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Members in Large Public Accounting Firms, January 2003

American Institute of Certified Public Accountants (AICPA)

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We Are In this Together: CPAs in Industry and Public Practice Raising Their Awareness to Prevent Fraud

Highlights

news update

Sam Antar, a former CPA with the now-defunct Crazy Eddie's electronic chain, would be the first to agree that CPAs need to learn more about fraud. That's because Antar, now a convicted felon, helped engineer a half-billion dollar financial statement fraud that was made possible by taking advantage of the company's independent auditors.

Antar, along with a half-dozen other fraudsters, are featured in a new eight-hour self-study program designed to teach CPAs in industry and public practice the basics of how fraud is committed against organizations.

The interactive CD, ***Fraud and the CPA,*** features video clips of criminals describing their schemes. It was jointly produced by the AICPA and the Association of Certified Fraud Examiners (ACFE) as part of both organizations' efforts to increase CPE offerings in fraud prevention, detection and deterrence.

Barry C. Melancon, president and CEO of the AICPA, put it bluntly. "CPAs must join together to restore the profession's reputation. One of the ways CPAs can lead the way in fraud prevention and detection is to commit more time to CPE in this area and ensure that their skills and understanding are up to date."

The new course (see sidebar here and main section of *The CPA Letter* for order information) covers the following major topics.

The Cost of Fraud

As recent headlines about multi-billion dollar cases such as Enron and WorldCom show, the cost of illegal corporate conduct is staggeringly high and covers myriad nefarious activities ranging from expense account abuse to financial statement fraud. And this is not just for the largest corporations. Companies of all sizes are severely damaged by fraud.

In the ACFE's *2002 Report to the Nation on Occupational Fraud and Abuse,* it is estimated that **the average organization will lose about 6% of its revenues to all forms of occupational fraud.** Moreover—as recent high-profile cases have shown—not only do investors lose billions, but employees lose their jobs and pensions, and the erosion of confidence in capital markets can have a devastating effect on the economy.

The CPA's Fraud-Related Responsibilities

Controlling fraud is a collaborative effort between the CPA and corporate America. Nonetheless, independent auditors have certain responsibilities when it comes to detecting fraud and other illegal acts. Moreover, other CPAs may have legal obligations to report suspected fraud. It is important for CPAs to know what to do if they believe a fraud may have occurred. It also is important, especially if they work in business and industry, that they understand the new responsibilities under the Sarbanes-Oxley Act, which requires CEOs and CFOs to certify company financial statements.

Who Commits Fraud and Why

From the mailroom to the boardroom, people who choose to commit fraud usually believe they are justified in doing so. It is vital for the CPA to understand the factors that motivate this type of conduct. Actual offenders like Sam Antar, in video clips, describe what they did and why.

- Kay Lemon, the bookkeeper for a Midwestern lighting store, stole $416,000 in cash, which she used to greatly improve her lifestyle.

continued on page A2

continued from page A1—**Raising Fraud Awareness**

- Tim Sasak, a former CPA, defrauded investors of over $40 million in a classic real estate Ponzi scheme. His motivation was to cover bad investments he had made.
- Barry Minkow, the reputed "boy wonder" in the now-classic $100 million ZZZZ Best fraud, fooled his independent auditors. He describes the simple tricks he used.

These case studies illustrate that "ordinary" people commit fraud. The culprit could be a coworker or a trusted client. To detect and deter fraud, CPAs must have a heightened sense of professional skepticism.

Fraud Schemes

There are three principle types of occupational fraud: fraudulent statements, corruption and asset misappropriations. For each type, there are specific schemes that CPAs must know. Several schemes are commonly used to manipulate financial statements, two involving corruption, and four major schemes are used to misappropriate assets. For each, there are also numerous variations and sub-schemes. CPAs in business and industry who are familiar with the ways fraud is committed against organizations are in a much better position to recognize their unique red flags and minimize or avert fraud losses.

Fraud Prevention

Preventing fraud goes far beyond internal control. There are three main factors that control the risk of fraud: pressure, opportunity and attitude. By understanding and applying the three elements of what has become known as the "fraud triangle," CPAs can start developing a more complete picture of the causes and cures for fraud. Accountants have a unique and important role in preventing fraud, but they can't do it alone. This concluding section puts fraud prevention in its proper context, and offers suggestions for improving fraud detection and deterrence.

"The objective of this course is to raise awareness of fraud within the accounting profession and corporate America," said Melancon. "This information is vital, because to find fraud, we must understand the human element—why people commit fraud and what opportunities and factors aid in their decision. By advancing our knowledge in this area, we can help solve the problem."

Toby J.F. Bishop, president and CEO of the ACFE, said that the jointly produced video is but one of several projects planned by the two associations. "Education is the cornerstone of fraud prevention. In Dec., the AICPA and ACFE released a free interactive CD entitled *How Fraud Affects You and Your Organization.* The one-hour training program is designed to educate employees of all organizations about fraud." The training program is downloadable, free of charge, at:

www.aicpa.org/antifraud

Melancon said that the AICPA will also be working with universities to survey the current state of fraud education, and with textbook publishers to integrate appropriate fraud-related material. In addition, the AICPA will assist the ACFE's ongoing efforts to provide free educational resources to colleges and universities.

"Joseph Wells, the ACFE's founder and chairman of the board, was one of the first to act on the need for antifraud education by providing materials without charge to institutions of higher learning. It is important that tomorrow's accounting graduate enters the workforce better prepared to fight the battle against fraud," Melancon said.

For CPAs in practice and in industry, *Fraud and the CPA* represents a major effort to reshape the way the accounting profession views the phenomenon of fraud. In the words of ACFE's Bishop, "We CPAs are very adept at our knowledge of accounting concepts. But books and records don't commit fraud; people do. And in the war on fraud, this course helps us recognize who the enemy is."

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Staffing Top Concern for CPA Firms for Fifth Straight Year

practice management

For the fifth consecutive year, most accounting firms still consider finding and retaining qualified staff to be the most pressing issue, according to this year's "Top Five MAP Issues" survey.

Released by the AICPA PCPS Management of an Accounting Practice Committee, the survey polled CPA firms across the country ranging in size from one professional (sole practitioner) to 50 or more professionals. More than 500 AICPA and PCPS respondents completed the survey.

While firms' concern about attracting and retaining staff has been a major issue for years, a few new concerns made the list this year. CPAs have become increasingly concerned with the effect of the new regulatory environment and how local and regional firms will be affected. "Fee pressures/prices of services and determining/meeting client needs drop off the list, while recruiting and retaining top talent remains a big issue in general. It seems that large firms are more concerned with marketing and growing their practices," commented Neal Harte, partner at Vitale Caturano & Co. and chair of the PCPS MAP Committee. "Small firms are also concerned with keeping up with technology and seasonality workloads."

Perhaps because audit planning will be even more complex this year, seasonality has reappeared on the list of critical concerns. Near-term pressures have weighed heavily on firms, causing the important issue of succession planning to drop two notches to number five in general results.

Taking Part

For the first time, the survey was available on the PCPS Web site. All PCPS members were encouraged to participate through an e-mail invitation, linking them directly to the site. Conducted by Intellisurvey and facilitated by the AICPA's Research and Innovation team, the survey produces results that the PCPS MAP Committee uses to help guide the development of new programs, workshops, forums and initiatives. Last year, a collaborative task force made up of AICPA committee members and staff was created specifically to address issues related to staffing.

To participate in next year's poll, contact your state society MAP representative or call the firm practice management staff. Invitations for the Top Five MAP Issues Poll will be distributed in the late summer or early fall.

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2002 General Top Five MAP Issues

1. **Finding and retaining qualified staff**
2. **Marketing/practice growth**
3. **Seasonality/workload compression**
4. **The effect of the new regulatory environment on local/regional firms**
5. **Succession planning**

2002 Medium/Large Firms Top Five MAP Issues

1. **Finding and retaining qualified staff**
2. **Marketing/practice growth**
3. **Succession planning**
4. **The future of the profession**
5. **Seasonality/workload compression**

2002 Major Firms Top Five MAP Issues

1. **Marketing/practice growth**
2. **Finding and retaining qualified staff**
3. **The future of the profession**
4. **Succession planning**
5. **The effect of the new regulatory environment on local/regional firms**

2002 Small Firms Top Five MAP Issues

1. **Finding and retaining qualified staff**
2. **Seasonality/workload compression**
3. **The effect of new regulatory environment on local/regional firms**
4. **Marketing/practice growth**
5. **Keeping up with technology**

2001 Top Five MAP Issues

1. **Finding, hiring and retaining quality staff**
2. **Marketing/practice growth**
3. **Succession planning**
4. **Fee pressures/prices of services**
5. **Determining/meeting client needs**

Quarterly Series of Live Webcasts for Financial Professionals Sponsored by AICPA and CFO.com—Next One Jan. 16

Chief financial officers and other top financial professionals team up with AICPA and CFO.com experts to help you manage complex issues pertaining to off-balance-sheet financing, auditing, ERISA, XBRL, corporate disclosure, financial reporting, treasury management and more. The quarterly CFO Roundtable Series, which began in Oct. 2002, is a cost-efficient and time-efficient way to stay plugged in to professional developments in this turbulent economic and regulatory climate—while earning continuing education credits.

Here is the schedule for the remainder of the CFO Roundtable Series:

- Jan. 16, 2003, 1:00 p.m. – 2:55 p.m., ET
- May 15, 2003, 1:00 p.m. – 2:55 p.m., ET
- July 17, 2003, 1:00 p.m. – 2:55 p.m., ET

Price: A single event costs $79. *CPE credit:* 8 per subscription. *Note:* registrations cannot be accepted after noon Eastern Time on the day of the Webcast.

For ordering information:

www.cpa2biz.com/webcasts

888/777–7077

2003 Salaries for Accounting and Finance Professionals Should Remain At or Near 2002 Levels

On average, starting salaries for accounting and finance professionals should remain little changed from 2002, according to the *2003 Salary Guide* from Robert Half Finance & Accounting and Accountemps. With continued economic uncertainty, demand will remain strong for accounting professionals who can implement cost containment and cash-flow improvement initiatives, research shows.

"Base compensation should remain at or near 2002 levels within most accounting and finance specialties as a result of a more conservative hiring environment," said Max Messmer, chairman and CEO of Robert Half International. "Among those organizations recruiting financial staff, demand is strongest for candidates with solid leadership abilities and broad skill sets who can help their teams achieve greater productivity and cost efficiencies."

Starting Salaries in Public Accounting to Increase

Professionals in public accounting are expected to see the biggest increases in average starting salaries next year as accounting firms compete with private industry for top applicants. Managers and directors at large public accounting firms (more than $250 million in annual sales) will see average starting salaries rise 4.1%, to the range of $78,500 to $116,500. Entry-level accountants at midsized public accounting firms ($25 million to $250 million in annual sales) can expect base compensation of $32,000 to $38,500, a 3.7% increase over last year. Senior accountants at small public accounting firms (up to $25 million in annual sales) can anticipate a 3.5% increase in average starting salaries, to the range of $41,750 to $53,750.

Corporate Accounting Salaries Remain Stable

While average starting salaries in corporate accounting should remain consistent with 2002 levels for most positions, small gains are forecast for payroll supervisors and managers (up 2.9% overall); assistant controllers and assistant treasurers (up 2.2% overall); controllers (up 1.9% overall); and general, audit, tax and cost accounting managers (up 1.7% overall).

At small companies, base compensation for payroll supervisors will be 4% higher than 2002, the biggest increase for any single position in corporate accounting. Assistant controllers and assistant treasurers at small and midsized firms will see starting salaries increase an average of 2.7% over last year. These same positions at large companies ($500 million or more in annual sales) should see average starting salaries of $90,750 to $114,250, a 2.5% gain over 2002.

Salary declines are expected at the most senior levels. For example, chief financial officers and treasurers could see declines in average starting salaries of up to 3.6% at companies with $250 million to $500 million in annual sales. Directors of finance at companies with $500 million or more in annual sales could see declines in base compensation of up to 8.6%, bringing them to the range of $125,000 to $184,000 annually.

Demand for accounting and finance professionals is expected to be strongest in the health care and manufacturing industries. However, hiring activity varies significantly by geographic region. (All salaries listed are national averages. A regional analysis of hiring trends and compensation variances is included in the *2003 Salary Guide.*)

Information in the *2003 Salary Guide* is based on thousands of job searches, negotiations and placements conducted each year by Robert Half Finance & Accounting recruiting managers. Continuing or ongoing salaries are not reported because too many external factors—such as seniority, work ethic, job performance and training—affect the salaries of full-time professionals as work histories develop.

To get a copy of the survey:

www.rhii.com/resources/index.html

IASB Publishes Proposals on Accounting for Business Combinations

IASB update

The International Accounting Standards Board has published for public comment proposals on the accounting for business combinations. The proposals are set out in exposure draft ED 3, *Business Combinations,* and an Exposure Draft of Proposed Amendments to IAS 36, *Impairment of Assets,* and IAS 38, *Intangible Assets.* The IASB invites comments on the EDs by Apr. 4.

The IASB announced in July 2001 that it would undertake a project on business combinations as part of its initial agenda, with the objective of improving the quality of, and seeking international convergence on, the accounting for business combinations. The project has two phases. ED 3 and the ED of proposed amendments to IAS 36 and IAS 38 have been published as part of phase I. One of the primary objectives of phase II of the project will be to eliminate remaining differences between international and national standards on business combinations.

Introducing the EDs, Sir David Tweedie, IASB Chairman, said: "Accounting for business combinations diverges substantially across jurisdictions. These proposals mark a significant step toward achieving high-quality standards in business combination accounting and in ultimately achieving international convergence in this area. Although many of the proposals are consistent with standards issued in Canada and the United States during 2001, the IASB has drawn on requirements in other jurisdictions when it believed a higher-quality solution existed. This project is a good example of how convergence can and should work. For instance, the Financial Accounting Standards Board has agreed to reconsider its own standards on the treatment of restructuring costs that are expected to be incurred as a result of a business combination."

Copies of ED 3 and the ED of proposed amendments to IAS 36 and IAS 38 (ISBN 1-904230-06-7) are available, at £20 ($31) for the two exposure drafts including postage, from: IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

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