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Activities of the Private Companies Practice Section.
Published by and for members of the AICPA Division for CPA Firms.
Editor: John R. Mitchell.



GAO Mandates Peer Review For Government Audits; Mitigates CPE Proposal

In its 1988 revision of *Government Auditing Standards*, the US General Accounting Office established a requirement that "Organizations conducting government audits should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. . . . External quality control review programs, such as those conducted through or by the AICPA . . . would be acceptable. Public accountants should participate in the AICPA practice-monitoring program or an equivalent program."

The GAO thus becomes the second Federal agency to require quality control reviews. In early 1986, the Rural Electrification Administration became the first such agency, requiring that REA borrowers' financial statements dated after December 31, 1987 be audited by a CPA who participates in an approved peer review program like this Division's. The Securities and Exchange Commission has proposed a similar requirement.

Specialized CPE Requirement Cut Back

A 1987 exposure draft of the new standards suggested that *all* personnel assigned to a government audit would need a concentration of specialized CPE in government auditing. The PCPS Executive Committee objected strongly, pointing out that "This would restrict, unnecessarily and unreasonably, the flexibility that firms of all sizes need in assigning personnel. It would also exclude many small and medium size firms from ever getting into government work, since their personnel would need CPE in other subjects for which practically no time would be left after meeting the proposed government CPE requirements. Instead, the requirements should apply only to the individuals responsible for planning and directing the audit and signing the audit report, and persons who perform substantial portions of the field work."

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Straw Poll Supports Specialties—Within Limits

Conference registrants were asked to participate in a straw poll on the issue of specialization. On the key question, "The AICPA should recognize the following types of specialties," the responses were as follows:

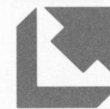
| | <u>Total Responses</u> | <u>Percent of Total</u> |
|------------------------|------------------------|-------------------------|
| Functional specialties | 48 | 35% |
| Industry specialties | 7 | 5 |
| Both of the above | 24 | 18 |
| None at all | <u>57</u> | <u>42</u> |
| | <u>136</u> | <u>100%</u> |

Fifty-eight percent of the respondents said that the AICPA should recognize one or both types of specialties; 42% said the AICPA should recognize no specialties. Thirty-five percent prefer functional specialties only, 18% prefer both functional and industry specialties, and 5% prefer just industry specialties. Only 23% favored recognizing industry specialties.

These results confirm and reinforce the position taken by the Executive Committee a year earlier, supporting functional specialties such as personal financial planning, MAS or taxation, but opposing industry specialties such as government, health care or banking. The Committee believes that industry specialties would adversely affect local firms, making it difficult for them to compete effectively other than on a low bid basis. This is because most firms could accredit specialists in very few of the industries they serve.

Others have maintained that accrediting both functional and industry specialists would benefit local firms by providing the credentials they need to compete with large firms, who designate their own specialists. They note that a 1986 report accepted by Council specifically includes industry specialties.

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Chenok Maps Bright Future For PCPS

In his keynote address to the Tenth Annual PCPS Conference, AICPA President Philip B. Chenok posed this question: "Now that the overall AICPA membership has endorsed a practice-monitoring requirement, what will be the future of PCPS?" His answer: "The future should be bright! There is no reason the PCPS should not continue to evolve and grow to become, in effect, a membership section for firms that have accounting and auditing practices—including sole practitioners who devote a significant amount of time to these activities.

"How will that be achieved?

"First, PCPS must continue its work of providing thoughtful comment on professional and technical issues that affect private companies and the CPAs who serve them. . . .

"Second, publicize these activities more effectively to your membership and others. . . .

"Third, continue to explore ways to enhance services and make membership substantive. . . .

"Fourth, develop a program to get involved in the new quality review program at the local level. Work with state CPA societies in organizing the quality review program. . . . I believe that many nonmembers will join PCPS after they have the confidence from passing a quality review, particularly if you help them in the process."

Later, answering a question about what the Section's function will be after all practicing Institute members become subject to quality review, Chenok reaffirmed the critical importance he attaches to the advocacy role, stating that, properly organized, it assures that the views of PCPS member firms are heard by committees throughout the Institute.

Tenth Annual Conference Features Practice-Oriented Program

AICPA President Philip B. Chenok keyed the Conference, concluding with comments on the role of the AICPA and of the PCPS. (See separate article.) Subse-

quently, the Conference focused mostly on techniques and strategies for the profitable practice of accounting.

Two especially well received presentations were those by John A. Delves, on "The One Minute Manager Approach To Leadership," and by David H. Maister, on "Keys To A Successful Practice."

Most of the small group breakout sessions—there were a total of 36—were on more technical subjects. Top ratings went to the "hands-on" microcomputer workshops presented by Stephen Blundell and Larry Wolfe, Larry Grinstead's "The New Accounting For Income Taxes," and Walter Haig's presentation on "Implementing The New Auditing Standards."

The Conference organizers were surprised that, despite the resort facilities that everyone seemed to appreciate, the "optional" afternoon sessions, which were not part of the official program, were especially well attended.

The 1989 Conference, April 30-May 3 in Scottsdale, Arizona, will follow the same success format—a fine resort location, three five-hour half days of concentrated CPE, leaving afternoons free for golf, tennis, swimming, riding or whatever—with a good selection of optional technical sessions also available in the afternoons. Mark your calendar now!

Member Services Committee Sets Publications Agenda

The Member Services Committee has commissioned two new "giveaway" booklets to be published this year for use by member firms. The first, which is contingent on Congress' passage of a Technical Corrections Act, will summarize the major provisions of that Act in language that should be intelligible to clients.

In addition, the *1989 Tax Planning Guide* will be available this fall, in time to stimulate some productive sessions with clients.

The "Single Subject Flyers," a series of about a dozen leaflets on specific questions about which clients frequently consult their CPAs, will be updated where necessary, and a couple of new titles may be added. The flyers and the two new publications will all be available with firm name imprinted.

Information about these products will be mailed to member firms directly by the publisher, Newkirk. Inquiries should be directed to Newkirk at 518-489-5546.



Advocacy Report: PCPS Comments On Four Proposed Pronouncements; Provides Input on Various Other Issues

One of the Technical Issues Committee's major recent activities was a detailed evaluation of the FASB's proposed statement on *Disclosure About Financial Instruments*. In its formal comment letter, the TIC said the FASB should exempt private companies from the disclosure requirements, pointing out that while the statement is broad in scope, its obvious targets are sophisticated and innovative financial instruments. Requiring private companies to provide the proposed disclosures would impose on them the significant costs of assembling the needed information and having their CPAs attest to it. Since very few private companies utilize the targeted financial instruments, private companies should be exempt.

Secondly, the TIC said that if the Board is unwilling to exempt private companies it should then limit the new disclosures to potentially troublesome instruments. This could be done by excluding private non-financial companies' current operating assets and liabilities, such as trade receivables and payables. The TIC also pointed out that the proposal's concentration thresholds were not appropriate for private companies, since their financial structures differ significantly from those of most public companies. The letter also recommended several detailed changes in the proposed pronouncement.

Other Pronouncements Welcomed

The TIC welcomed three other proposed pronouncements, and suggested specific detailed improvements to each. These proposals were the Governmental Accounting Standards Board's (GASB's) *Measurement Focus and Basis of Accounting—Governmental Funds*; the AICPA's audit and accounting guide, *Audits of Government Contractors*; and the Institute's statement of position, *Directors' Examination of Banks*.

Pre-Exposure Activities

Some of the TIC's most effective advocacy activity takes place long before there is an exposure draft or proposed pronouncement. For example, the TIC recently sent detailed letters responding to two discussion memorandums issued by the GASB. Both memorandums requested comments on accounting and financial reporting issues—one with respect to capital assets, and the other on risk management activities.

In addition, the TIC met with a delegation from an AICPA task force that is developing a guide on accounting by common interest realty associations, such as condominiums, cooperatives, and homeowners' associations. The task force had requested the TIC's views on requiring disclosures about funding policies and estimates of requirements for future major repairs and replacements. The TIC discussed these and related issues with the task force members, and urged that the proposed guide be issued promptly because it is needed by practitioners.

Executive Committee Also Active

Advocacy in behalf of the Section's member firms continues to be a major priority of the Executive Committee as well as of the TIC. In recent months both these committees wrote separately to the AICPA's leaders, requesting continued support for the AICPA's Accounting Standards Overload Task Force, which had requested the Section's backing. The Executive Committee also asked that the task force be authorized to conduct a statistically valid survey to develop reliable information on the existence and extent of a standards overload problem.

In a letter to the SECPS Executive Committee, PCPS Chairman Robert L. Israeloff noted that SECPS is planning to strengthen its membership requirement for pre-issuance concurring review of SEC engagements. Pointing out that this would affect hundreds of PCPS firms with SEC clients (most of which firms are also SECPS members), Mr. Israeloff urged that the new requirement be one with which smaller firms can comply.

Separately, in a letter to the MAS Executive Committee, Mr. Israeloff expressed the PCPS's support for a proposal to admit qualified non-CPAs as associate members of the AICPA's MAS Division. The letter pointed out that just a few years ago many PCPS members would probably have opposed the proposal, but that recent developments in the profession have convinced the PCPS Executive Committee that the benefits now outweigh their earlier concerns. □

GAO Mandates Peer Review

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As issued, the Standards seem completely responsive to this comment. They require that "Individuals responsible for planning, directing, (or) conducting substantial portions of the field work, or reporting on the government audit should complete at least 24 of the (biennial) 80 hours of continuing education and training in subjects directly related to the government environment and to government auditing."

The Standards also responded favorably to the PCPS's other recommendations, on the auditor's responsibility for fraud detection, and the approach to internal control.

These excerpts from the revised Standards ("the Yellow Book") were taken from an advance, typewritten copy. Final printed copies will be available from the GAO in midsummer. □



A Conversation With The Chairman

As Chairman of the PCPS Executive Committee, Robert L. Israeloff exerts more authority and influence over the Section's activities and policies than any other individual. The following interview reveals his views on the Section and the profession. (*Your reporter's questions are italicized.*)

Bob, the Private Companies Practice Section is just a little over ten years old. What would you say its major contributions have been—to the profession and also to the public at large? Jack, I think the main contribution has been focusing on the need for quality practice. I realize we all have our CPA certificates and think that we're doing a thoroughly professional job. Certainly we are *trying* to do the best we can. But we've seen close up that there is a need to upgrade the level of practice. PCPS has focused on that issue.

Another important contribution we've made to the profession, especially to the local firms, is acting as advocate for those local firms in the AICPA hierarchy.

Can you identify any contributions the Section could have made, but didn't? I think one would have been to be more active in obtaining relief from accounting standards overload. I was on the Institute's special committee on that subject. While we focused in on the issues, there were a lot of political pressures from within the Institute and from other areas. The opportunity for meaningful reform was pushed into the background. I think we could insist that the SSARS Committee, the ASB and the FASB give more recognition to the costs vs. benefits problem for local firms. One thing that would be very beneficial for my practice, and, I presume, for other local firms, would be to allow plain paper financial statements, and perhaps develop a type of management report. These could, certainly in my firm, serve a great purpose in relieving the overload problem.

One other contribution we probably could have made was to have the PCPS become more of an association for smaller local firms. There has been a proliferation of associations such as AAFI and CPA Associates and the Continental Association (to which my firm belongs). The Institute, somewhere, missed the boat. I think these associations came into being because the Institute wasn't providing certain kinds of firm-oriented services. Perhaps PCPS can be an association for the smaller practice units.

Bob, you put a lot of emphasis on the advocacy role of the PCPS, representing the interests of local firms with the AICPA hierarchy. You mentioned the accounting standards overload, auditing issues, etc. Are there any nontechnical areas in which the PCPS could be an effective advocate for the interests of local firms? There are practice management issues and governance issues in the Institute that affect local firms. The latter are especially important. They have nothing to do with how you practice but they directly affect whether the voice of the local firm will be heard.

Bob, the Section now has over 2,400 member firms. What do

you think motivates most of these firms to join, and then to stay in? Speaking from my own experience and from mixing and mingling with AICPA members over the years, I think the bottom line is they want an identification with the other 'leading edge' firms. They want to be on top. They want to show that they are quality firms. They want an identification with the movers and the shakers of the profession.

On the other hand, there are hundreds of firms that joined and then dropped out. Is there anything we should have been doing differently, to keep them in? I think we missed the boat for the nonaudit practices. There are thousands of practice units that do compilations, reviews, tax practice, write-up work, consulting, but don't do audits. We did not aggressively promote the fact that we have a report review that satisfies the peer review requirement and allows these firms to stay in. I believe 90% of those who dropped out did so because of the fear of peer review. For those with audit practices the public interest demands that they have an on-site peer review. But for those without audit practices, a report review is more relevant to their practices and we just didn't promote it enough.

We also should have done more to make the Section more visible. It has to have a more visible role and image in the profession's affairs, so the members recognize that belonging helps represent them in the profession.

The Section has been quite successful in attracting the larger local firms—say, those with six or more partners. Until very recently it was less successful with smaller firms—sole proprietors and the two- and three-person partnerships. Why is this? Well, first, let me challenge the question's premise. I'm not sure we've been that successful in attracting the larger local firms. We have a number of them, but I know of quite a few really large local firms—some with over a hundred personnel—that don't belong.

However, the question remains—why have we been less successful with the smaller firms? I think there are two main reasons. The first is fear. To overcome this we should publicize our confidential consulting reviews more aggressively, and emphasize that the purpose of our peer reviews is educational, not disciplinary—our objective is to help firms improve, not to find fault.

The second reason is that many small firm proprietors or partners just don't believe peer review is relevant to their practices. They think of public accounting as it was twenty or thirty years ago—not as it is as we approach the 1990s.

Our job, then, is to get the facts out—that there is no reason to fear peer review, and that peer review (or, in a nonaudit practice, report review) is both relevant and helpful to all practicing CPAs.

The Early Years

Bob, how did you first get into public accounting? Well, my dad was a public accountant. He had a sole proprietorship. I was brought up in an accounting household, I was always good with math. My uncle was a doctor and wanted me to be a doctor. But I fainted at the sight of blood, so, accounting it was.

It's been a lot of fun. I graduated quite high from the Wharton School of the University of Pennsylvania, and was recruited by most of the Big Eight firms. I went with Arthur Young for a couple of years. My dad had a completely different kind of practice. I might never have joined my dad's practice if he didn't become sick. I was doing well at Arthur Young, but Dad needed someone



to go around and draw the monthly depository cards, and to pay the payroll taxes for his clients. I was elected, and it just led to my staying with him.

How large was the firm then? Two of us! Dad and son, that was it.

Bob, you have been president of the New York State Society of CPAs and now have important positions in the AICPA. To what do you attribute this success? Well, I'm a joiner, a doer, an active guy. I usually have an opinion and I'm not afraid to express it. This led to committee service in the state society and then to higher ranking committees. I had no political mentor, but I'm evidence of the fact that if you work and serve, you can be recognized. One thing led to another and pretty soon I was elected to the board of directors of the society. From there I was elected president.

Once my career with the society was over, the Institute was a natural outlet for my service. Again, I was appointed to committees here and there, and I guess I did a good enough job to be appointed to special committees, where I met and mingled with some of the chairmen, past chairmen and future chairmen. That led to election to the PCPS Executive Committee, and now, to the Board of Directors and to the chairmanship of the PCPS Executive Committee.

Why PCPS Now?

Since all firms will soon be required to have quality reviews, why should a firm join PCPS now? I can understand why, since all firms will soon be subject to quality review, some might ask "Why PCPS?" My response: There are two major reasons. The first is advocacy and involvement. Council directed the PCPS to make its members' views known on professional and technical matters. We have been constantly active and usually successful in doing this. PCPS members can become involved in this activity, contributing their input and support, and associating with other CPAs, with whom they share a real rapport. It is much easier to do this in the PCPS than it is to get to serve on AICPA committees or even to be active in state CPA society affairs.

Secondly, if a firm will have to be reviewed in any case, there are tangible reasons for preferring the PCPS review. Our program is established and recognized. We had our startup problems and growing pains, but they are behind us now. Our reviews have helped literally thousands of firms, and we have spent hundreds of thousands of dollars to communicate the significance of our reviews to the banking, financial and business communities. We may not be the only game in town, but we are clearly the game to be in.

The Division for CPA Firms has two sections—The Private Companies Practice Section and the SEC Practice Section. Their governance, committees and activities are completely separate, but in most respects they are substantially identical. Why, then, are they separate? Because the SEC firms want it that way. I personally am a strong believer in a unified Division. But we have to recognize realities. The firms with basically SEC type practices have their own problems and their own agenda. They want to deal with that agenda themselves. I can understand that. Nevertheless, I believe we should have one Division with a democratic structure. If the SEC group has a specialized agenda, we can have a separate SEC committee with autonomy on SEC matters. It would still be a committee within the one Division, and the democratically elected and structured executive committee would decide on overall policies other than matters directly related to SEC practice.

Wouldn't that completely eliminate the advocacy function that you were mentioning before? No, not at all! It would still be a Division for Firms, representing *all* the firms. There are only 8 or 15 or 25 large national firms, whereas this Division for Firms would represent the 40,000 local type firms. A unified Division would actually benefit advocacy, because that advocacy could be practiced face to face with the large national firms, some of whom would have seats on the executive committee. They might get to understand our view a little better.

So, instead of the concept of one person-one vote, each firm would have one vote. Pretty close to it.

Immediate Goals

Bob, you may serve as PCPS chairman for as long as three years. What do you hope to accomplish in that time? How do you plan to go about it, and what obstacles do you see? The first objective is to strengthen the advocacy we've been talking about. I want to make our voice known and heard in the higher councils of the Institute. This would underscore a major reason for firms to join the Section, and to stay in.

I have been elected to the Board of Directors of the Institute for a three year term starting, coincidentally, with my taking over as PCPS chairman. That seat on the Board should be very helpful in achieving my number one goal of advocacy and making our voice known. I want to make the firms feel that we are *their* spokesmen in professional affairs.

My other major goal would be to make the PCPS more of an association or network for the smaller firms. I just feel that we are missing the boat somehow. I know we conflict with the MAP Committee activities in certain respects. I don't want to do that, but there has to be some way that we can become more of an association for the smaller firms, providing services and camaraderie.

You were one of the leaders in encouraging AICPA members to vote for mandatory quality reviews for all practicing members. Why did you feel so strongly about this? Primarily because I really believe, deep down, that we must raise the levels of practice. I just can't agree with those self-serving, self-righteous people who say, "Let the marketplace decide."

I have a personal reason for saying that. My firm has been very active in merging sole practitioners who are retiring, and buying out local practices. That's been one of the reasons for our growth. I've signed 47 separate merger or buy-out agreements, starting in 1962. Some were as small as one \$5,000 account; others were for a couple of million bucks. I've negotiated for probably close to a thousand practices over my 25 years in practice. I've seen substandard work at first hand. We as CPAs don't want to broadcast that, but we *must* raise the levels of practice. No question about it.

The second reason I favor it, is that I believe in self regulation. Because we serve the public interest with the attest function, which is regulated by the state boards, if we don't regulate ourselves we will be regulated by and become a part of a government bureaucracy. I really believe that the more we do in self regulation, the more we can hold off outside regulation.

Long Range Opportunities

Taking a longer view, what are the major challenges and opportunities that the profession will face over the next five years? I think the first thing is to define what we do. What are the

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Membership Surges To New Record

Last month the Section's membership set a new record — over 2,600 firms. The previous high had been about 2,200, in mid-1980, before most members had had a peer review.

Most of the new members were responding to invitations mailed to them by the Division's leaders. Many apparently concluded that since practice review will soon be mandatory for all firms represented in the AICPA, it makes sense to join a program that is established and recognized, that has conducted more than 3,500 reviews over the last ten years, and that virtually all reviewed firms agree has helped to improve their practice quality.

The invitations also stressed the Section's advocacy in behalf of local practitioners. Since its inception, the PCPS has been very active and often quite successful in advancing the viewpoints and interests of local practitioners. Now that the Division will be losing its monopoly on practice review, Section leaders are preparing to devote still 21 more resources to the advocacy function.

Smaller Firms Are Especially Welcome

Although every membership category shown in the accompanying table increased its number of members, small firms are particularly visible. For example, sole proprietorships increased from 220 in March 1987 to 766. Sole proprietors with no professional staff increased from 79 to 394.

This welcome trend was already apparent at the time of the National Conference. A task force of the Executive Committee convened a special meeting, at the Conference, of registrants from smaller firms. The purpose was to ensure that the PCPS is sensitive to the concerns of these new members, and to identify how the Section can best serve them. The Committee will continue to concentrate on this, and invites members to send their recommendations, suggestions and comments to the PCPS Executive Committee, at the AICPA in New York.

(In the past membership statistics have been reported as of the end of March. In March of this year the membership applications were arriving at such a fast pace that processing fell behind. The tabulation was therefore deferred until your *Advocate's* press time, late in June.) □

PCPS Membership Statistics

| | <u>June 1988</u> | <u>March 1987</u> | <u>March 1986</u> |
|---|----------------------|-----------------------|-----------------------|
| TOTALS | | | |
| Number of Member Firms | 2,601 | 1,695 | 1,555 |
| Number of CPAs in Member Firms | 66,542 | 62,224 | 59,502 |
| Number of Professionals in Member Firms | 128,306 | 119,994 | 112,691 |
| RATIOS | | | |
| Number of Partners | | | |
| 1 | 29.4% | 13.0% | 12.0% |
| 2-5 | 50.9 | 60.0 | 61.2 |
| 6-10 | 13.8 | 18.9 | 19.0 |
| 11 or more | 5.9 | 8.1 | 7.8 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Number of Professionals | | | |
| 1 | 15.1% | 4.7% | 3.9% |
| 2-5 | 26.0 | 18.5 | 18.8 |
| 6-10 | 20.0 | 23.6 | 23.0 |
| 11-20 | 18.7 | 25.1 | 26.0 |
| 21-50 | 14.8 | 20.8 | 20.8 |
| 51 or more | 5.4 | 7.3 | 7.5 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Number of Offices | | | |
| 1 | 76.6% | 69.1% | 68.6% |
| 2-5 | 21.2 | 27.8 | 28.2 |
| 6 or more | 2.2 | 3.1 | 3.2 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Number of SEC Clients | | | |
| None | 87.3% | 81.9% | 81.4% |
| 1-4 | 9.9 | 14.6 | 15.3 |
| 5 or more | 2.8 | 3.5 | 3.3 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

TIC Suggests Disclosure Checklists As Reference Source

At a recent meeting members of the Technical Issues Committee were discussing the difficulties some practitioners reported in identifying and locating the authoritative accounting pronouncements prescribing specific recognition, measurement or disclosure requirements. Many felt that the indexing of the official *Current Text* and *Original Pronouncements* publications is not sufficiently practice oriented.



Several of the members said they frequently use a convenient short cut—the *Disclosure Checklists* published by the AICPA. These checklists were developed primarily to help practitioners avoid oversights and omissions in their financial report work. Substantially all the items in the checklists include specific citations to cognizant paragraphs of the authoritative literature. Because the checklists are thoroughly indexed and are organized in the same general sequence as financial statements themselves, requirements affecting specific line items can be readily found. The citation then facilitates immediate reference to the relevant pronouncement.

The “master” checklist is entitled *Disclosure Checklists For Corporations*. This publication does not cover specialized industries, but it includes a list of FASB statements and interpretations affecting specific industries. The publications currently available from the AICPA, some of which are to be used in conjunction with the “master” publication, cover accounting for real estate, oil and gas, construction, state and local government, credit unions, banks, savings and loan associations and non-profit organizations. Some of these are available in diskette form for use with the *Audit Program Generator*.

Other convenient citation sources available from the AICPA Order Department are the *Index To Accounting and Auditing Technical Pronouncements*, and the *Total On-Line Tax and Accounting Library*. □

Straw Poll

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Israeloff To Meet With Specialization Committee

The Executive Committee's views were conveyed to the Specialization Committee in a detailed letter more than a year ago. This month, PCPS Chairman Robert L. Israeloff plans to reaffirm those views, and explain their underlying rationale, in a meeting with the Specialization Committee, which is authorized to establish standards for the accreditation of specialties and to recommend action on applications for accreditation of specialties. To date, the Board for Directors has authorized just one specialty—personal financial planning—and only the Board can authorize others.

Conference registrants were also asked which functional specialties should be recognized in the next four years. Thirty-eight percent said none, but 43% voted for tax services. MAS and auditing ranked second and third, with 36% and 33%, respectively. Sixty-one percent indicated that there should be no “subspecialties” recognized within tax services or MAS.

Asked which industry specialties should be recognized in the next four years, 65% said none. The most popular industry specialties were state and local government (22%), banking (17%), and health care (14%). □

A Conversation With The Chairman

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limits, if any, in terms of services, that we offer? Are we going to just keep expanding into new areas? We are pushing the boundaries further and further out. I have no problem with management consulting services. I believe that management consulting, to a strong degree, strengthens the audit, because you learn a lot about the client. But before long we shall have to come to grips with what management consulting includes, and define it if we're going to retain the attest function.

Another challenge, clearly, is integrating the computer into our practices. Many local firms have not yet come to grips with the power of the computer and the fact that it is completely changing our profession. Self regulation is another challenge. We must keep the profession self regulated as opposed to outside regulation.

I guess the opportunity we face is to become a *true* profession, be proud of our services, be willing to charge the proper professional fee for our service. Why do we have such fee problems when the lawyers don't seem to? What I mean by becoming a true profession also requires facing up to the educational question. I firmly believe in the five-year or graduate requirement. The lawyers go for seven years, the doctors go forever. Why should the accountants in some states not even have a baccalaureate degree? It's ludicrous.

Ten years from now, how will accounting practice differ from what we know today? What should we be doing today to bring this about (or to prevent it)? I think the biggest change, ten years from now, is that small firms—say, one to five in personnel—will disappear. Or else, they will be more like professional bookkeepers. And there should be a place for them. There should be a role for professional write-up, but certainly the small firm trying to be all things to all people, and practice a wide, broad spectrum of accounting, cannot possibly exist.

Another thing we'll see ten years from now is that all tax returns will be prepared on in-house computers. They'll be fed directly from the preparer to the IRS—paperless tax returns.

Every CPA will have a terminal at his or her desk. (That'll be sooner than ten years.) And they'd better know how to use it. The computer will be able to do all things—take messages from the secretary, communicate with the staff, and everything else. I think those are the major changes.

As far as what the profession should be doing to bring this about, I think that the AICPA and the PCPS must educate our members and keep them up to date. If we are an association for CPAs we must keep our skills honed and sharpened. The AICPA and PCPS can do that. Those that take advantage of what we will offer, those that take advantage of the organized profession, will survive and will prosper.

Well, Bob, if you have your calendar, why don't we make a date to have a sequel to this interview, sometime in late 1998? You're on, Jack, you're on. □



Write To The Auditing Standards Board! Tell The ASB How You Feel!

A Message From The Chairman

Accounting Standards overload is a longstanding problem to all CPAs, especially as business and transactions grow more complex and standards are issued to deal with them. However, many standards and rules are written to deal with issues that to a large extent arise in public companies, and may not be entirely relevant to privately held companies. One of the missions of the PCPS is to obtain relief, where possible, for private companies and local practitioners, from standards overload.

Recently, we requested the Auditing Standards Board to change SAS 14 with regard to reporting standards for reports issued on statements prepared in accordance with

other comprehensive bases of accounting, such as cash basis statements or income tax basis statements. We wanted the negative language that says the statements are *not* prepared in accordance with GAAP removed and perhaps placed in a footnote. We believe such negative language restricts the use of these statements by local CPAs who are trying to provide their clients with what they need at a reasonable cost.

The ASB was very cooperative in listening to our views but the forthcoming exposure draft *does not* go very far in addressing our problem. The rules would still require the reference to GAAP in the report.

If you believe, as I do, that a less negative report would give CPAs an alternative that could be used in some situations for some clients, write to the ASB now and comment on the exposure draft. Tell them to remove the negative language from the accountant's report on OCBOA. Tell them users of financial statements need to know what the financial statements are—not what they are not.

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