction between the two!

2. It is more effective not to hand the client a whole list of recommendations at one time. If there are many recommendations, he should be told this in the first letter; he should be given these recommendations piece-meal and told that others are following. The covering letter, with partner's signature, should be one page and as short as possible. Supporting statements or recommendations should be set forth on separate pages. Effective communication!

Are suggestions made in management letters implemented?
 Is the concern of your firm for clients continuous, and shown to be so by the way these letters are handled?

To make clear that your concern is indeed continuous, each management letter should make clear that recommendations in past letters have been:

1. Fully implemented -- and with what results. (So that you get credit for what you have done.)

2. Still applicable but yet to be acted on.
3. No longer applicable.

This kind of communication to clients is especially important for those firms whose services are not seen as profit-making by clients. If you answered Question 8 under DIAGNOSIS with a NO (Do you believe your clients appreciate the value of your services in terms of profits?), it may well be advisable for your firm to install a system for the proper writing of management letters.

(At some clinics, participants have asked: Do you bill the time for writing management letters. Suggested answer: Yes, it's the most valuable time spent in the engagement -- involving highest level counsel.)

PLANNING AND CONTROL QUESTIONNAIRE

Client _____

Supervisor _____

	Preparation		M. A. S. Department Review		
	Name	Date	Name	Date	Action taken
Original preparation and review	_____	_____	_____	_____	_____
Second year review	_____	_____	_____	_____	_____
Third year review	_____	_____	_____	_____	_____

Client's personnel consulted in connection with this questionnaire:

Comments:

1. (a) Type of organization:

- Corporation Partnership Proprietorship
- Other (specify) _____

(b) Kind of business:

- Retail Wholesale Manufacturing
- Service Other (specify) _____

(c) Kind of trade:

- General business General public Retail merchants
- Manufacturers Service trades
- Other (specify) _____

(d) Principal products and/or services:

(e) Principal source of sales:

- Outside salesmen Brokers or agents Catalog
- Direct mail Walk-in trade
- Other (specify) _____

(f) Briefly describe the organization and operation of the business (departments, functions, etc.):

2. (a) Identify and briefly describe the functions and responsibilities of the officers, other managerial personnel, and accounting personnel.

(b) Are department heads held accountable for the efficiency and operating costs of their respective departments?

3. (a) Accounting records maintained:

<u>Record</u>	<u>Manual</u>	<u>Write it once</u>	<u>Machine</u>	<u>Approximate number of monthly transactions</u>
General ledger	_____	_____	_____	_____
Cash receipts journal	_____	_____	_____	_____
Cash disbursements	_____	_____	_____	_____
Sales journal	_____	_____	_____	_____
Voucher register	_____	_____	_____	_____
General journal	_____	_____	_____	_____
Payroll journal	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____

(b) Office machines in use:

(Data processing, accounting, posting, mail, duplicating, copying, etc.)

<u>Kind of machine</u>	<u>Make</u>	<u>Hours used daily (approx.)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

4. (a) Reports prepared for management:

<u>Report</u>	<u>How often?</u>	<u>Comparative?</u>	<u>Timely?</u>
Income statement	_____	_____	_____
Balance sheet	_____	_____	_____
Cash position	_____	_____	_____
A/R analysis (aged)	_____	_____	_____
Sales	_____	_____	_____
Budget	_____	_____	_____
Cash flow	_____	_____	_____
Other (specify)	_____	_____	_____

(b) What recommendations would you make concerning the present reports prepared for management?

(c) Are additional reports needed? _____
If so, is the information to prepare the reports readily available from existing records? _____ If not, what additional records would be required?

(d) What length of time is required each month to close the books and prepare a trial balance? _____

If this is not normally accomplished by the middle of the following month, what factors appear to be responsible?

5. (a) How many clerical people are employed? _____

(b) Does the office appear efficient? _____

(c) Did you observe any evidence of duplication in clerical functions? _____

(d) Check the work-simplification devices which are not now in use, but which you think might be used to increase operating efficiency:

Multiple-part forms

Window envelopes

Postage machine

Postage-paid envelopes

New form designs

New filing methods

Calculating tables

Voucher checks

Write-it-once systems

Rubber stamps

Photocopy equipment

Simplified letters

Other (specify) _____

6. Briefly describe any unique or unusually good procedures and/or controls which are employed by the client and which you think may be used to advantage by other business organizations.

7. List valuations of all taxable property:

<u>Property</u>	<u>Book value</u>	<u>Ad valorem or assessed valuation</u>
_____	_____	_____
_____	_____	_____

8. Are any of the following in force or under consideration?

Pension plan _____; Profit sharing _____;
Deferred compensation _____.

9. (a) Are you aware of any "wage and hour" problems? _____

(b) Is overtime substantial? _____

10. Does the client carefully police all claims for unemployment compensation made by ex-employees? _____

Are separation reports filed with the Administrator of Employment Security within 72 hours after an employee quits or is discharged for misconduct? _____

Does the client check his UCI rate each year by independent calculation? _____

11. What has been the trend during the past five years in:

- Sales _____
- Gross profit % _____
- Operating expenses _____
- Net income _____
- Net income % of sales _____

12. Is there a formal plan in existence for immediate and/or long-range goals, business development and expansion and projection of operations and capital requirements?

13. Is adequate short-term and long-term financing in use by the client?

What methods of financing are employed? _____

14. When was the last complete study of insurance coverage and requirements made?

By whom? _____

15. If more than one insurance agent serves the client, what is the reason and how is the coverage distributed?

I-B-7. DO YOU PROVIDE CLIENTS WITH INFORMATION ABOUT IMPORTANT CHANGES IN TAX LAWS, RULINGS, AND REGULATIONS THAT MAY AFFECT THEIR PARTICULAR BUSINESSES?

162 CPA offices: 85 -- yes; 75 -- no.

COMMENT:

One way to do this is through letters; another way, through a series of personal meetings.

One of the most convenient ways is through a newsletter. So this is a good place to discuss newsletters for a few minutes. How many here distribute a newsletter?

This may be a little 4-page thing. The masthead should have dignity, simplicity, and a fresh, modern quality. It usually contains notes on changes in tax laws, rulings, and regulations; changes in wage and hour acts; notice of new trends in accounting affecting clients; and so on.

NOTE: It is important in publishing a newsletter to bear in mind an opinion of the Institute on professional ethics that newsletters containing material prepared by commercial firms are unethical. The material in the newsletter must be prepared by the firm that publishes it. It is well to print in the masthead that the newsletter is only for clients and members of your firm and that it may not be reproduced. Clients may recommend that others, their lawyers and bankers, also receive the newsletter.

The procedure in writing and distributing a newsletter is as follows:

a. Names are drawn from the list of clients of those who are likely to be interested in the contents. It is important that the newsletter be sent to individuals, not just to firms. For example, if a newsletter is sent to the First National Bank, the mail clerk will look at it, not know what to do with it, and throw it away.

b. A partner should be assigned responsibility for the newsletter. Staff men should be encouraged to write articles. One procedure that has worked for at least one firm has been to grant a series of awards for material in print -- in accounting publications and trade journals as well as in the firm's newsletter.

c. Keeping a proper mailing list of clients and those recommended by clients is also a responsibility for the partner in charge. But there is not much expense. Addressograph plates may be used.

NOTE: There is an opinion in the Rules of Professional Conduct to the effect that a CPA must control the distribution of his firm's publications. Just what does this mean?

John Ring tells this illustrative story. One of his clients, a real estate operator, noted in the newsletter of John Ring's firm an announcement of a report related to some research connected with the real estate operator. The client then asked for 50 copies of the newsletter. John Ring refused, citing the Rules of Professional Conduct. He would not have been able to control what his client would do with 50 copies of the newsletter.

Since letters informing clients of changes in tax laws, rulings and regulations are one of the most common kinds of communications from CPAs to clients, some models for these letters are included in Visual Aids -- Pattern Letters -- Etc. (Number 15 and following.) These samples of letters to clients on tax matters were provided by Stanley Harmon.

A CAUTION: Businessmen get too many circular letters! The distribution of a letter on tax matters should be controlled so that most of the material in the letter applies to every client who gets it.

I-B-8. DO YOU ON APPROPRIATE OCCASIONS PROVIDE CLIENTS WITH SIGNIFICANT INFORMATION CULLED FROM PUBLICATIONS ON NON-TAX MATTERS?

162 CPA offices: 46 -- yes; 114 -- no.

COMMENT:

The broad point here is that little things count. This kind of activity is evidence of professional concern.

Clippings from such magazines as Business Week and The Nation's Business may be useful.

You may belong to a trade association that your client does not belong to, and may receive its publications. Then, for small cost, you may be in a position to say something like this: "I notice that most hardware stores with sales of \$100,000 have an inventory of \$70,000 and you have \$120,000. How come? The client recognizes that you're interested in helping him make a profit as well as doing the audit.

- I-B-9. DO YOU ENCOURAGE CLIENTS THROUGH THEIR OWN PERSONNEL TO PROVIDE DAILY FINANCIAL DATA THAT HELPS MANAGEMENT TO FUNCTION MORE EFFICIENTLY -- SUCH AS SUMMARIES OF CASH, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, ETC?

COMMENT:

Questions or discussion?

- I-B-10. WHEN YOU ROTATE STAFF, DO YOU EXPLAIN TO THE CLIENT THE ADVANTAGES TO HIM?

COMMENT:

Questions or discussion?

A point to be seriously considered by those firms that answered NO to Diagnosis Question #4 (Do you believe your clients understand that maintaining proper auditing standards requires competent staff which is correspondingly well compensated?)

I-B-11. DO YOU ITEMIZE SERVICES RENDERED ON YOUR BILLS?

COMMENT:

This question has a bearing both on the level of fees, which are often too low, and on the business community's hazy realization of what CPAs are capable of.

Ralph Lewis, at the Boston clinic, reported that a local firm had merged with his own firm, Arthur Young, on the average of one per year during the past five years. He reported that after these mergers fees have advanced substantially over the local rates. The same men, for the most part, supplied the services from the same offices. There was a general attitude in each of these new offices of Ralph Lewis's firm that it would be impossible to raise fees. Yet they were raised with no significant loss of clients.

Ralph Lewis commented, "I know there is great mental resistance in this room to raising fees because you're fearful of what's going to happen if you do." He added the significant explanation, "Any time you do anything for a client that helps him to make more profits you'll have little difficulty in getting more fees."

This experience, and the attitude of many businessmen, as found by the clinic surveys, suggests that fees of many CPAs are too low. Many CPAs should put themselves in the position of appearing to be more thoughtful and reflective, and appearing to be less harassed, and appearing to make significant contributions to the profitability of clients' businesses -- as in fact we do. Higher fees would result.

Identifying services separately on a bill is one way of helping the client to make a clear association between your services and his profits. There is no more potent kind of communication in our arsenal than a bill! The kinds of services that might well be identified separately, and often aren't, are: reviewing the adequacy of insurance coverage, advice on credit policy following an analysis of receivables, analysis of costs, and others. Often, it may be better to refer to letters of varying dates bearing on the client's business problem and affairs. If possible, each letter should bear on a definite subject which is listed at the top of the letter.

One CPA firm has found that it is worth a typist's time to list schedules on tax services in billing (Bernard Isaacson's). The list can be impressive!

Besides having a public relations advantage, this practice of itemizing may keep practitioners from forgetting to charge at all for some services. It becomes necessary to refer to time records and working papers in making out the bill.

For information and examples of proper and effective billing, see Guide to Successful Accounting Practice, the collection of contributions to the "Practitioner's Forum" in the Journal of Accountancy.

I-B-12. DO YOU ANSWER MAIL AND TELEPHONE CALLS PROMPTLY?

COMMENT:

Use of letter reporting that a matter is under consideration, when a complete reply is not immediately feasible.

I-B-13. DO YOU FREQUENTLY GO BEYOND THE CALL OF DUTY IN COMMUNICATING TO CLIENTS, POSSIBLY EXTRANEEOUS TO ACCOUNTING AND AUDITING WORK?

162 CPA offices: 124 -- yes; 34 -- no.

COMMENT:

Discussion?

I. CLIENT RELATIONS

B. COMMUNICATIONS -- CONCLUSION

COMMENT:

A CPA who is enthusiastic about his profession communicates effectively in a great variety of informal ways that don't fit into the organized forms of communication that we have just discussed.

Millard Breiden reports that he has made a personal rule for himself: he never eats lunch alone, and generally with someone not in his own office -- a client, lawyer, or banker.

Louis Pilie suggests a brief outline for the substance of conversations that might occur under a variety of circumstances, some of these being suggested above. He remarked that a CPA will be effective if he presents a concrete proposal to a businessman and then demonstrates that the proposal will:

- a. Create new business for him.
- b. Save him some money.
- c. Increase the morale of his employees and associates.
- d. Cut off waste, reduce paper shuffling and lost motion.
- e. Serve his own pet theory.

Regarding this last point, Mr. Pilie pointed out that if you can cultivate a client's pet theory in a professional and objective way, you are making yourself invaluable. But he warns of the need to be truly objective about clients' pet theories, and that it is necessary for you to be sold on what you think your client should buy.

There is a question of attitude here: how enthusiastic are you -- not merely about building your own practice -- but about the profession as a whole? The value of this in conversations, in informal public relations, is readily apparent if you think of the last time you heard a doctor light up with enthusiasm as he described a recent advance in medical science. In like manner, do you point out in conversations that:

- a. Our economy as it is now constituted, with complex credit machinery and widely held stock, would grind to a halt without the services of CPAs. (Pointing out why.)

- b. That it is therefore natural that accountancy is the fastest growing profession. It is by this token the most needed profession.
- c. That success and profits in business are often directly connected with proper financial management based on accounting. (Every CPA should develop his own stock of illustrative stories.)
- d. That tax planning with the help of a CPA may mean the difference between success and failure. (Your own story.)
- e. That CPAs render a long list of management services.
- f. Etc., not excluding such general topics of conversation, appropriate among laymen, as "The CPA as a business doctor", the "CPA's knowledge as a resource that is valuable to the community", and proper accounting in government.

(If the spirit of the clinic is sufficiently enthusiastic, perhaps participants would all agree -- with a show of hands -- to "pledge" responsibility for a fairly thorough education of three laymen during the next three months.)

THERE ARE OTHER WAYS OF COMMUNICATING THAT THIS QUESTIONNAIRE HAS NOT MENTIONED.

(1) Some CPAs have written articles for trade associations' publications, professional accounting publications or other periodicals; then they have distributed reprints to clients.

The number of CPAs who do this is small. Among 162 CPA offices covered by the Clinic surveys in the fall of 1961, only 12 reported writing such articles. However, such articles can be a big help to a firm. Example:

H. A. Finney wrote an article for the journal of a Home Laon Association that is published in Chicago. Very shortly, H. A. Finney wound up doing the accounting work for a large number of these companies and had to put in an IBM installation to handle the work. A tremendous amount of business originated in one short article.

The Institute maintains a file of members who are willing to write articles in trade publications of specific industries in which they have taken many engagements. Occasionally, the Institute is asked to find a writer for some trade publication. On these occasions, it refers to the file. If you are willing to write articles for trade publications, notify the Public Relations Department at the Institute, stating the field or industry in which you have a special interest.

NOTE: In writing these articles, it is, of course, important that the CPA not do anything that gives the appearance of being self-serving. An obviously self-serving article is at least bad taste. What is the difference? An article that relates a series of achievements of the author's firm is bad taste. A professional man does not look good as a kind of financial Benvenuto Cellini. On the other hand, an article which tells businessmen in some particular industry how they can use accounting to improve their performance is in excellent taste; the CPA who writes it is in the role that Oswald Knauth once described as "philosopher of the business community." Whatever this CPA does to help himself is the most enlightened kind of self-interest; for he is also helping to illuminate the image of his profession.

- (2) Letters to clients, congratulating them on promotion, etc.
- (3) Letters to clients regarding compliance with government regulations (besides tax matters). For one sample, see page 20 in Visual Aids -- Pattern Letters -- Etc.

II. RELATIONS WITH CREDIT GRANTORS

A. DIAGNOSIS (What is your image among credit grantors?)

II-A-1. DO YOU FIND THAT BANKERS RECOMMEND YOUR FIRM FOR AUDITING SERVICES?

COMMENT:

How does your firm fit in the picture drawn by the Dun & Bradstreet's 1959 survey for the Institute that was reported in Part I of the Clinic? (Dun & Bradstreet interviewed in depth commercial loan officers in 100 banks of all sizes in all regions of the United States. 73% of the commercial loan officers recommended the auditing services of CPAs.)

Also, the Institute's clinic surveys have shown that those banks that recommend auditing services almost invariably keep a list of those firms that they recommend -- either on paper or in the mind of the commercial loan officer.

What this question boils down to is this: Are you on the lists of those banks at which your clients borrow?

There is also a general public relations problem for the whole profession in that 27% of the commercial loan officers who apparently still don't recommend the audits of CPAs.

II-A-2. DO YOU FIND THAT BANKERS RECOMMEND YOUR FIRM FOR TAX AND MANAGEMENT SERVICES AS WELL AS AUDITING?

COMMENT:

Ralph Lewis reported that in his firm, Arthur Young, a survey of their new business showed that only 4% came about through the recommendations of bankers. Mr. Lewis noted that there was some surprise in his firm at this finding; there had been some expectation that this percentage was considerably higher.

The nature of the value of bankers' recommendations of CPA services may be changing somewhat. In 1959, the survey undertaken by Dun & Bradstreet for the Institute showed that a small percentage of commercial loan officers recommended the non-auditing services of CPAs to the bank's customers. (This was discussed in the first part of the clinic.) The Institute's clinic surveys have found to date that bankers seem to be recommending many more management advisory services of CPAs than they did a few years ago.

The value of bankers' recommendations to many firms today may be related more to expanding the scope of engagements with existing clients than with getting new business.

This question, then, has considerable importance to those firms that are eager to expand their tax or other advisory services. Whether the bankers of your clients do or do not recommend these services will tell you whether you need to put more effort into communication in this area.

II-A-3. DO YOU BELIEVE YOUR CLIENTS' BANKERS CLEARLY UNDERSTAND WHAT IS MEANT BY AN UNQUALIFIED AND QUALIFIED OPINION, AND BY A DISCLAIMER, AND WHAT YOUR RESPONSIBILITIES ARE IN CONNECTION WITH EACH?

COMMENT:

Clinic surveys show that in spite of all the educational work that has been done both by firms and by the professional societies, many bankers still do not understand the CPA's responsibilities when he signs the standard short form report. Some don't realize that the standard short form unqualified report ipso facto includes confirmation of receivables and observation of inventories. Some think that a CPA firm that signs a lot of qualified reports is thereby admitting to poor standards of work(!).

It is therefore likely that some of your client's bankers, at least, do not clearly understand these matters. If this is true, do you distribute the Institute's 40 Questions and Answers About Audit Reports, or the Robert Morris Association's Financial Statements for Bank Credit Purposes?

Or other measures for clearing this misunderstanding up. Has anyone here a way of tackling this problem that you feel is successful?

How long has it been since the last joint meeting of your Society or Chapter with the Robert Morris Associates? Do you believe that most of the loan officers of banks in this area attended the meeting? Are you reaching with information all the officers who should understand the nature and significance of CPAs' reports?

Sample copies of pamphlets enclosed

II. RELATIONS WITH CREDIT GRANTORS

B. COMMUNICATIONS

II-B-1. WHEN A CLIENT SEEKS A NEW LINE OF CREDIT AT A BANK THAT IS UNFAMILIAR WITH YOUR FIRM, DO YOU CALL ON THE BANK -- OBVIOUSLY, ONLY WITH THE CLIENT'S PERMISSION?

(A similar question was asked at the Fall 1961 clinics of the Institute: "Do you arrange meetings with bankers before they receive their first audit report from you?" Of 162 CPA offices, 32 responded with a YES; 124 with a NO.)

COMMENT:

Discussion at the clinics has brought forth from participants two stories, one about a firm in the Philippines and another about a firm of chartered accountants in Canada, who have expanded rapidly primarily because they arrange these meetings. In both these foreign firms, partners have systematically made themselves known by personal calls to an ever-widening circle of banks.

Representatives of these firms have called at the banks even before there is any specific business to discuss. They simply say, in effect: "I want you to know about my firm, its standards, etc." The firm in the Philippines began with calls on banks in Manilla, and is now calling on banks in New York, London, Paris and elsewhere. The Canadian firm has also expanded geographically. It was reported that it is the policy of the Canadian firm to assign two partners, during the first six months in a newly opened office, to make these calls on banks their primary responsibility.

These calls will have special significance for small firms with growing clients who find themselves going further afield for credit.

II-B-2. DO YOU SUGGEST TO CLIENTS THAT THEY ENCOURAGE BANKS TO CALL YOU IF THEY HAVE QUESTIONS ABOUT REPORTS?

(At the Fall 1961 clinics of the Institute, this question was asked: "Do bankers or other credit grantors call you for information?" 162 CPA offices answered this question: 113 -- YES; 45 -- NO. This question is obviously two-pronged, and encompasses II-B-2 above and II-B-3 on the next page in this edition of the Questionnaire.)

COMMENT:

Discussion:

Perhaps the most significant criticism of the accounting profession by bankers, that was uncovered by Institute interviewers during the Fall 1961 clinics, was that performance varies in quality. In some states this public relations problem has been complicated by accusations that non-certified men do poor work, and by the hope expressed by some bankers that CPAs, as leaders of the profession, would do something about it.

As everybody knows, including the bankers, this is a tall order.

Bank presidents and loan officers have said things like this: "I wish the upper end of the scale would do something to pull the lower end up. . . Reports are top-notch to terrible. . . I see all kinds of reports."

In this climate of opinion, it is obviously in the interest of CPA firms to make sure that bankers know precisely who they are. Also, there seems to be a broad problem of informing bankers about the meaning of CPAs' standards and ethical code, so that bankers in turn can clarify just what they want. We submit that the best way to get this done is for the banker straightforwardly to tell the CPA (through the client) any special things he wants on individual engagements.

Encouraging banks to write more or less standard letters stating just what they want may make things easier all around -- especially where the banker is vague about the nature of the CPA's responsibilities. A sample of such a letter, which CPAs may pass on to interested bankers, is on page 17 in Visual Aids -- Pattern Letters -- Etc.

II-B-3. DO YOU ENCOURAGE CREDIT GRANTORS TO CALL YOU FOR GENERAL INFORMATION NOT SPECIFICALLY RELATED TO A CLIENT?

COMMENT:

From a talk by Richard C. Rea, a participant in the Ohio clinic:

"One day I was talking to one of the bankers in our community and he asked me a tax question. I did not know the answer. Once I would have side-stepped the issue, since the banker was not a client, and I was not under any obligation to try to get an answer for him.

"But mindful of the fact that I wanted to create the impression that my firm didn't have all the answers but that it could get them (a part of the formally stated public relations objectives of Mr. Rea's firm), I said to him, "I do not know the answer to that question, but I will get it."

"Having made this promise, it was now up to me to keep it, and I did. It was not easy to get the answer. I had to do a lot of research, write two letters, and make one long-distance telephone call. But finally I had it.

"When I next saw the banker, two weeks had passed and he had all but forgotten about the incident until I reminded him of it. He was, of course, pleased to get the answer he wanted and I was more than compensated for all the work I did by the comment he made. Do you know what it was? "I certainly have to give you credit: if you don't know the answers, you will get them."

II-B-4. DO YOU TAKE AN ACTIVE PART IN INFORMING BANKERS AND OTHER CREDIT GRANTORS REGARDING THE STANDARDS OF THE ACCOUNTING PROFESSION, EITHER BY GIVING INFORMATION DIRECTLY TO THOSE YOU KNOW, OR BY PARTICIPATION IN JOINT MEETINGS WITH THEIR GROUPS?

COMMENT:

Methods have been suggested in connection with other questions: pamphlets, meetings and conversations. . .

Further discussion?

III. RELATIONS WITH LAWYERS

A. DIAGNOSIS (What is your image among lawyers?)

COMMENT:

At least one survey (made in California) has shown that the recommendations of lawyers are second only to the recommendations of clients as a source of new business for CPAs.

It would be useful to us, and probably to you, to get your responses to the following questions for survey purposes. Whatever public relations implications they have seem fairly obvious. Any questions, comment, or discussion?

- III-A-1. DO LAWYERS RECOGNIZE YOUR COMPETENCE IN THE ACCOUNTING ASPECTS OF TAX AND OTHER FINANCIAL MATTERS?
- III-A-2. DO LAWYERS SHOW PROPER UNDERSTANDING OF THE NATURE AND SIGNIFICANCE OF THE CPA'S OPINION WHERE THIS HAS IMPORTANCE IN THE AFFAIRS OF YOUR MUTUAL CLIENTS?
- III-A-3. DO LAWYERS REALIZE THAT YOU ALERT CLIENTS OF THE NEED TO CONTACT THEM WHEN LEGAL QUESTIONS ARISE?

III. RELATIONS WITH LAWYERS

B. COMMUNICATIONS (Improving your image among lawyers)

One CPA firm in a small city endorses this policy: of assigning a partner to meet once a month with every lawyer in the city -- 15 or 16 of them. Different topics are discussed: management services, CPAs' reports, etc.

Discussion?

III-B-1 DO YOU REGULARLY SEND THE LAWYERS OF YOUR CLIENTS COPIES OF COMMUNICATIONS TO YOUR MUTUAL CLIENTS WHERE THIS IS APPROPRIATE?

COMMENT:

Lawyers naturally appreciate this.

III-B-2. DO YOU REGULARLY ARRANGE MEETINGS WITH LAWYERS FOR DISCUSSION OF QUASI-LEGAL AND QUASI-ACCOUNTING MATTERS AFFECTING YOUR MUTUAL CLIENTS?

COMMENT:

One firm systematically arranges a luncheon of every partner in the firm with a lawyer every month. A list of topics is prepared, which has significance for their common clients. Following are some of the more commonly discussed topics.

- a. Why should a business change from a partnership to a corporation?
- b. Should their mutual client's business expand in territory or production; or should it contract?
- c. Should the equipment of a client be sold and then leased back?
- d. Is now the time for a client to build a new building, or is the present time not right for a new long-term commitment?
- e. Should two local competitors merge?
- f. Dissolutions and liquidations.
- g. Long-term leasing of real estate versus purchasing.
- h. Reorganization of a company's casualty insurance.
- i. Revamping of a life insurance program proposed to attract attorneys of a willing client under a contingent fee arrangement.
- j. Other matters -- these are samples.

Discussion?

IV. OTHER RELATIONSHIPS (A very quick review!)

DO YOU HAVE GOOD TWO-WAY COMMUNICATIONS WITH THE FOLLOWING:

(This question is admittedly glib and simplistic. For some CPA offices, it would be desirable for fairly obvious reasons to make a careful diagnosis of relationships with any one or several of the following groups, and to plan appropriate and effective communications. This QUESTIONNAIRE has tried to point out an approach -- diagnosis and communications; but it does not pretend to cover all the public relations problems and methods of CPA offices.)

- A. SECURITY ANALYSTS AND UNDERWRITERS?
- B. INSURANCE MEN?
- C. PENSION PLAN AND OTHER CONSULTANTS?
- D. BANK TRUST OFFICERS?
- E. GOVERNMENT AGENCIES?
- F. LEGISLATORS?
- G. JUDGES?
- H. BUSINESS MACHINE AND SYSTEMS ORGANIZATIONS?

IV-I. HIGH SCHOOLS AND UNIVERSITIES?

COMMENT:

(1) In small communities, speaking about careers in accounting may be the best opportunity for a relationship with the whole community that is open to a CPA. The Institute's film, "CPA", may be shown not only to students but also to some business audiences. It is probably best shown to business groups as an example of what the accounting profession is doing to interest students in a good career opportunity. Its level of sophistication is intended to be appropriate for intelligent high school seniors or college freshmen.

(A brochure about the film, with order blank may be shown.)

(2) Personnel problems hold back many a promising CPA firm. This is in part a public relations problem. The Institute's kit, How to Hire Junior Accountants, outlines a modest public relations program through which a small CPA firm can more effectively reach and influence students -- potential personnel. (Free to Institute members -- \$2 to others)

(Enclosure: How to Hire Junior Accountants.)

IV-J. EMPLOYMENT AGENCIES?

V. RELATIONS WITH THE ENTIRE COMMUNITY

DO YOU DEVOTE TIME AND INTEREST TO THE FOLLOWING KINDS OF ACTIVITIES?

- A. CIVIC?
- B. CHARITABLE?
- C. CULTURAL?
- D. SOCIAL?
- E. POLITICAL?
- F. EDUCATIONAL?

EXPLANATION:

CPAs who are filling out the QUESTIONNAIRE and/or ANSWER SHEET might well be reminded at this point that the question is intended to apply to their whole office, as well as themselves personally. How the whole office, as well as the individual, looks to the community is the important thing to the firm. This is what should be considered by the firm in appraising its relationship with the community.

COMMENT:

There is no doubt that CPAs, and particularly the kind of CPA who attends clinics and other society meetings, are active participants in community affairs. Of 162 CPA offices responding to the QUESTIONNAIRE during the fall 1961 clinics, 107 believed that members of their firm were considered civic-minded; 141 of the 162 were participants in community affairs -- church, club, civic or charitable organizations.

The Institute tried to get some picture at the fall clinics whether there was any great amount of what might be called high-level participation in community affairs. This question was asked: "Some corporations urge their officials to become involved in plans for urban renewal, financial management of community affairs (getting into politics), modernizing local government, and organizing a community business improvement program. Do members of your firm become involved in community affairs to the extent that these activities suggest?"

48 out of 162 respondents said their firms did become involved to the extent that list of activities suggested.

Also, clinic surveys have shown there is a favorable climate in many localities, and probably everywhere, for this kind of high-level community activity by CPAs. Community opinion leaders have mentioned during the clinic surveys the following activities; and have stated that they would like to see CPAs become involved:

Bringing new industry to the community (Alabama and Arkansas)
 Urban redevelopment (Louisville, Kentucky and Albany, New York)
 Fiscal reform in state and local government (Massachusetts)

Respondents in Ohio identified a variety of problems whose solution they felt might be helped by CPAs.

Since the level of participation suggested by these activities is more difficult and challenging, the public relations value as well as the personal satisfaction involved is apt to be greater. Involvement by many CPAs in these kinds of community affairs is probably a necessary prerequisite for wider CPA participation in politics.

How should you go about this kind of community service?

If your office has several partners or many partners or principals, do you ever have a meeting to discuss a critical economic problem in your area, and throwing the weight of the firm -- with several men becoming active -- behind some economic improvement?

Do you select one problem in which you have potential leverage and then set about in a systematic way to do something about it?

VI. ADMINISTRATION OF PUBLIC RELATIONS PROCEDURES

VI-A. DO YOU SET FORTH IN WRITING A CONSIDERED PUBLIC RELATIONS PROGRAM, RELATING THE NATURE AND DISTRIBUTION OF YOUR COMMUNICATIONS TO YOUR GROWTH OBJECTIVES?

When this question was asked in a somewhat less explicit way ("Do you have a written public relations program?"), 162 CPA offices answered as follows: 12 -- yes; 146 -- no.

COMMENT:

Let's begin discussion of this question with a challenge: does anyone here have a written public relations program, in the sense that is indicated by this question?

Even though few, if any, CPA firms have public relations programs that are as carefully thought out and as sophisticated as those of many corporations, let's consider how one might be worked out -- and its potential advantages.

Most business firms and other institutions with formal public relations programs follow this kind of procedure:

- a. The objectives of the firm are identified. This is important because a public relations program involves time and money, and you don't want to spend either time or money heading for some goal that doesn't much concern you anyway.

Example: Does the kind of public relations you practice enhance your reputation among businessmen who want you to do bookkeeping work? In a somewhat larger firm, does the kind of public relations you practice tend to create more engagements of the least profitable kind?

Richard C. Rea of New Philadelphia, Ohio, developed a public relations program for his firm which contained eleven objectives, which he has described as "impressions we want the public to have of us so that they will have in their minds the image of us we want them to have:

1. We are successful and growing
 2. Our fees are reasonable.
 3. We are competent and dependable.
 4. We offer a wide range of services.
 5. We do not know all the answers but we will get them.
 6. We are progressive and up-to-date.
 7. We help management.
 8. We help other public accountants.
 9. No business is too small.
 10. Our staff members are highly trained and are experts.
 11. We are a good firm to work for.
- b. The problems that stand in the way of your reaching your objectives are identified. We have tried to help you do this with this program. The surveys showing attitudes toward the whole profession, nationally and locally should be used as a pilot study for your own firm. The results of these surveys may suggest lines of inquiry about your own image that can be pursued in greater detail as you answer the questions under topics "Diagnosis" in the QUESTIONNAIRE. This is not a perfect instrument, of course. We depend a good deal on each CPA's ability to analyze carefully and objectively what clients and others think of him. This is difficult. While this method is not an ideal method, we feel it's justified because it's feasible and simple.
- c. Having identified both your objectives and your problems, you are in a position to make intelligent decisions about time, energy, and money in communicating what is to your advantage to communicate. In this program, we have discussed a sample of the most common methods of communications used by progressive CPA firms. There are many more methods, no doubt.

The advantage of committing this program to writing, for small as well as large firms, seem to be two:

- a. A written plan helps indoctrination of new staff men. The plan provides for continuity. People can't forget responsibilities.

- b. A written plan encourages refinement and precision of thought. As Sir Francis Bacon said, "Writing maketh an exact man."

Obviously, there is no such thing as a canned public relations program for all CPA firms, any more than there is a canned accounting system for all businesses.

However, following this three point procedure -- identifying objectives, identifying problems, selecting methods of communication -- should facilitate becoming a do-it-yourself public relations man for your own firm. A simple program that, with reasonably consistent implementation, would work for most firms could well consist of identifying only one or two obvious objectives -- perhaps more of the kind of engagements that get you the most fees; identifying your problems along lines we have discussed; and either improving or adopting modes of communication of a kind that your common sense tells you will really have an impact.

A public relations program should be continuous. This means that each of these three elements should be evaluated at periodic intervals. This should help to correct mistakes in diagnosing your image, and help to select more effective methods of communicating, or improving methods already in use.

VI-B. DO YOU INFORM STAFF, THROUGH A STAFF MANUAL OR OTHER WRITTEN DOCUMENT, OF RESPONSIBILITIES IN THE AREA OF PUBLIC RELATIONS?

COMMENT:

This is especially important for growing firms, so that poorly orientated staff don't behave in a manner that hurts the reputation of the firm. Poorly oriented partners too!

Staff manuals are usually born out of recognition of need during a period of growth. Firms can protect their reputations by recognizing the need before it becomes serious -- before rather damaging things happen that could be prevented.

Some firms use a loose-leaf binder for the staff manual. It contains what a staff man needs to know, but doesn't necessarily have at his fingertips. The material tends to fall into two categories:

- a. Office hours, overtime, holidays and other internal housekeeping affairs. Confusion and useless questions are prevented. The staff man doesn't have to seek out a partner and ask: "Are we going to have Thanksgiving off?"
- b. Questions a staff man may be asked by clients. Example: provisions of wage and hour laws. If the staff man doesn't know the answer, he can look it up before the client. The client is apt to be favorably impressed by the organization of the firm.

Thus, the staff manual tends to keep harassments from being passed on to the partners. At the same time, it gives staff men a feeling of being a part of the firm.

VI-C. ARE YOUR LISTS OF CLIENTS AND OTHERS TO WHOM YOU SHOULD COMMUNICATE EFFECTIVELY USED?

EXPLANATION:

First, let's define a "list".

A list can be practically anything. A card index. An accounts receivable file. A telephone directory listing. I would assume that we would all say we have a list of clients. Otherwise, we would be concerned whether we are getting out all the tax returns for which we are responsible.

However, list in the public relations sense involved here means this: that we have our lists in a form that makes it possible for us to communicate to all appropriate people without forgetting anybody.

In the first edition of this QUESTIONNAIRE, we asked participants in the clinics to tell us what lists they kept. It hasn't seemed useful to go into this much detail any more. But you will be interested in the lists kept by a sample of 162 CPA offices. These are listed on page 19 of Visual Aids -- Pattern Letters -- Etc.

COMMENT:

The use of the list may be illustrated by discussing just one of these. Let's take lawyers. Although lawyers are listed in the yellow pages, this doesn't help you if you want to send copies of your firm's newsletter to those attorneys of your clients who are sure to be involved in a tax matter that you are discussing. You need a list of lawyers who serve your clients.

Those firms that have a serious problem with personnel recruiting should gear their public relations to their own specific problems and cultivate systematically a closer relationship with universities.

Another point: in keeping your lists of clients, do you keep them in categories to simplify mailings and other communications? This may be some "tickler file" arrangement. Types of businesses or professions may be classified. For example, if a tax court decision is made that affects, say, hotels, and hotels only, are you in a position to notify your hotel clients of this decision, ignoring the others? This illustrates what lists mean -- from a public relations point of view.

(John Ring told this story to illustrate the increasing importance of organized labor to the accounting profession: In the arbitration of a wage dispute between the transit companies in Miami, and the union, it was agreed by union and employers that all three members of the board of arbitration should be CPAs. One CPA was selected by the employers; another by the union; a third by the first two CPAs. The thought behind this was that the dispute reflected a problem in economics: could the company afford to pay? The three CPAs found unanimously that the company could not afford to pay. Both sides accepted the findings of this CPA board of arbitration. They were selected because of their reputation for integrity and independence, and their decision respected accordingly.

The public's image of the CPA was no doubt favorably affected by this occurrence.)

In addition, organized labor is increasingly important as a client -- the unions are "capitalists" with complex financial problems. Also, new legislation, both federal and state, contains reporting provisions that require implementation through public accounting services.

Eight out of 162 CPA firms keeping lists of organized labor shows how slow, public relations-wise, the accounting profession may be in grasping the significance of what is happening.

VI-D. IS THE ADMINISTRATION OF YOUR PRACTICE SO ORGANIZED THAT YOUR PUBLIC RELATIONS PROGRAM IS SYSTEMATICALLY CARRIED OUT?

At the fall 1961 clinics, this question was asked: "Do your time-sheets and/or other records provide a check on whether the PR program is being continuously carried out?" Of 162 CPA offices, 18 said YES; 132 said NO.

COMMENT:

Clearly, this question is still theoretical for most CPA firms.

However, if you are going to make a public relations plan and carry it out, it is for obvious reasons proper to consider from the outset how performance will be checked.

Maintaining proper lists is really just one kind of check on whether you are carrying out a public relations program.

In general, you should be able to do the following:

1. Re-evaluate, from time to time, what your problems and opportunities are. How often this is done should depend on how rapidly the firm and/or its environment change. For most firms, once a year at least! Referring back to the clinic QUESTIONNAIRE may help such an evaluation.

2. Re-evaluate, from time to time, the methods of communicating used by your firm. Are you getting results commensurate with the time and effort involved? Also, are the people in your firm helping your public relations as much as they might? Are you using talents well? Again, the QUESTIONNAIRE can be used.

3. Is your approach creative and fresh? Is everyone in the firm alert to public relations opportunities?