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Reporter

Published by and for the Members of the Private Companies Practice Section of the AICPA Division for CPA Firms

Action on the Advocacy Front

Largely on the basis of analyses provided by the Technical Issues Committee, the PCPS recently submitted specific recommendations on four matters and commented less formally on several other projects of the Institute's technical divisions. Here is a brief summary of the comment letters.

AUDIT SAMPLING. Commenting to the Auditing Standards Board and its Statistical Sampling Subcommittee, the PCPS welcomed their intention to provide practitioners with additional assistance on the use of statistical sampling, but urged that this be done in an audit guide or similar publication and not in an SAS. The comment letter also stated that special care should be taken to avoid suggesting that in some circumstances the use of conventional nonstatistical sampling is in any sense substandard.

CONSTRUCTION CONTRACT ACCOUNTING. Commenting on exposure drafts of a statement of position and an audit and accounting guide, the PCPS expressed reservations as to whether the documents' strong preference for the percentage-of-completion method is tenable and realistic, particularly for small contractors. The comment letter also recommended that more definitive guidance be included on which method of accounting (percentage or completed contract) should be used when a contractor's systems are not adequate to provide reasonable estimates. Also included were suggestions on certain technical details.

PCPS also questioned whether the exposure of the contract accounting publications was adequate. Noting that the comment periods largely coincided with tax season and that many smaller contractors are not members of the national trade associations whose comments were requested, the PCPS suggested that updated drafts of both publications be re-exposed after modifications are made to reflect the comments received.

PREPARER PENALTIES. The PCPS urged the Federal Taxation Division to alert all AICPA members to the need for challenging Sec. 6694 penalties proposed by the IRS. (In a related move, the Technical Issues Committee is recommending that PCPS members challenge such penalties—see article on page 5.)

SEC FILING REQUIREMENTS. After considering SEC Release 34-16866, which requested comments on proposals for relaxing the filing and reporting requirements for smaller publicly owned companies, the PCPS

expressed its strong support for simplifications of this type, and urged the AICPA's SEC Regulations Committee to respond in that vein for the Institute.

PCPS members should also communicate their own views directly to the profession's standard-setting committees. An effective way of doing this is by responding to exposure drafts, many of which are distributed to all practice units and most of which are mentioned in the *CPA Letter* and listed in the *Journal of Accountancy*. It would be helpful if copies of such comment letters were sent to the PCPS Technical Issues Committee at the AICPA's offices in New York.

Special Meeting Upholds PCPS Position

On July 11 a special meeting of the AICPA was held, in response to a petition signed by 269 members, to consider submitting two questions to the entire membership for a vote by mail. Both questions affected the Division for CPA Firms. Each question was decided in accordance with the expressed preferences of the PCPS Executive Committee.

The preliminary counts were announced at the meeting as follows, subject to subsequent confirmation:

- Should the following resolution of the membership be adopted?

RESOLVED, that the Institute refrain from incurring any additional expenses in connection with its sponsorship of and the activities of the Division for CPA Firms for which it is not reimbursed by said Division.		
For submitting this to a mail ballot	246	36.3%
Against submitting this to a mail ballot	432	63.7%
	<u>678</u>	<u>100.0%</u>
- Should the following resolution of the membership be adopted?

RESOLVED, that the Institute and the Division for CPA Firms be directed not to publish or cause the publication of a directory of members of the Division for CPA Firms.		
For submitting this to a mail ballot	234	35.5%
Against submitting this to a mail ballot	425	64.5%
	<u>659</u>	<u>100.0%</u>

Although the directory question will not be submitted to a mail ballot, the Institute's Council decided on May 6 to delay publication of a directory until 1982 in order to give firms more time to become members of the division and to prepare for peer reviews.

Interpretation Issued on Quality Control Documents

In a recently adopted interpretation, the Peer Review Committee laid to rest the notion that in order to pass a peer review a member firm is required to create a detailed quality control document from scratch. The PCPS's *Peer Review Manual* contains a requirement for either a quality control document or a summary statement that refers to other documentation. The new interpretation, which will be mailed to all member firms as a supplement to their *Peer Review Manuals*, recognizes the value of a tailor-made quality control document. Nevertheless, it states that a properly completed "Quality Control Policies and Procedures Questionnaire" may serve as the firm's quality control document or summary statement. (The SEC Practice Section has adopted a similar interpretation.)

The questionnaire to be used is the same as the one already included in the Manual to assist review teams in evaluating a firm's quality control system. It consists of the even-numbered pages of the Compliance Review Program Guidelines, four different sets of which are included in the Manual for firms of different sizes.

Last October the PCPS announced its engagement-oriented reviews for firms with up to about 20 professionals. The announcement emphasized that, for such a review, a firm need only complete a five-page questionnaire. These firms can continue to use this briefer questionnaire if they elect (as most probably will) the engagement-oriented review. The more recent interpretation provides guidance to firms of all sizes on the questionnaire approach.

Audit Guide Proposed for Nonprofit Organizations

The Auditing Standards Board recently released a proposed audit guide entitled *Audits of Certain Nonprofit Organizations*. The PCPS Technical Issues Committee is studying this draft, but because of the broad diversity of organizations to which the guide would apply, the Committee recommends that PCPS firms with affected clients also review the draft and comment on it.

Among the entities covered would be civic, fraternal and labor organizations; trade and professional associations; libraries, museums and other cultural organizations; private schools; political parties; and religious organizations. The proposed guide would not affect nonprofit organizations covered by existing audit guides—namely, hospitals, colleges and universities, voluntary health and welfare organizations, and state and local governmental units.

Comments on the exposé draft are due by November 15. To obtain a copy, contact the AICPA's Order Department. PCPS firms that submit comments to the Auditing Standards Board are requested to send a copy of their comments to the PCPS Technical Issues Committee.

Peer Review Scheduling Plan Adopted

Under a plan approved by the Executive Committee, the Peer Review Committee will assign dates in 1981 or 1982 for reviews by committee-appointed review teams of member firms that do not respond by September 30 to a request to designate a specific date. Firms that then decide that they would prefer another date may arrange for a firm-on-firm review, or for a review arranged under an approved state society or association plan.

Every effort will be made to accommodate the preferences of those firms that have not yet advised the Quality Control Review Division of their peer review plans. However, there will necessarily be an element of first come, first served in the assignment process because of the peak loads anticipated for 1981's second half and 1982's second quarter. Details of the plan are being mailed to all affected PCPS firms.

The PRC also advised the Executive Committee that it will probably be necessary to increase reviewers' billing rates in 1981.

In a related action, the Executive Committee reaffirmed that, in order to meet the PCPS membership requirements, firms that joined the Section before July 1, 1979 are required to file their peer review reports with the Section by June 30, 1982.

Firm-on-Firm Reviewer Lists Being Updated

A list of PCPS member firms that will accept peer review engagements on a firm-on-firm basis is available from the Institute's Quality Control Review Division. Notify that Division if your firm would like to be included.

All PCPS member firms are eligible to conduct reviews in accordance with the standards set forth in the *Peer Review Manual*. Reviewing firms are not required to register in advance, but they should do so in order to be included on this list.

Members Welcome At Executive Committee Meetings

Representatives of PCPS member firms may attend meetings of the Executive Committee as observers provided there is enough space in the meeting room. Anyone interested in attending should make arrangements through the PCPS director, at the Institute's offices.

The Executive Committee's tentative meeting schedule is as follows:

Sept. 22-23, 1980	Washington, DC
Nov. 14, 1980	New York
Jan. 19-20, 1981	Phoenix
Mar. 21, 1981	Chicago
Apr. 29, 1981	Kansas City
June 25-26, 1981	Denver
Sept. 24-25, 1981	New Orleans

The PCPS Conference— What The Registrants Told Us

The first task confronting Jack R. Leshner, who was recently appointed chairman of the 1981 Conference, will be to study a twenty page report summarizing the evaluations submitted by those who attended the conference. While most registrants gave the 1980 Conference excellent grades, some comments indicated there is still room for improvement.

Among the 451 paid registrants there was a clear consensus about which session was considered best: "Practice Development for the Local Firm," moderated by Mahlon Rubin of St. Louis, who will in October complete his third year as a member of the PCPS Executive Committee. Members of the panel were A. William Hoffman, Sidney F. Jarow and A. Marvin Strait. Particularly good ratings were also received by "New Directions in Peer Review," moderated by Morris I. Hollander of Miami. Mr. Hollander and one other panelist, John T. Schiffman, are both charter members of the Peer Review Committee. With them on the panel were Roger W. Jeffery and John G. F. Knight, both of whom are partners in firms that had recently been reviewed.



Mahlon Rubin (standing), moderator of the Practice Development panel, visits with registrants during a roundtable discussion period.

The most prevalent suggestion for next year is greater opportunity for organized small group discussion with fellow practitioners. Borrowing a technique from the Institute's MAP conferences, the 1980 Conference assigned registrants to tables based on firm size, and included roundtable discussion at these tables. This arrangement proved universally popular, and many registrants asked for more of the same next year. Related suggestions recommended concurrent sessions in smaller rooms.

Many registrants suggested that future Conferences include more material that would help in practice

management. However, there were some who said the PCPS Conference should stick to its own mainstream subjects, and not "compete" with MAP meetings.



W. Thomas Cooper speaking about the future of local firms. Tom is a member of both the PCPS Executive Committee and the Special Committee on Small and Medium-Sized Firms.

There were also a number of suggestions that the Conference have more technical emphasis, perhaps with a speaker from the FASB, and a session on a subject such as disclosure requirements for privately held companies. Another frequent suggestion was that more time be devoted to a "town meeting" type of open discussion forum.

Other recurring suggestions were that there be more extensive coverage of peer review, that speakers be required to provide more detailed handout materials, and that separate seating facilities be provided for smokers.

Chairman Leshner's task force will certainly have their hands full evaluating all these suggestions and developing a program that is as well received as that of his predecessor, 1980 Chairman John C. MacIlwaine. One thing is certain about the 1981 Conference—it is scheduled for Kansas City, April 26-28.

Auditing Assistance Needed

A task force of the Institute's Auditing Standards Board hopes to develop specific guidance on the implementation of auditing standards in audits of small businesses. This could include subjects such as the evaluation of internal accounting control, special audit procedures to compensate for limited segregation of duties, reliance on owner/manager controls, problems of manager dominance, etc.

Members of the Institute, and particularly of the PCPS, are requested to assist by reporting the problems they have encountered in implementing existing SASs, and, if available, proposed solutions to these problems. Any input that might be helpful should be sent to Dan M. Guy, Director of Auditing Research, at the AICPA. (PCPS members are asked to send a copy to the PCPS staff.)

In-House CPE: Better Training At Less Cost

A significant requirement of membership in the Division for CPA Firms is that all U.S. professionals in the firm have 20 hours of CPE every year, and at least 120 hours every three years. Some 36 states now have mandatory CPE for practicing CPAs, but only the Division has a requirement that also applies to non-CPAs—for example, accountants who are not yet CPAs and experienced professionals such as MAS computer specialists and tax lawyers.

Partially as a result of mandatory CPE, professional development activity has burgeoned in recent years. In the CPE year ended in May 1980, there were 89,016 participants in state society and regional presentations of AICPA courses, an increase of 67% over the 53,226 in 1975. For comparison, the number of AICPA members in public practice increased 32% to 82,141 in the five years ended July 1979.

For fiscal 1980 (ending in July) the Institute's gross CPE revenues are expected to exceed \$9,500,000, an increase of more than 136% over fiscal 1975's \$4,023,000. The growth in state society CPE activity is believed to have been even greater. In addition there are a number of relatively new non-affiliated training organizations that offer CPE courses, mostly at the staff training level. While the benefits of CPE are well recognized, it is not surprising, in the face of this expansion, that firms are seeking ways to control the costs.

Anticipating this development, the Institute's CPE Group (with strong PCPS encouragement) has been placing increased emphasis on developing materials for in-house training programs. These enable considerable savings in travel time and costs, particularly for firms that are not near major population centers. And to some extent they can enable a firm to tailor its training more specifically to its own needs and operating procedures.

AICPA-DEVELOPED MATERIALS

Almost all of AICPA's traditional "seminar" courses are available for in-house use. They include participants' manuals and a discussion leader's guide, sometimes accompanied by advance reading and presentation materials. The courses are designed to last either one or two days.

Modules and mini-courses constitute another category of training materials available to firms. Modules are segments of the Institute's staff training programs, and they vary in length. Most of the mini-courses are two hours long. Among the more popular are courses on certain FASB statements, and on SASs. The materials generally consist of participants' manuals and a discussion leader's guide.

The Institute's *VideoFlex* series is a recent development, requiring a videotape playback unit connected to a standard television set. The tapes themselves can be purchased outright or rented on a weekly basis. Related materials include advance reading, a workbook, and a quiz that must be submitted for a certificate of completion. Unlike most other courses the *VideoFlex* programs do not require a technically competent discussion leader, although when a program is being used by a group someone should be in charge for administrative purposes. *VideoFlex* programs can be used for either group or individual study.

The Institute also produces a wide variety of individual self-study materials, many of which include audio cassettes and some of which (such as the tax and SEC highlights) are prepared quarterly.

Most state societies participate in a plan for distributing all these materials to local firms in their own states, and they can provide catalogs and pricing information. In case your state society does not yet participate, contact the Institute's CPE Marketing Department. The *VideoFlex* and individual study materials are also marketed by the Institute through direct mail.

The monthly *CPA Video Journal* is another type of video material that can be used for training. Produced by the Institute's Public and State Society Relations Division, these videotapes are distributed to participating state societies for use at meetings. They are also available, at cost, to firms. The tapes usually run about an hour, and cover both technical and institutional subjects.

THE BENEFITS OF DOING IT YOURSELF

A particularly effective and inexpensive type of in-house training is that which is developed and presented by the firm's own partners and staff, or in conjunction with a nearby firm. For example, a person who is a tax specialist could conduct periodic tax updating sessions for the firm's accounting and audit personnel. Another person could be assigned to conduct training courses on new developments in auditing, compilation and review, or accounting standards. A unique advantage is that this approach permits training to be tailored specifically to a firm's own operating philosophy, workpaper standards and internal policies, procedures and forms.

It is important, of course, that in-house training programs be structured and conducted so that they will comply with the PCPS CPE requirements (see pages 13-17 of the *Peer Review Manual* booklet). Note in particular that, with certain limitations, discussion leaders are entitled to up to two hours of advance preparation credit for each hour of teaching.

Committee Chairmen Elected

The PCPS will soon be entering its fourth year of operations with talented chairmen at the helm of the Section's three committees.

EXECUTIVE COMMITTEE. The PCPS Executive Committee elected Francis A. Humphries, of Charleston, South Carolina, as its 1980-81 chairman.

Mr. Humphries, Executive Partner of Gamble, Humphries, Givens & Moody, has been a member of the Executive Committee since its inception in late 1977. Mr. Humphries has also served on AICPA's Council, its Special Bylaws Committee, and an Auditing Standards Board task force. He is a member and past president of the South Carolina Association of CPAs, and is active in civic and community activities.

TECHNICAL ISSUES COMMITTEE. In January, the Executive Committee elected Sandra A. Suran chairman of this committee. A partner in Suran & Company of Portland, Oregon, Ms. Suran is currently a member of the PCPS Executive Committee, and was chairman of its Task Force to Monitor Technical Issues, which was her new committee's predecessor. Active in the Oregon Society of CPAs, she is also Chairman of the Oregon State Board of Accountancy, President of the Beaverton Area Chamber of Commerce, and a member or director of numerous other civic and professional organizations.

PEER REVIEW COMMITTEE. Morris I. Hollander, a member of the Peer Review Committee since its inception in early 1978, has been elected its chairman. Mr. Hollander is director of accounting, auditing and quality control for Gurland, Goldberg & Hollander, currently located in Hallandale but soon to move to Miami, Florida. Mr. Hollander also serves on the AICPA's CPE Executive Committee and is a Vice President of the

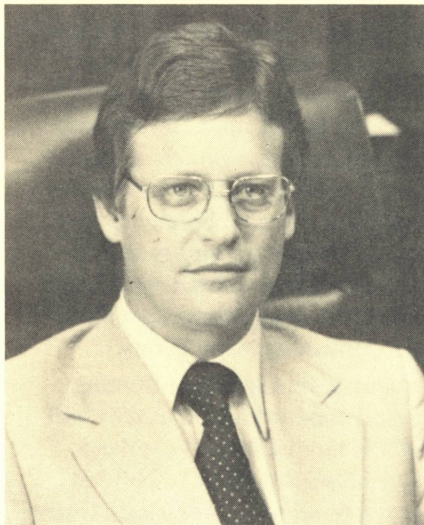
Florida Institute of CPAs. In addition, he is Chairman of Florida International University's Accounting Department Advisory Council.

Technical Issues Committee Recommends Challenging Preparer Penalties

Before agreeing to the assessment of a preparer penalty pursuant to Sec. 6694 of the Internal Revenue Code, CPAs should be aware that the *Internal Revenue Manual* provides that the district office that has assessed the penalty may request from the National Office of the IRS a listing of all tax returns prepared by that CPA. The district could then audit these returns to determine whether a pattern of alleged abuses is apparent. CPAs should consider this possibility before agreeing to penalty assessments. (It should be noted, however, that IRS Commissioner Kurtz has indicated that such a procedure would be followed only in what the IRS would consider the most extreme cases.)

The Technical Issues Committee recommends that preparers in PCPS member firms aggressively challenge proposed Sec. 6694 penalties, particularly those where, in the CPA's professional judgment, he or she has not negligently or intentionally disregarded the applicable rules and regulations. The immediate purpose is to avoid the possibility of subjecting the preparer's other returns to special scrutiny. Equally important, the proposed penalties should be challenged to avoid establishing harmful precedents that could adversely affect all CPAs.

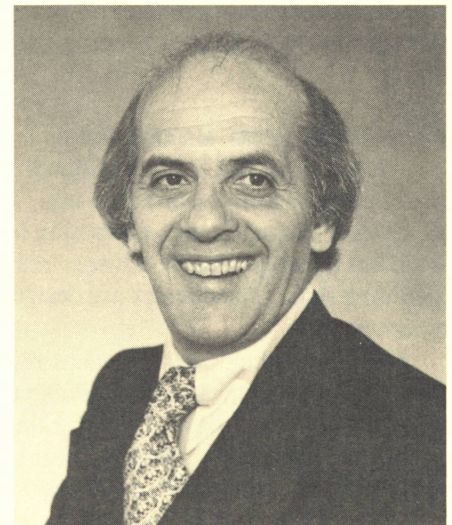
The chances of protesting successfully appear good—a recent survey by Institute's Federal Taxation Division found that, of 94 protested penalties, 40 were abated, 35 were still pending, and only 19 had been sustained. (See *The Tax Adviser*, May 1980, page 307).



Francis A. Humphries



Sandra A. Suran



Morris I. Hollander

PCPS Membership Forum Planned

Representatives of the PCPS committees will conduct a member forum, in conjunction with the AICPA's annual meeting in Boston, October 6-7. The purpose is twofold:

- To receive comments on what the PCPS has been and should be doing; and
- To respond to questions about the Section's activities.

The forum will be conducted "town meeting" style, with no prepared remarks by committee representatives. It will be patterned after the April 29 closing session of the PCPS Conference, which produced many valuable ideas and suggestions. Representatives of PCPS member firms are urged to attend and participate.

Tentative plans for the member forum call for a Continental breakfast buffet, probably on October 6. Specific details will be sent in advance to all PCPS managing partners.

Also on the Annual Meeting program is a panel presentation on recent PCPS accomplishments and the progress of the peer review program. This

presentation will be open to all AICPA members, not just those with PCPS firms, and will include some time for comments and questions from the floor.

Technical Pronouncements Summary Instituted

Responding to comments at the regional local practitioners seminars, the AICPA has instituted a quarterly summary of recent technical pronouncements, to be included in *The Practicing CPA* starting with the August issue. Each edition will include a brief synopsis of FASB Statements and Interpretations, Statements on Auditing Standards, and Statements on Standards for Accounting and Review Services issued in the last 12 months. (The full text of each of these pronouncements will continue to be printed in the *Journal of Accountancy*.)

The Practicing CPA is an AICPA publication designed primarily for local firms. Established in 1977, it is distributed monthly to all Institute members in practice with firms that have less than 50 AICPA members. It is also circulated to educators, and to other Institute members who request it.

PCPS Reporter

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