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1956

## CPA and His Client

American Institute of Accountants

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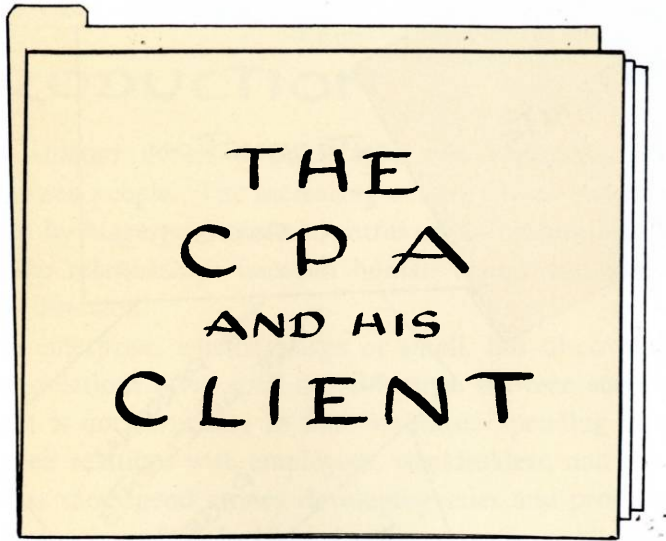
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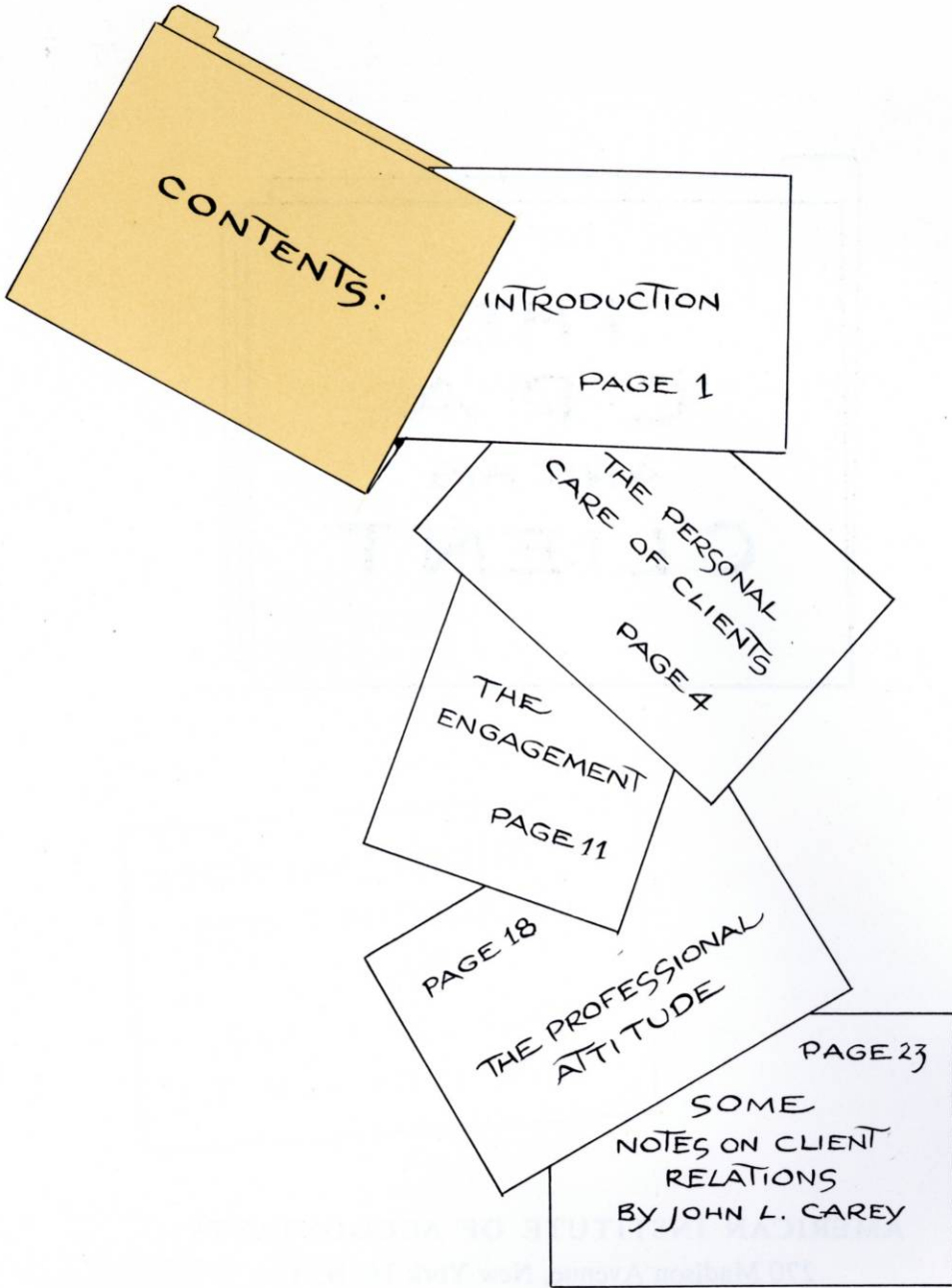
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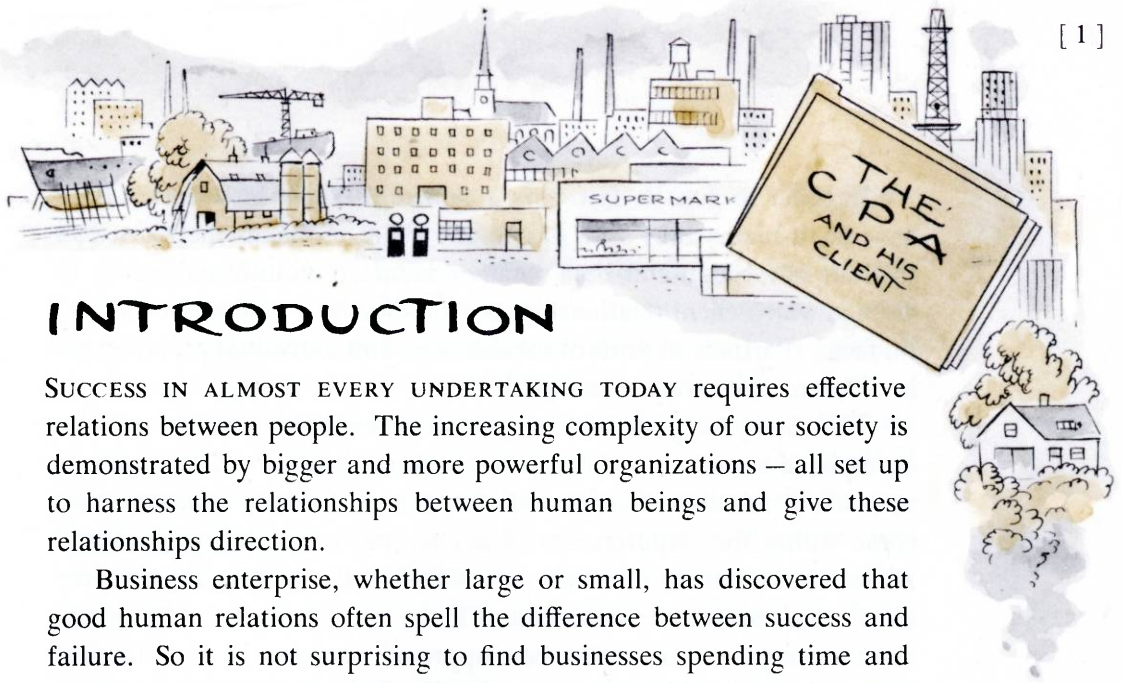


AMERICAN INSTITUTE OF ACCOUNTANTS  
270 Madison Avenue, New York 16, N. Y.

1956



*Copies of this booklet have been sent to all firms and practitioners represented in the membership of the Institute. Additional copies in reasonable quantities are available on request.*



## INTRODUCTION

SUCCESS IN ALMOST EVERY UNDERTAKING TODAY requires effective relations between people. The increasing complexity of our society is demonstrated by bigger and more powerful organizations — all set up to harness the relationships between human beings and give these relationships direction.

Business enterprise, whether large or small, has discovered that good human relations often spell the difference between success and failure. So it is not surprising to find businesses spending time and money on their relations with employees, stockholders, and the community just as they spend money developing sales and production — it all contributes to profits. In 1954, for example, the public relations budgets of the 100 leading companies in the United States amounted to at least \$50 million, and nearly 5,000 corporations had public relations departments or outside counsel.

Professions in America have become equally concerned with human relations. Being helpful to people has always been an essential characteristic of the professions; the twentieth century has simply given new emphasis to this purpose. Certified public accountants, like other professional people, are learning that their relations with their clients are as important to building a successful practice as their technical training and experience.

Even when “the client” is an impersonal organization, the CPA is dealing with people — the owner, manager, stockholder, individual employees or directors. The intimate, confidential nature of a CPA’s client relationships compares in many ways with a doctor’s, a lawyer’s or minister’s. The CPA often has to understand his client’s motives, his family problems, his prejudices and convictions just as a physician does. More and more CPAs are recognizing that to practice successfully they must not rely on technical skills alone. They find that the *manner* in which they deal with clients is as important as *what* they do for them or the kinds of advice they give.

In order to give its members a chance to know how other CPAs have dealt successfully with day-to-day client problems the American Institute of Accountants has recently conducted an informal survey of ways in which client relationships are handled by a number of successful firms. Partners of firms of various sizes and individual practitioners in different cities were interviewed.

The survey suggested a few general observations. There was, for example, a unanimous desire among those interviewed to improve their client relations, but they all recognized that improvement must come within the requirements of accounting principles, professional ethics, and the many demands on a CPA's time to maintain his technical standards as an accountant. There was, however, little agreement among them as to the best approach to some of the practical problems in client relations, despite the fact that those interviewed were chosen from among CPAs thought to be the more experienced in human relations. In fact, what one considered desirable practice, another would frequently regard as inadvisable. Obviously, there can be no hard and fast rules for dealing with matters where the vagaries of human nature create as many different situations as there are different human beings involved.

The report of this survey is, therefore, arranged to show a variety of approaches, some of them even contradictory, which have been found successful in dealing with some of the practical everyday problems which CPAs encounter in dealing with their clients. In the section, *The Personal Care of Clients*, it gives examples of how CPAs manage to give personal attention to clients within the amount of time they can reasonably assign to them, and how such attention can be made worth the time and expense of both the CPA and the client. The value of face-to-face conferences is considered, and methods for arranging them described. There is discussion of how the size of an accounting practice affects relations with clients, the importance of helpful suggestions arising from an audit, and the value of specialization.

The section on *The Engagement* discusses how planning with the client avoids misunderstanding without loss of the CPA's independence, and how some firms and practitioners handle their client relations

at various stages of an engagement. The reporting and billing practices of successful CPAs are described.

Finally, a section on *The Professional Attitude* considers familiar problems faced by CPAs in acquiring new clients. Ways of gaining the client's confidence are discussed, together with the CPA's professional reputation and his role in the life of his community.

The report does not attempt to provide all the answers to these problems. It tries, instead, to raise questions which are in the minds of many Institute members, but which have not yet received the concentrated, organized attention they deserve. Unlike a blueprint, and without any attempt to achieve the scientific accuracy of polling methods, it is a description of how some of these problems are being solved.

It cannot be claimed that this survey is the first attention given to client relations by the Institute. In recent years, for example, John L. Carey, the Institute's Executive Director, has written on aspects of the subject in his monthly letter to the members in *The CPA*. Because members have frequently suggested that these messages be collected and published, it has seemed appropriate to assemble those bearing on client relations and present them with this report.

This booklet is submitted in the hope that the interesting and important subject of client relations will receive further discussion in the meetings of state societies, chapters, and among members wherever they gather together.

COMMITTEE ON PUBLIC RELATIONS,  
by Robert J. Murphey, *Chairman*



# 1 THE PERSONAL CARE OF CLIENTS

THE CPA AND HIS CLIENT are bound together by ties of a most personal nature. One of the surest ways of strengthening these ties is to find ways of saving the client money and increasing his profits. The competent CPA who relieves his client of anxiety by careful attention to the client's problems becomes an indispensable counsellor. Such personal care over a period of time develops a mutual confidence which is one of the great rewards of public practice. The CPA's influence with his client grows, and he is given greater responsibility and opportunities to expand his services. When the client tells others of his confidence and satisfaction in the accounting services he is receiving, the CPA's reputation widens and his practice grows. It is not surprising that satisfied clients are the most important source of new accounts for most CPAs.

## KEEPING IN TOUCH

In building and maintaining a relationship of this kind, there is no substitute for meeting face-to-face with the client. Experts in all areas of human relations are stressing more and more the importance of talking with people. Here is what William G. Werner, of Procter and Gamble Company, says to illustrate his claim that none of the mechanical means of communication can take the place of personal, man-to-man talk in employee relations:

“... when you talk to an employee face to face, establishing an everyday personal relationship that after a time he expects, understands and likes, then he will feel free to let you know how you are getting your ideas over to him. This return from personal ‘two-way’ communication is very important and we try never to overlook it.”

Successful CPAs agree that personal contact with clients must not be haphazard, but should always be carefully planned and constructive. They often find that clients have to learn the value of personal conference from having found it worth while. Some clients may resist it until they become used to it, and in such cases it is important to have a good reason for each personal visit.

Several CPAs have found that delivering their reports in person



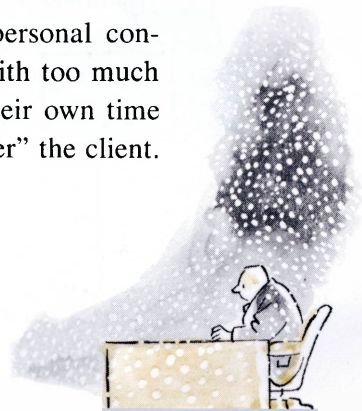
provides a natural opportunity for a conference. One comments that this sometimes amounts only to a courtesy call, but that he never knows when a discussion may result which will prove helpful to him and the client. He now submits ninety per cent of his reports in person.

Mr. Werner's views on a parallel situation can be quoted again: "There is one device which we consider one of our strongest single communication tools, though it is still basically an aid to personal communication. We make a report to each employee at the end of each calendar year, giving an inventory of his financial position in the company, his earnings for the year, his take from the profit sharing plan, his equity in the retirement plan, and so on. When the foreman delivers this personally and confidentially, he encourages the man to talk about it, to ask questions. This is a good example of a printed communication tool being used to promote person-to-person contact and to reinforce the continuous effort in that direction."

It is easy to see how this illustration resembles the CPA discussing his audit report with a client.

Frequently the client doesn't know what it is that he needs, and it becomes apparent both to him and to his CPA only through conference. As they learn to understand and pinpoint the client's problems and to "talk the same language," phone conversations can take the place of some of the face-to-face discussion, which obviously involves more time and expense. The client will appreciate such efforts to keep his bill within bounds. By frequent phone calls, the CPA will keep the client abreast of his progress without costly written reports and will also keep his work on the track that will help the client most. One CPA who supplements visits and written memoranda with phone calls finds that seeing his clients at the time of presenting their quarterly reports is usually sufficient. But he calls on those who receive their reports annually several times between engagements so as not to lose touch with them.

Several CPAs find that realistic planning of each personal conference is the best way to avoid submerging the client with too much attention and wasting his time. Others point out that their own time limitations are adequate safeguard against "snowing under" the client.

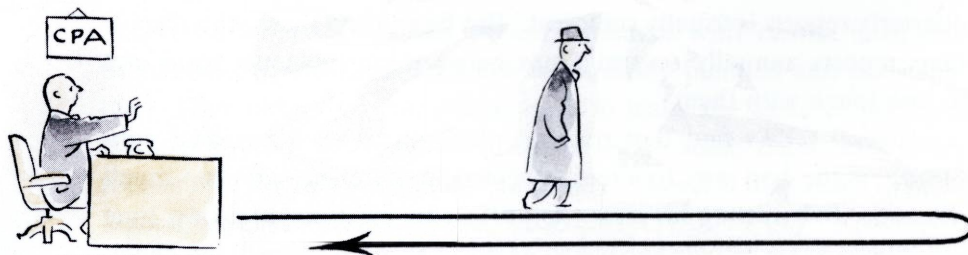


## SIZE OF PRACTICE

How many clients can a CPA handle and still maintain close personal relations with them? Evidently two quite different solutions are proving successful, though each has its pitfalls to be avoided.

On the one hand are those CPAs who limit their practice to those clients they can serve with maximum thoroughness. This involves limiting clients not only as to numbers, but as to type. As one sole practitioner puts it, "I take only those clients who want me to give complete treatment to all of their accounting problems." This suggests that the client has found value in such thorough service and is willing to pay for it. When this kind of relationship has been established, there is almost no end to what can be done for a single client beyond his auditing and tax work in the way of special reports, budgets and cash forecasts, for example. One type of service leads to another. Often the CPA will recast information gathered in an audit into various forms which will show the client where he stands from several angles, as, for instance, how his business compares with the rest of the industry. The installation of effective controls usually expedites the audit and gives the CPA more time for such extra service.

CPAs who approach their practice in this manner find they are seldom looking for new clients. One warns against accepting a client on a half-way basis. By turning away prospective clients with the frank explanation that he can't serve them adequately, he frequently finds that they return — sometimes a year or more later.



The other view toward the size of a practice holds that “an accounting firm either expands or it withers.” Successful CPAs of this school assert that they do not limit the number of clients they will accept. As one of three partners explains, “We are a firm of builders. Whenever our capacity is pinched, we simply add good men to the staff. When our work became too heavy for two partners to supervise, we added a third. We consider it our professional duty to accept almost any work which the public brings to us.”

## HELPING THE CLIENT INCREASE PROFITS

It seems almost too obvious to mention again that a major purpose of practicing as a public accountant is to help clients increase profits. Small businesses, especially, can be helped in many ways by a CPA, because they usually lack the staff and controllership services on which larger businesses rely for accounting, tax advice and related information. Yet it is surprising that many businessmen know so little about the variety of ways in which their CPA can help them.

Most successful CPAs seem to share the attitude that it is impossible to do everything for their clients that needs to be done. This has led one of them to keep a card file showing what could be done for each client that is not being done. He comments, “We could give half our clients twice as much time as they are getting and they’d be glad to pay for it.” Most of the CPAs of this frame of mind find that in almost every audit engagement they can discover some improvement which will ultimately increase the client’s profits.

*Expanding Services* • CPAs usually find that an engagement begins with a single type of service — a client calls them in because of a particular need and often a limited one. The most usual progression is from an audit into tax work, or vice versa, and some accountants prefer never to do one without the other. The CPA who is alert to profit-making opportunities for his client finds that expanding his services to existing clients is a continuing source of new work, and often about all he can handle.

In one firm, all staff men receive a percentage of the increased billing for work they have initiated with present clients. It constitutes a year-end bonus, and has helped to make the auditors more observant and imaginative. For example, one of the juniors in the firm was auditing a soft-drink bottling plant not long ago and made the simple observation that peak activity during the summer made monthly instead of quarterly reports desirable. He brought the suggestion to the partners, who promptly got in touch with the client. The client had sensed a need, but hadn't been able to define the problem. The same firm, and others like it which encourage staff men to find new opportunities for expansion of services, also caution them never to make suggestions directly to the client. Unforeseen difficulties too often arise unless ideas are first brought to the partners for consideration before discussion with the client.



Expansion of services may not always be best for the client. CPAs who have become "indispensable" to their clients find that some want more than they need. One client, for instance — a closely-held corporation with infrequent credit requirements — was insisting on an unqualified statement every year. The firm's CPA persuaded the management last year to accept a qualified statement and allow him to concentrate on improving internal controls, so that in future years unqualified reports can be resumed at much less cost. The alert CPA who is concerned for the client's profits will expand or contract his services, with his client's welfare uppermost in mind.

*Sending Helpful Information to Clients* • One way of demonstrating a concern for a client's needs is calling his attention frequently to items of published information that bear on his problems. Many successful CPAs consider this practice of the greatest importance. It takes them only a minute to make a note in the margin of an article or text of a speech and send it to a client. One of them says, "We like a client to think he's the only fellow we are thinking about even when he doesn't see us. It's especially important in the slack season, when it reminds him of us and reassures him that we haven't forgotten his problems. Perhaps five or six times a year we will send a client an item from such publications as *Business Week* or *Fortune* or from one of the tax services."

Those who use these "reminders" to best advantage find that they have to know their client and his problems well to know what, if anything, to send him. The practice seems to be most successful when items are personalized by a comment from the CPA, however brief, and by seeing to it that the item is pinpointed to the client's particular problem. Unless these items have sharp reference, they lose their value.

Some CPAs subscribe to syndicated bulletins for distribution to clients with a covering note disclaiming authorship. Mailings of this kind have proven less successful than more personalized items. This practice has been discontinued by several accountants who have found that the client didn't read the material. One client returned the bulletin to his CPA with the comment "Please read this and call me if there's something in it I need to know."

Some CPAs phone such information to the client, if it is of sufficient importance or needs discussion. They are careful when doing so to leave the impression that the call was worth the client's time and that they were not needlessly increasing the expense of their services.

*Specialization* • Many CPAs are expanding from audit and tax work into other management services. Those who do usually become specialized in certain fields — perhaps cost accounting, budgets, estate planning, wage surveys, production control or profit sharing. Or they can make a particular industry their specialty, so that their experience with the problems of one client will make them of greater value to

others in the same industry. Frequently a firm will develop a variety of specialists among its own partners and staff.

Specialization implies competence, and wise CPAs who are moving toward specialization also tend to become especially careful not to be led by their own enthusiasm or their client's needs into areas where they lack adequate professional skill and judgment. They guard against becoming "spread too thin" and they take pains to avoid giving legal advice or appearing to do so.

Specialization also implies higher billing rates, although the client can expect the total cost for the results he receives to be lower by virtue of the time saved on an assignment. One three-partner firm, which encourages each staff member to specialize in a different field, has developed a system for charging research costs. Whenever a staff member has free time, he will study in his special field and record the time spent. Also recorded are the costs of technical publications and information services subscribed to by the firm, which total \$1,200 to \$1,500 a year. When the firm encounters a problem in the field of one of its specialists, his knowledge is available, and his research time is drawn on in charging the client. While the method is somewhat arbitrary, the partners arrange to have the entire cost of research absorbed in billings by the end of the year.



## 2 THE ENGAGEMENT

IT IS ALL TOO EASY for the CPA to forget that the success of the engagement depends heavily on his being able to secure the cooperation of his client and the client's employees. A situation in which the client's people cheerfully help the CPA assemble information is more efficient than one in which he has to pry out information grudgingly given. An excellent arrangement is to have a particular individual in the client's organization assigned to work with the CPA. He can sometimes be persuaded to call the CPA when questions arise between engagements, so that mistakes can be avoided which would be costly to discover and correct later.

Many of the CPA's recommendations cannot be forced on an organization of human beings who may not understand the reasons for them or prefer to see old ways of doing things continue as they are. The accountant must find ways of winning acceptance by showing his client and the client's employees that improvements are in their best interest.

### PLANNING

Most clients have only a hazy notion of how much work is involved in an audit or in making out tax returns. It is not always possible for the CPA himself to foresee problems and to estimate the size of the task in advance. These uncertainties are especially apparent in the case of new clients who are not accustomed to audits — often the very ones CPAs encounter in their early years when they themselves are just beginning to gain experience. Successful practitioners find that time spent in sizing up an engagement is time well spent.

Most CPAs are adopting the practice of always reaching an understanding with the client on the scope of the engagement before the work gets under way. "Unless we do this," says an accountant, "problems and misunderstandings result. Usually we find that we're in for more work than either we or the client expected. We don't want clients to be surprised by the bill."

A number of CPAs who are rendering management services, including some sole practitioners, are recommending preliminary surveys to their clients for which they charge a separate fee. Others will spend time estimating the job and talking it over with the client, but will charge for this in the final statement. One accountant finds that in the case of new clients who don't know what they want it is best to agree to take the job in stages, reviewing progress with them as the work goes along and keeping the fee in view. Those who follow this practice say that it gives them more latitude than they would have if they were bound by preliminary agreements.

Progress reports are frequently employed in long engagements in which the client may get drawn unwittingly into greater expense than he anticipates. Businessmen naturally resent any tendency in business consultants to prolong their engagements without keeping them informed of progress and with the belated excuse that they did not realize how much they would have to do. One CPA points out another value of progress reports — that they result in better cooperation from both management and employees, which may determine the success or failure of new methods being installed. Clients are more agreeable to change when they have participated in the planning and successive phases and when their ideas have been considered.

## RELATIONS ON THE JOB

Having auditors on the premises always causes some unavoidable inconvenience to the client and his employees. CPAs can help to win their cooperation by holding this to a minimum, not only by proceeding with courtesy and consideration but by taking certain precautions against unnecessary confusion.



Some firms are able to familiarize several staff men with a client's affairs so that one is almost always available. This practice is also a



safeguard against the incompatibility that can arise in any human situation, for it then becomes possible to substitute another man for one who fails for any reason to get along with a client. The policy is even more important when there are partners, and many firms always keep at least two partners up-to-date on the affairs of each client. Then when one is away or encounters some personal barrier in dealing with a client, the other is usually available to take over. The advantages of such arrangements are often one of the reasons why CPAs form partnerships.

Some firms have been making special efforts to ensure good working relations on the job. They will frequently introduce their men to the officers at the beginning of an assignment, and at least one



accounting firm arranges a luncheon to introduce them to the controller. In another firm a partner always takes the supervisor to the office of new clients and helps him make his working arrangements. "I then assure the client that I'll keep a close eye on the work," he reports, "and I go out there personally from time to time to see how things are getting along. These are necessary steps to getting the kind of cooperation we need."

## DISCUSSING REPORTS WITH THE CLIENT

Many CPAs are finding it helpful both to themselves and their clients to review together a draft of the audit report before it is submitted in final form. In these conferences the clients will sometimes explain a problem, add new facts or satisfy a doubt, which may enable the CPAs to write a clean report which otherwise might have been qualified. They regard this as a continuation of the fact-finding process which in no way impairs their independence.

In sharp disagreement with this view is the belief of others that the report must not be exposed to the client in draft if the CPA's independence is to be assured. But even some of those who hold this view will agree that if the report appears to require qualification, they should advise the client before submitting it. Others find that any qualification will have been sufficiently discussed long before the drafting stage.

Reports for the broader management services, unlike formal audit reports, can become more involved. If there are unexpected phases in an engagement, some CPAs are apt to take drafts of special procedure reports to the client and discuss them with him in order to get the benefit of his knowledge and to ensure that their final recommendations will be workable. As the partner of one successful firm advised, "never let anything in your report come as a complete surprise to the client. If you have maintained a good working relationship while on the job, you will already have sounded out the client on the important recommendations you plan to make."

Another CPA recalled that he once had devised a new form set for a client and was preparing to base procedure recommendations on the new form. In reviewing his proposals with the client in draft, he learned that the company had recently bought a supply of the old form sets. The discussion saved him from recommending procedures that couldn't be adopted for about two years.

## BILLING

How CPAs determine what to charge clients for their services is a complex subject involving too many important considerations basic to the profession to be treated fully in this brief pamphlet.\* Nevertheless, because billing is such a vital phase of client relations, the experiences of a few successful CPAs in determining fees and presenting bills to their clients are described here.

*Value of Service* • Most accountants, especially those engaged primarily in tax practice and management services, would agree with the CPA who said, "We accountants give too much emphasis to hours worked in determining our fees. Our approach should be more like

\* Cf *CPA Handbook*, Chapter 12, "Fees for Services," American Institute of Accountants, 1953.

that of other professional people who bill for the value of work done. A CPA may have spent years in acquiring the background which permits him to solve a client's problem in five minutes." This attitude is well illustrated by the various ways in which CPAs deal with the problem of charging a client for the benefit he receives from research done earlier for another client. Frequently such costs are spread among all clients through higher billing rates in general. One CPA views this as charging less for research for the initial client in the expectation that the knowledge can be used later. Another points out the pitfalls in assigning charges for specific knowledge or ability, because one seldom knows where he got them or with how much effort. "We solve this problem by charging higher rates across the board," he says, adding "We don't like to charge clients too much for research in a new area, because it would show that we didn't know as much as we should have."

The distinction between time and value of service often appears in casual phone calls or lunches with a client, and here there is less agreement in practice than in theory. For example, one CPA says he will charge for a two-minute phone call if it draws heavily on his experience. Another, however, remarks that the client "shouldn't feel that the meter is ticking when he phones you." He tells of a client for whom he does countless little chores, such as advising on the size of the Christmas bonuses. The client had complained to him about a bill for \$50 from his lawyer for a phone conversation. The CPA reminded the client that he had charged him almost that much for casual advice and sundry services, but the client wasn't disturbed to learn it. Evidently the lawyer had made the mistake of billing for each phone call, whereas the CPA would send a general statement every six months summarizing such services.

*Frequency of Billing* • For regular services, however, there seems to be a trend among CPAs to more frequently bill. Many find that clients prefer to count on regular monthly or quarterly statements and find them less painful than larger, infrequent bills. Accountants also find their own financial requirements easier to meet with the steadier income of frequent payment. While it is still usual to bill once a year

for the annual audit, most CPAs bill more often for monthly work or tax advice extending over a period of months. One CPA, who practices much like an industrial consultant on a retainer, reports that his clients expect a monthly statement whether or not he has done any work for them during the month. He makes special adjustments in a separate year-end bill. He suggests that any CPA who is expanding into management services should consider this possibility. It has regularized and improved his income considerably.



*Discussing the Fee* • Many CPAs wonder whether they should discuss the fee with the client, and, as in other aspects of client relations, views differ even among practitioners skilled in dealing with clients. Some admit that billing is the most distasteful phase of their practice and that they procrastinate about it. Others insist that “CPAs should stop being apologetic about fees, as though billing were undignified or they were ashamed of their work.”

Few successful CPAs feel that they can predict for the client what their exact fee will be for an engagement. However, some will give a rough guess, usually in terms of a maximum and minimum for the total or in a range of hourly rates depending on the quality of staff to be assigned. One believes that awkward situations and misunderstandings can be avoided by being blunt about fees at the outset. When they are raising their billing rates, some make a point of explaining the reasons before the engagement to avoid surprising the client. Others find it just as satisfactory to explain, either by letter or by phone, at the time the statement is submitted.

There is a view among many experienced practitioners that discussing the bill with the client, except where unusual costs are in-

involved, may arouse unwarranted suspicions and give the client an opportunity to argue about the fee. They feel it reflects a defensive attitude, to be avoided at all cost. Their policy is to present the statement in a final and automatic manner, but frequently they will have taken the precaution to see that the client did not lose sight of the fee consequences as the engagement went along.

Itemizing the statement is similar in some respects to discussing it with the client, and most CPAs who avoid discussion also limit the breakdown to a very few items. "We don't want our statements to appear to be alibis," says one. Nevertheless, some CPAs with long experience will itemize in some detail, showing each type of tax return prepared and listing separate items for the audit, any special services, and out-of-pocket expenses. Often they round out the items to the nearest \$50.

*Complaints About Fees* • When a client objects to a fee, the CPA's client relations can be put to the test. A measure of good client relations is found in the belief of one accountant that if communications between the CPA and his client have been flowing well, there won't be much fee trouble. Nevertheless, problems arise even with the most experienced, and two general methods of handling them seem to prove successful.

One approach stresses the importance of satisfied clients. Some CPAs of this school advise the complaining client to pay them what he thinks the work was worth. If the accountants lose too much by this arrangement, they may spend less time with the client in the future or reduce the scope of their work to the bare minimum. If, on the other hand, they find the client constantly disposed to whittling the fee, they may drop him.

The other approach permits less flexibility, but apparently is equally successful. One who uses it states decisively that he never makes allowances in bills unless he has made a mistake. He finds that most clients don't respect such adjustments.

Another avoids fee conflicts entirely by setting a maximum figure at the outset beyond which charges will not go. If his work comes to less than this estimate, he will charge the client correspondingly less.

## 3 THE PROFESSIONAL ATTITUDE

THE PROFESSIONAL ATTITUDE governs the relations of a CPA with his client. While the practitioner usually earns a comfortable living, his success is measured more by the quality of his work and his clients' confidence and satisfaction in it than by his income. His economic potential and security depend on his professional reputation. His activity in professional societies generally suggests to others that he is keeping abreast of professional developments that will improve his services to his clients. Like other professional men, the CPA is expected to be a man of high purpose and ideals, willing to contribute his prestige and talents to the general welfare as a leader in his community.

### SOURCES OF NEW CLIENTS

Successful CPAs agree that satisfied clients are their most important source of new ones. The story is told by one eminent accountant of one of his smallest clients in terms of revenue, a wealthy gentleman for whom he regularly prepared tax returns. The CPA and the client's banker disagreed on a tax reporting procedure, but the CPA's recommendations won out with large savings to the client as a result. The client mentioned this to his friends, and for years afterward, people whom the CPA met would say, "You're the one who saved a fortune for old Caruthers, aren't you?" A great deal of new work came through that one engagement. Looking back on it, the accountant concludes that one never knows which of his clients — even the small ones — may unexpectedly bring in new business. Often the smaller ones need a CPA the most and are more genuinely appreciative of what he can do for them.

Certified public accountants, like most other professional people, are prevented by their code of ethics from actively seeking new clients, but must wait to be recommended. What they do after learning they have been recommended varies widely. Some do all they can to learn from independent sources the answers to such questions as: What does the prospective client expect in an accountant? Does he want a con-

structive or a routine accountant? Does he want a cost man or other specialist? Is he inclined to resist changes in established ways of doing things? Does he want a CPA with national or local reputation? Sometimes they discover a good deal about the prospect from his competitors.

## RISK AND REPUTATION

CPAs in public practice must frequently wrestle with the problem of how far to expose their professional reputation to the risk of association with clients who are not well regarded in the community, or to the more serious risk of clients who persist in questionable practices.



The problem is an especially difficult one for small firms, sole practitioners and young accountants. It is clear, on the one hand, that the CPA's reputation is his most precious asset, and that he can ill afford to jeopardize the hard earned confidence of other clients, credit grantors and other third parties. On the other hand, CPAs share with other professional men a responsibility to the public and to their clients to assume some degree of risk.

Few CPAs assume that they must approve all the procedures of their clients. However, some will refuse to accept clients who they do not consider to be acting in the public interest. Others insist that they will reject only those clients whom they feel they can't "educate" to proper methods. One firm of two partners believes it has the obligation to accept almost any client for at least a trial period. Many CPAs would agree with one practitioner who says, "We expect to find the

usual human tendencies among our clients. The problem of taking a stand contrary to their desires continually arises and always will. But the essence of our client relations is mutual confidence. When a client breaches that confidence with deliberate falsehoods to us, we feel it is time to withdraw as soon as possible. We can't afford the risk of a client we can't trust."

## GAINING THE CLIENT'S CONFIDENCE

The client's confidence depends largely on his satisfaction with the professional services performed for him. However, human relations play a large part in it, too. Many people will place their lives in the hands of the family doctor, whom they trust even though they know he is less skilled than a specialist. Personal factors are so essential to confidence that it can seldom be established without face-to-face contact. Most successful CPAs encourage clients to discuss their problems freely with them. The clients learn that a CPA will respect their confidence, and they soon find that in frank conferences they get the benefit of his wide understanding of their overall operations, his perspective, and the outside experience he can bring to their problems.

The staff accountants assigned to work for a client can help to establish confidence, and many CPAs see to it that clients are aware of any special abilities among the partners and staff members. If one of them is a specialist in cost accounting, pensions and insurance, production scheduling or other management services, they feel the client should know of it. Through personal conferences they often discover ways of applying special staff skills to a client's problems. Some CPAs make a point of explaining the qualifications of the staff men they are assigning to an engagement and building up their associates in the eyes of the client. Others, however, feel that this practice is unprofessional. "Our actions speak louder than our words," says one practitioner. He contends that "our clients assume that our people are competent or they wouldn't use us."

*Recommending Consultants* • The CPA's client, like the doctor's patient, has more confidence in his general practitioner when he is



sure that a specialist will be consulted without delay if the need arises. It is an essential part of the professional attitude that the practitioner know his own limitations and not exceed them. This is expressed by one CPA when he says, "If I feel that some other CPA or firm can contribute something to a client which I can't, I don't hesitate to recommend that they be called in as consultants." Another recalls that he once recommended retaining another CPA firm in a situation where his independence might have been questioned. In a more informal way he frequently exchanges information with other CPAs. They will call him or he will call them and discuss problems and possible solutions. A third CPA remarks that he often recommends calling in attorneys, surety and insurance men, accounting machine salesmen, advisors on accounting forms, and similar specialists whenever necessary in the client's best interest.

### THE CPA IN HIS COMMUNITY

Two current trends are projecting the CPA more and more into the life of his community. The first is a growing public awareness of what CPAs do, which, together with the increasing complexity of our society, is creating a demand for CPAs to serve the public welfare. Town and city councils and advisory boards which help to make public policy need a knowledge of accounting and of the practices of different business enterprises with which CPAs become familiar through varied experience. So do Community Chests, public health groups, governing boards of cooperatives, churches, school boards, and civic improvement and planning committees.

The second trend is a growing awareness among CPAs themselves that an obligation to the community is part of the life of a professional man. They see how other professional people around them volunteer and are given a part in the work of the community corresponding to the esteem in which they are held as professional men.

Many successful practitioners and CPA firms have adopted a policy that they and their partners should each take part in some activity, such as the Chamber of Commerce, Community Chest, school or hospital board or service club. Some even have a policy never to

refuse any request for service if they think they can help. Several firms permit staff accountants to audit charitable organizations on firm time as a means of contributing to the organizations. Most of them agree that community activity should not be undertaken solely for "business reasons," such as meeting prospective clients, but they recognize that it helps to become better known. "It's important to get around," says one sole practitioner. "You never know which of your acquaintances may become a client. It has a cumulative effect."

Another CPA warns that participating in community activities must arise from a genuine good will and desire to help one's neighbor if it is to be undertaken successfully. He observes that people who engage in them for personal gain are easily detected, are less welcome and less successful. He has found that the greatest personal satisfaction, and incidentally business rewards too, have come from the natural, unforced desire to be helpful to others, which is the first responsibility of all truly professional people.



# SOME NOTES ON PUBLIC RELATIONS \*

by John L. Carey

AS THE SHOEMAKER'S CHILDREN sometimes go without shoes, so CPAs who provide services to management lack effective management of their own practices. It is easy to forget that efficiency and economy in the management of professional practices are as important as in business.

Some of the major classifications of managerial responsibility in business are finance, production, research and development, sales, personnel, and public relations. It does not require much imagination to think of problems which accounting firms must handle under each of these categories, and it seems clear that methodical planning and sound management in each area would be highly rewarding.

"Sales" present special problems. Professional men properly cannot advertise or solicit business. They must rely upon satisfied clients as their principal source of new engagements. Client relations, therefore, are of vital importance.

It was for this reason that the American Institute's committee on public relations sponsored an experimental study of client relations and authorized this informal report on its results. As Mr. Murphey indicates in his introduction, the study has had a modest objective. It does not offer "all the answers." But it ought to stimulate creative thinking by CPAs on one of the most significant aspects of the management of an accounting practice.

## THE NEED FOR A PERSONAL TOUCH

Salesmanship, as I said earlier, is a rather naughty word in the professions – and in its worst sense rightly so.

But in the higher sense of influencing others by legitimate means to receive ideas or services, salesmanship is practiced by all successful professional men – indeed by all successful men and women.

\* *Note:* This discussion is largely composed of excerpts from the author's column in *The CPA* – the monthly membership bulletin of the American Institute of Accountants.



What does the clergyman do but selflessly sell ideas? The doctor's bedside manner often helps the patient without medication. Lawyers are widely regarded as the most effective persuaders of all.

What about CPAs' salesmanship?

Not much, I fear. Few CPAs seem to have a systematic plan for keeping in frequent personal touch with clients, displaying a continuing and studious interest in the client's affairs, volunteering appropriate suggestions, or occasionally sending clients pertinent information. The common routine seems to be to get the work done, present the return or report, move on to the next job. Even the successful CPAs interviewed in this survey confess that they do not pay enough attention to their clients — and explain this sin of omission on the grounds that they just do not have enough time. Doesn't this situation call for some soul searching? Doesn't it suggest (1) that the practitioners may have too many clients to serve properly, or (2) that they are so occupied with lesser matters that the important tasks are left undone? Surely, the main objective is not to acquire as many clients as possible, but to serve as effectively as possible the clients one already has. This demands some means of letting the client know the many ways the CPA can be helpful to him, and this type of communication must be personal and it must be direct.

Good salesmen cultivate the art of seeing things from the other fellow's point of view. If you were your client, wouldn't you like your accountant to pay more attention to your problems — pay you the compliment of using a little more salesmanship?

## TWO QUALITIES OF THE PROFESSIONAL MAN

This solicitude for the client, in fact, is one of the qualities possessed by every first-rate professional man.

As executive officer of the Institute, I have been served by some top-flight lawyers, certified public accountants, and public relations counsel. Privately, I have been the patient of some eminent medical men. These professional men not only work; they worry. They don't just lay reports or opinions on the client's desk. They share with him the difficult tasks of forming judgments and making decisions. They show concern for his problems by sacrificing their own convenience to meet his needs and by responding to his requests promptly. They think about his affairs continually and initiate suggestions of their own, calling the client at home on evenings or week-ends when something urgent happens.

There is another quality possessed by well-regarded professional men: the quality of independence. This is not, as some of us may have thought, a monopoly of the accounting profession. A top-flight lawyer, though he be an all-out advocate, will speak firmly when the client is wrong. A doctor tells the patient what to do, not vice versa. Any self-respecting public relations counsel will not continue to serve a client who conceals important information from him or continually ignores his advice. As one professional consultant said, "We are your devoted servants, as long as you trust us." While accommodating himself to his client's wishes within proper limits, the professional man in a showdown must be boss in the area where he takes responsibility. The strongest, most enduring professional relationship must be based on the unspoken but ever-present thought that it will terminate the moment the client loses confidence in his adviser.

Solicitude breeds trust. Independence breeds confidence. These qualities, added to basic competence, can make a professional man almost indispensable to his client.

## THE DISCHARGE OF A TRUST

This approach to an accounting practice can be stated in another way: the CPA must be prepared to accept responsibility.

Now responsibility is a grave word. According to the dictionary, it means the state of being answerable legally or morally for the discharge of a duty, trust or debt.

Professional men, almost by definition, assume inescapable responsibilities. They are answerable morally for the discharge of the trust that the public puts in them by relying on their technical ability, their honesty, and, above all, their judgment.

A physician takes solemn responsibility in announcing his diagnosis. A lawyer takes a similar responsibility for supporting his interpretation of the law. And a certified public accountant, in signing his opinion on a financial statement, assumes responsibility for decisions involving the exercise of the most discriminating judgment, on which many people, unknown to him, may depend in risking their money.

It seems to me that the stature of the accounting profession has increased in direct relation to the assumption of increased responsibilities by CPAs. Some efforts have been made to impose unfair legal responsibilities on accountants, and these must be resisted. Professional responsibility cannot mean infallibility. CPAs do not profess to be guarantors, and have never concealed the limitations of accounting and auditing techniques.

But the values of the moral responsibility assumed by CPAs are not yet as widely understood as they should be. Too many clients (and perhaps even too many CPAs) still think that the principal element in professional accounting service is the technical skill required to prepare financial statements, take inventories, make out income tax returns, and so on. Even in published reports of some big corporations, the CPA's opinion is often given too little prominence. Yet that is the really important thing the client gets for his money — the protection of independent judgment, a sharing of the burden of moral responsibility.



## THE CLIENT'S MAJOR GOAL: PROFITS

It would be asking a lot, however, to expect a client to be content with merely gaining some "peace of mind" through his reliance upon a professional accountant. He will want more from accounting than that — he will want it to be concerned, as Mark Eaton said in the fiftieth anniversary issue of *The Journal of Accountancy*, with the production of profits.

Too many people, in fact, think of auditing as a "necessary evil" to satisfy the demands of outsiders or as a "post mortem" verification of what management already knows.

But an audit is, or can be, a creative service. It can be in itself an analytical survey for management; an aid to communication with stockholders, employees, creditors; a buttress to good credit standing. It can also point up specific management problems — the need to strengthen internal control, to analyze costs, to prepare budgets, to revise insurance coverage, and so on.

An audit can be as creative as the people who conduct it, and a creative audit can easily be identified with production of profits. Perhaps this is not widely recognized because independent audits, unlike the physician's examinations, have not been commonly followed by diagnosis and prescription.

"Management services" by CPAs are widely discussed but variously defined. Broadly, of course, the term embraces everything that helps management, including the audit and suggestions which develop from it.

Two problems often arise in efforts to expand CPAs services to management: (1) It is difficult for the CPA to find time to study his client's affairs and communicate his ideas to the client. (2) It is difficult to formalize general business advice in a way that justifies adequate compensation for the time it takes to devise sound recommendations. But neither problem is insuperable.

No professional man in his right mind will jeopardize client relations by venturing beyond the limits of his competence. But any CPA should be able to raise significant questions, and if he cannot answer them himself, he can tell the client where expert, specialized advice

can be found. This, too, is management counseling — and it identifies the CPA with the client's major goal: the production of profits.

### THE QUESTION OF FEES

It needs to be reemphasized that the professional man will be unable to broaden his own scope or acquire gifted assistants unless he can obtain an adequate income.

It is no derogation of the professional nature of accounting to recognize that its practice is an economic enterprise. It must have an adequate income — or it fails. The services offered must command a price which will permit the payment of salaries sufficient to attract good staff men in a highly competitive market and which will make possible the continuing research and study that alone can insure a high-level of professional performance.

Fees for professional accounting services generally should be higher. But what is high? What is low? What are clients willing to pay? Young practitioners are often eager to know what others charge; but fee studies made by some local societies are not too helpful as guides because they show such wide ranges of fees for similar work.

The point is, of course, that knowledge and experience of the practitioner, and the value of his service to the client — both variable factors — are important elements in fee setting. A CPA may value his time at \$10,000 a year, and set his per diem charge accordingly; but if some of his time is spent doing a junior's work, he will not be wise to charge for that time at partners' rates. On the other hand, accounting or tax service that solves important problems which a client cannot solve for himself might be valued by the client's income scale, rather than by a predetermined per diem rate. In other words, the rendering of useful professional services is something more than merely selling time.

Accounting fees are depressed in some areas by competitive bidding, by careless quotation of "estimates" without adequate information, by a custom of taking on "off-season" work at lower than normal rates. These practices encourage businessmen to under-value accountants' services — and many businessmen are happy to oblige.



Why do some accountants, in busy days like these, feel that they have to offer bargain rates to attract a new client, even if they lose money on him at first? Why are some accountants willing to depress the whole scale of fees in their community (a scale which will determine their own future earnings) by making guesses at the cost of auditing or accounting work when businessmen are "shopping around"? Why do some CPAs suggest that they are worth less in the summer than in the winter? The next question is likely to be — are they really worth that much in the winter?

Commercial competitive elements like these ought to have no place in a professional practice. Each practitioner can command certain fees according to his technical skill, experience, judgment and professional responsibilities — regardless of what other practitioners may charge. As I said earlier, sheer volume has little merit in a professional practice. The CPA who is known for the high quality of his services has really nothing to fear in the future even if a buyers' market for accounting services should ever develop. The practitioner who dreads offending a potential client and accepts assignments which he is not equipped to handle properly is likely to be in far greater peril.

### THE ACCOUNTING "BREAKTHROUGH"

The proper approach to fees, the development of solicitude for the client, a sense of professional independence — all of these can enhance the CPA's ability to render a useful service to clients. That, in turn, could have a profound impact on the professional status of accounting.

The qualities of a real profession have been stated or implied several times in this discussion: a technical field requiring advanced intellectual training, the use of judgment, the acceptance of responsibility, the assumption of authority in one's own field, and perhaps most of all, a desire to help people, a willingness to share their worries and aid them in making difficult decisions.

CPAs as a group surely qualify under this definition; but not all of them do. Many CPAs have not yet accepted in their own minds the obligation to assume responsibility and to exercise authority in their

own field, or to assist people beyond the strict limits of services specifically requested.



For centuries accounting was equated with bookkeeping. In this century it has become a real profession.

The accounting breakthrough from clerical-type services to professional type services must be completed as quickly as possible so that the profession as a whole, both in public practice and in industry, will be universally accepted as a true profession. Only then will it be given the opportunity to serve to the full measure of its capacity.

This happy day can be hastened by a conscious effort on the part of CPAs. They can hasten it by stressing the constructive elements of their work and by identifying their services with the creative activities of management such as organization, planning, communication, measurement of progress. They can hasten it, too, by being eternally vigilant in seeking to improve their relations with that very important person: the client.

It is hoped that this little booklet may be helpful to members in achieving that objective.

