

University of Mississippi

eGrove

---

Newsletters

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

6-1989

## PCPS Advocate, Volume10, Number 3, June 1989

American Institute of Certified Public Accountants. Private Companies Practice Section

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_news](https://egrove.olemiss.edu/aicpa_news)



Part of the [Accounting Commons](#)

---

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



## TIC Urges AICPA to Support OCBOA; Comments on Audit Guide Procedures; Responds to Two Ethics Drafts

In a letter to Thomas P. Kelley, the AICPA's Group Vice President, Professional, the Technical Issues Committee urged the AICPA to do everything possible to promote the use and acceptance of OCBOA financials. This is the most recent step in a continuing PCPS pro-active campaign to provide relief from the costs and complexities of applying GAAP in situations where simpler alternatives may be appropriate.

The TIC's letter, detailing its requests and outlining their rationale, is reproduced almost in its entirety elsewhere in this *Advocate*. Committee members plan to track the Institute's response to these requests, and to report them in subsequent *Advocate* issues.

### Audit Guide Developments

Federal officials have recently been quite critical of the timeliness of the AICPA's Audit and Accounting Guides. In response, the Institute is revising the procedures for developing and publishing the guides, so that they will be more current and can be maintained more readily.

Because of the importance of these guides' to practitioners, the TIC devoted a significant portion of a recent meeting to discussing the guide development process. Chairman Rockman, who was invited to an Institute "summit" meeting on the subject, presented the TIC's recommendations at that meeting and discussed them in detail with the other participants. These conclusions are the subject of this *Advocate's* Chairman's Corner, on page 6.

### Comments on Ethics Drafts

The TIC expressed its basic agreement with a proposed Ethics Ruling that ownership of a cooperative, condominium or other "common interest realty association" unit would impair a member's independence with respect to the association. However, the TIC took exception to the

*Continued on page 2*

## Launching the OCBOA Campaign

Here is a slightly condensed version of the OCBOA letter mentioned in the accompanying article.

Thomas P. Kelley, CPA  
Group Vice President, Professional  
American Institute of CPAs

Dear Tom:

Re: Promoting the Use and Acceptance of Financial Statements Prepared on Comprehensive Bases of Accounting Other than GAAP

Following its recent review of the profession's actual and potential use of financial statements prepared on comprehensive bases of accounting other than GAAP, our Committee agreed unanimously to urge you, and the AICPA, to do everything possible to promote the use and acceptance of OCBOA financials. This letter identifies several specific actions that we request, and we hope that there are other steps that can also be undertaken.

In recent years the profession has come to accept OCBOA financials more readily than in the past. A number of factors contributed to this — the positive wording of compilation and review reports on OCBOA financials; the featuring of non-authoritative OCBOA guidance in the *AICPA Audit and Accounting Manual* and in the Technical Information for Practitioners series (TIPS); the need for corporations to avoid presenting a book income that might trigger the alternative minimum tax; SAS No. 62's modification of the negative audit report language; and, not the least, the rapidly growing cost and complexity of applying generally accepted accounting principles.

The profession and many of its private company clients have much to gain from accelerating this growing acceptance, and from persuading users of financial statements that in many circumstances it is appropriate to rely on statements prepared on the cash, modified cash, or tax basis.

We therefore urge the AICPA to undertake a vigorous and coordinated effort, including steps such as the following.

#### 1. Continue to expand the content and visibility of the Institute's OCBOA practice aids

The publication and recent revision of TIPS No. 1, *Other Comprehensive Bases of Accounting*, were important steps in the right direction. We also welcomed the inclusion of OCBOA guidance in the new *Financial Statement Preparation Manual*.

We urge you to continue developing and expanding this material. In addition, the Institute should take steps, including those suggested below, to publicize the availability of this OCBOA guidance and to encourage its use.

*Continued on page 2*



## TIC Comments

Continued from page 1

proposed effective date — one year after the Ruling is published. “We urge you,” the TIC wrote, “to extend the transition period to avoid the significant hardships stemming from existing relationships that were created in good faith in reliance on the current Ruling.” (The current ruling states that in generally similar circumstances independence would *not* be impaired.) “A member’s forced rapid withdrawal from a long-standing client relationship could seriously disrupt the business operations of both the CPA and the client. . . . We therefore urge the Committee to designate a transition period of up to five years. . . . However, the ruling should become effective almost immediately for any contemplated client relationships of this nature. . . . In addition we suggest that the Ruling itself make it clear, without causing the reader to consult Interpretation 101-9, that ownership by a non-managerial professional who does not participate in the engagement would not compromise the firm’s independence.”

Another proposed Ruling would supersede the existing Ruling 52 under Rule 101, entitled “Past Due Fees.” The existing Ruling holds that independence is impaired if the client owes more than one year’s fees when the member issues a report, unless the amounts are clearly insignificant to both the client and the member. The new proposal would hold that independence is impaired if fees for prior professional services are unpaid “at the commencement of the current engagement . . . and are material to the firm.”

The TIC recommends retaining the current ruling, pointing out that it is clear and specific, leaving little room for misunderstanding, flexibility or maneuver. In particular, the TIC objected to the proposed Ruling’s discriminatory effect, pointing out that local firms would often be affected but that these fees would rarely be material to a large firm, even though they might be material to the member or the office involved and could directly affect their income. Lastly, the current Ruling has a valid business purpose: encouraging clients to pay their bills. The proposed Ruling would dilute this because a member has considerably less leverage when an engagement starts than (as at present) when the member issues a report. Also, the current Ruling gives the client time, at the start of the new engagement, to arrange to make the necessary payments before the report is issued.

The TIC’s letter concluded that “Ruling No. 52 has served the public and the profession well. We urge you to retain it as is.”

## Launching OCBOA

Continued from page 1

### 2. Provide CPE courses and course segments on OCBOA

These materials could be based on the TIPS publication mentioned above. We recommend that they include additional information on the types of clients and circumstances for which OCBOA can be especially appropriate; and suggestions on how to convince clients and users of their financials of the benefits of OCBOA.

### 3. Develop journal articles on the benefits of OCBOA

Such articles could summarize the TIPS guidance and focus on circumstances where OCBOA can be especially appropriate. The articles could be placed in the *Journal of Accountancy*, *Practicing CPA*, and also in journals published by organizations other than the AICPA.

### 4. Undertake a campaign to familiarize bankers and other users with the benefits of OCBOA

Over the last dozen years, many bankers have come to recognize that there are circumstances in which they can rely confidently on compiled or reviewed financial statements. A vigorous and systematic educational program could accomplish the same for OCBOA statements in much less time. We urge the Institute to undertake such a campaign, which should include direct appeals to bankers as well as providing leaflets or other materials that practitioners can use in their own discussions with bankers.

In recent years the AICPA has devoted much effort and expense to improving or safeguarding the profession’s image with Federal regulators. This, we believe, was quite appropriate. However, many members believe that their own practices are virtually unaffected by Federal regulation. An expenditure of effort and money for OCBOA would provide persuasive evidence of the Institute’s balanced approach to promoting its members’ interests.

We would be glad to discuss this with you in greater detail at your convenience.

Sincerely,

PCPS Technical Issues Committee  
Edward F. Rockman, Chairman



## Internal Audit Services: A New Profit Center

Several member firms have developed a new revenue source: providing internal audit services for publicly held companies. Sensing a service that could benefit a number of PCPS firms, the Executive Committee asked your *Advocate* to determine the degree of interest by surveying readers.

A key recommendation in the October 1987 report of the National Commission on Fraudulent Financial Reporting (the Treadway Commission) was this: "Public companies should maintain an effective internal audit function staffed with an adequate number of qualified personnel appropriate to the size and nature of the company." Many public companies are too small to be able to do this efficiently; others may find it difficult to justify their internal auditors' travel expense to smaller plants or branches.

Some of these companies have welcomed local and regional firms' offers to act as their internal auditors. Sensing that this could be a profitable source of year round business, your Committee considered urging the AICPA to develop a CPE course on internal audit services. First, however, they agreed to gauge the interest in such a course.

If personnel in your firm would be interested in attending a course on marketing and performing internal audits, please send a brief note to this effect to the Editor, *PCPS Advocate*, at the AICPA in New York. Your letters, if there are enough of them, will be used to persuade the Institute's CPE Division to offer such a course.

## AICPA Announces Financial Statement Preparation Manual

The new *Financial Statement Preparation Manual* was developed to help members who compile, review or audit financial statements. It covers a variety of specific industries and includes illustrative financial statements, detailed disclosure checklists, and accountants' reports.

Published in letter size looseleaf format, the *Manual* will be updated quarterly by the Institute's Technical Information Division staff. The members' price (through December 1989) is \$80.

## Regional TEAM Meetings Set

The TEAM, standing for **TE**n **A**t **M**ost, represents the PCPS's smaller firms and sole practitioners, those with no more than ten professionals.

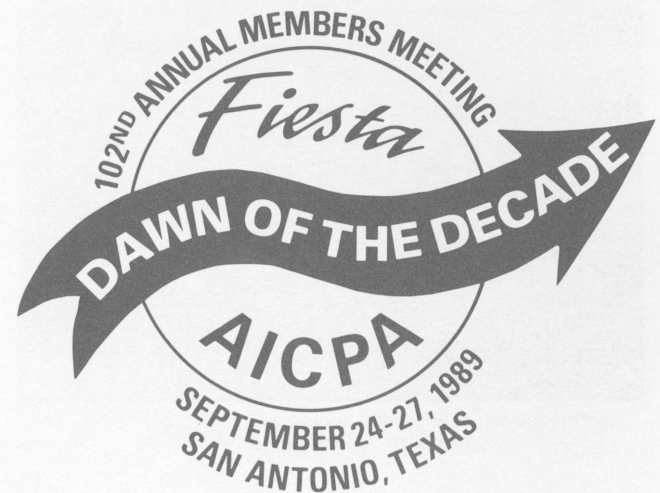
TEAM meetings give members a chance to share up-to-date technical and practice management developments and techniques with fellow practitioners from smaller firms. They provide a forum to give you the benefits of being part of an association, sharing secrets of success with knowledgeable peers.

The regional meetings will focus on subjects such as these:

- Marketing and practice development strategies for smaller firms
- Whether, when and how to admit a partner
- Where I'll be in 1995 and how I'll get there
- Techniques for billing early and collecting promptly
- Personnel problems—and *solutions*
- Effective use of paraprofessionals
- Affordable CPE for partners and staff
- Tax practice profitability
- Utilizing the in-house computer
- Setting billing rates and fees

The meetings will be held on Mondays, 8:00 to 4:15, near major airports. Registration will be \$100, including breaks and lunch. Details will be mailed later to proprietors and managing partners. Meanwhile, hold your choice of these 1989 dates:

- September 11, 1989—Los Angeles
- October 30, 1989—Washington, DC area
- October 30, 1989—Dallas

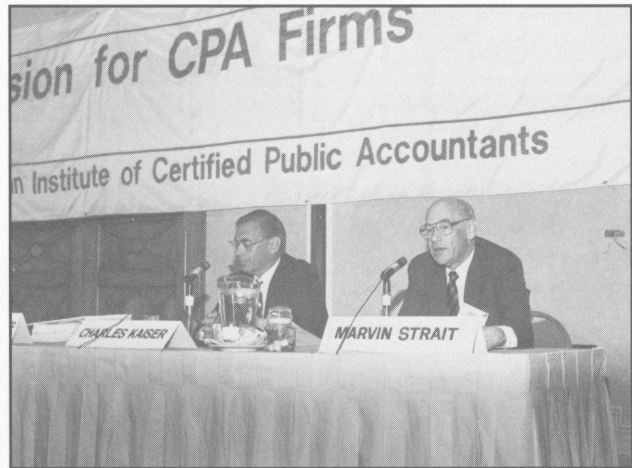




### Scenes From The 1989 PCPS Conference



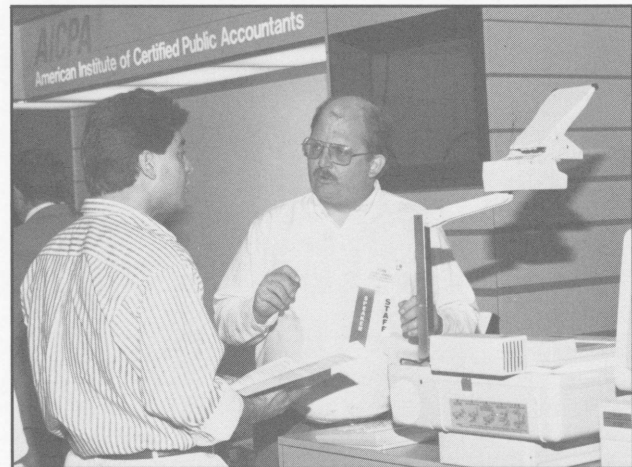
PCPS Chairman Robert L. Israeloff assessing the PCPS's major contributions to the profession



AICPA Vice Chairman Charles Kaiser and Immediate Past Chairman A. Marvin Strait discussing what's ahead for local practitioners



The "Hands-On" computer workshops were a major attraction



Informative exhibits enabled registrants to continue learning even during the breaks



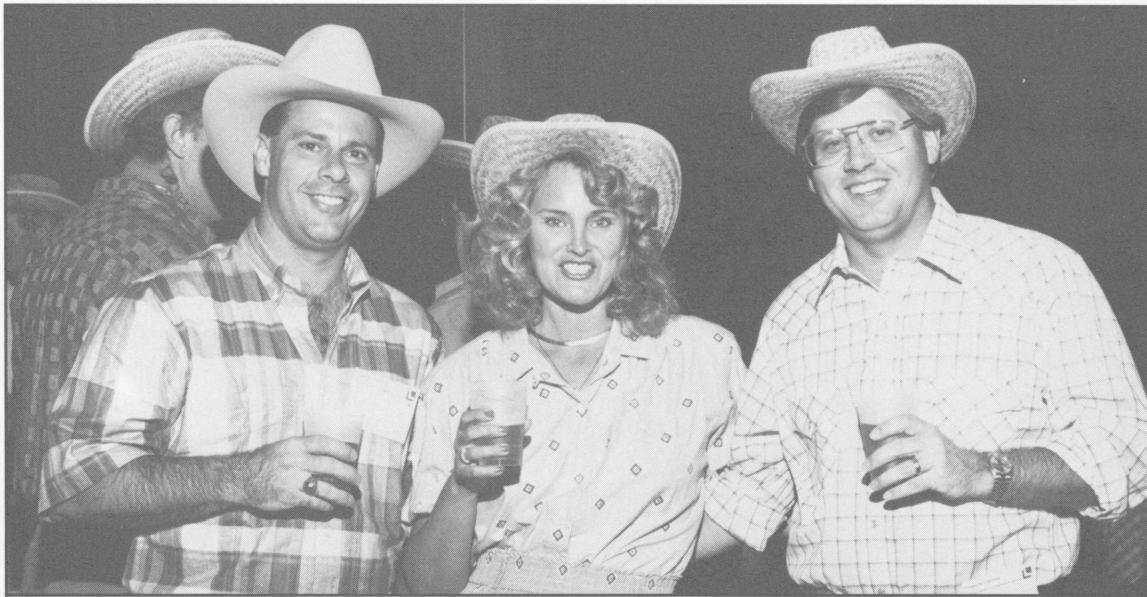
Conference registrants were seated with others from firms of a similar size, to facilitate "table talk"



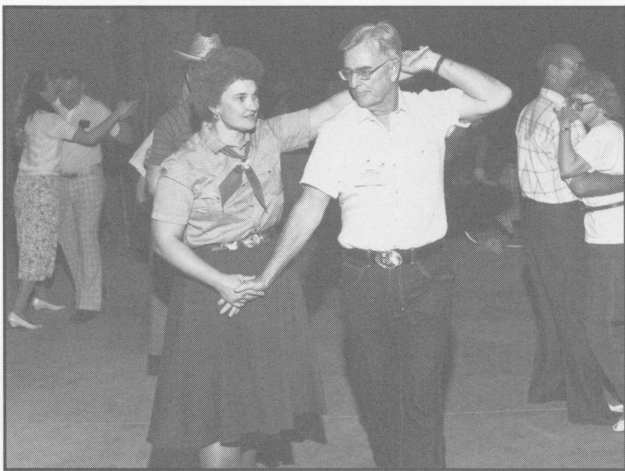
Conference Chairman Jerrell A. Atkinson (right) and friends, enjoying the Western Steak Fry



### 1989 PCPS Conference—All This Plus 22 Hours of CPE!



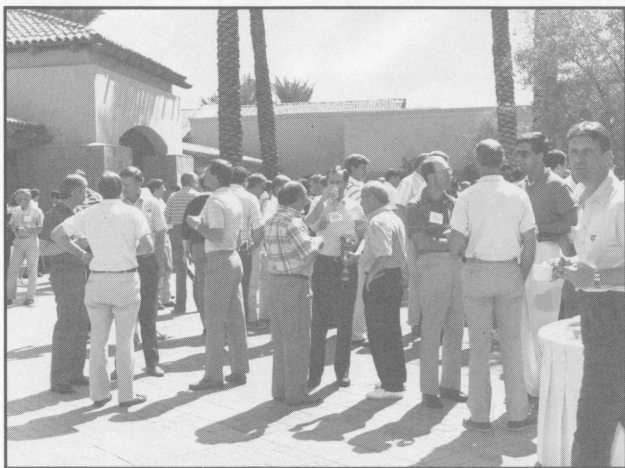
Registrants debating recent changes in auditing standards



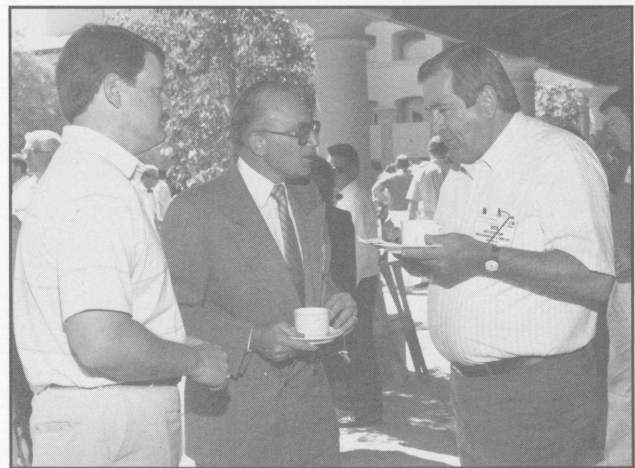
Lindy, Peabody, Foxtrot or Freestyle?



Savoring the continental cuisine



The next morning, on the coffee line



PCPS Chairman Robert L. Israeloff (center) and friends



## Chairman's Corner

by Edward F. Rockman, Chairman  
Technical Issues Committee

The well-publicized savings & loan crisis has been caused in part by the profession's inability to keep auditing literature current, according to Washington regulators. In testimony before the House Energy and Commerce Committee, the General Accounting Office noted that six industry audit and accounting (A&A) guides have not been updated in a decade. The GAO and Congress have now gone on record urging the profession to expedite the procedures for industry guide revisions.

The AICPA will soon recommend steps to speed up this process. As chairman of the PCPS Technical Issues Committee I was invited to a recent meeting of its Audit and Accounting Guides Committee at which this important issue was discussed. We were pleased to have the opportunity to participate, because we feel strongly that A&A guides can be important to local firms working with private companies. The purpose of the TIC's involvement is to make sure that the interests of local firms are not compromised.

The current guide development process can take four years — or longer. An AICPA industry committee, composed solely of practitioners, writes the first draft, which is initially submitted to the Auditing Standards Board and Accounting Standards Executive Committee for technical review. The Financial Accounting Standards Board (or its government equivalent) reviews the draft, and then it is released for public comment.

This exposure period is typically 60-120 days. Following the exposure draft, the industry committee updates the guide based on public commentary and then it is sent around to the three review bodies (ASB, AcSEC and FASB) once again. When a Guide needs updating, under the current system the committee drafts a new pronouncement and either issues a complete new document or an amendment in the form of a Statement of Position (SOP).

We agree that this time-consuming process should be accelerated. However, we also know that any organization being scrutinized by regulators can overreact, or be tempted to shortcut due process. This is particularly important when many of the committee members operate primarily from the perspective of public companies, and may not realize the effects of their actions on the tens of thousands of local CPA firms and their private company clients.

We are particularly concerned that, in accelerating the development process, the standard-setters may reduce practitioner involvement. Volunteer practitioners on these

committees often have limited time available, and there is a natural tendency to hire additional people to staff the writing and editing function. We believe an important element — experience — is essential to developing an audit guide that is relevant, current and useful.

Therefore, when I attended the meeting at which this subject was discussed I expressed support for the following suggestions on behalf of PCPS and all local firms:

### **1. Expedite the development of the A&A guides**

Government criticism of the staleness of so many current guides is understandable and probably justified. Expediting the development process is a necessary step, not merely to mollify the regulators but also to provide practitioners with current guidance in an integrated and intelligible format.

### **2. Publish guides in looseleaf format**

A looseleaf format would help speed up a guide's initial publication by enabling unresolved issues to be temporarily sidestepped. It would also permit systematic updating, not by appendix, but by integrating new developments throughout the text. The result would be a more timely and useful publication.

### **3. Identify unresolved areas, deferring their resolution without delaying publication**

If on some accounting issues there is controversy or divergence in practice, the guide should recognize and describe the situation without letting it delay publication. This would eliminate most of the unreasonable delays that guides have encountered in the past.

### **4. Continue to cover both accounting and auditing**

We believe that industry specific accounting and auditing issues are closely linked and that the key to industry audit guidance is an understanding of the accounting measurement and disclosure practices unique to the industry. Deleting accounting issues to focus only on auditing would seriously impair the guides' value. The illustrations of applying accounting principles in a particular industry are especially valuable when practitioners encounter prospective clients in industries in which they have little recent experience. They are also useful in persuading clients to adopt appropriate principles.

### **5. Assure that the guides' contents are controlled by members rather than staff or academics**

The AICPA has a highly competent and dedicated staff. Nevertheless, staff members and educators can lose touch with practice realities when they leave practice. The quality of the guidance provided and its usefulness to members depends heavily on the authors' current experi-

*Continued on page 8*



## PCPS: Where We Are — Where We're Headed

The headline above was the title of PCPS Chairman Robert L. Israeloff's opening remarks to the Eleventh Annual PCPS Conference, May 1, in Scottsdale. Here is a condensed version.

The Private Companies Practice Section has an impressive past, a dynamic present, as witnessed by this meeting, and an opportunity for a glorious future.

First, let's look briefly at the past. How and why did we come about? Back in the mid-1970s, the AICPA was faced with an effort to regulate the profession. Congressional hearings generated a lot of publicity and our self-regulatory status was under pressure.

How did the AICPA respond? Clearly, we wanted to maintain self-regulation, to set our own standards. The AICPA responded by forming the Division for CPA Firms in 1977, with an SECPS section and a PCPS section.

Wally Olson, who was the president of the Institute at the time, had for many years advocated a place for local practitioners to get together and have their voices heard. When the Division for Firms came about, it was the profession's — and the Institute's — opportunity to give some structure to an organization for local practitioners.

Our first and foremost job at the time was peer review. Since part of the self-regulatory effort was to demonstrate to Congress that peer review would work, our early activities centered on establishing a peer review program from scratch.

We were also blessed with something else in the formation of PCPS — the Technical Issues Committee, or TIC. I don't know how many of you are familiar with its work, but that committee meets many times during the year. It's constantly corresponding with the standard-setters in the profession to give them a local firm view. We all complain about standards overload without really knowing what the answer is. Many standards are written without looking at the cost-benefit ratio for smaller firms. The PCPS Technical Issues Committee is on top of all current pronouncements, and is fighting for our views. So that was one of the early advantages, and it continues to be a benefit of our PCPS organization.

Early on, even though it wasn't in the forefront of our activity list, we were the advocate for the smaller firm. There was no structure in the Institute through which local firms could go to the highest councils — to the Board of Directors, to chairmen of committees, to the Chairman, to the President, and say, "We represent a group of practitioners, a large segment; and you've got to listen to us, because 'this is good,' or 'this is bad.'" That became our advocacy function.

And equally important, as Jerry Atkinson said in his remarks, we formed a foundation of friendship. There are people who come to these meetings year after year, and stay together for a few days. During the year, they maintain the friendships and professional associations they make by telephone. Because who do you turn to when you have a problem? You turn to your fellow CPAs. And you can do that best through PCPS.

Those were the early years. Now we come to the present. As you know, the Plan to Restructure was passed by an overwhelming vote. On a gradual, phased-in basis, all AICPA members will now undergo practice monitoring. They can choose the new "quality review" program or peer review. Basically they're the same.

We at PCPS worked closely with the Quality Review Executive Committee as they were promulgating their standards. We met, we listened, we cajoled. They won a few points; we won a few points. And by and large, you'll find that the quality review standards are almost identical to the PCPS peer review standards. Probably the only major difference is the public file concept. We, having voluntarily joined PCPS, have our reports, letters of comment and responses in a public file. In the quality review program, they do not.

People might ask, "Why should we join, or stay in PCPS, when we have to go through a peer review anyway?" My answer to you is that magic word: advocacy. When I, as your Chairman, meet with leaders of the Institute, I do not represent Bob Israeloff and my firm. Instead, I represent all of you — 4,300 firms, with thousands and thousands of CPAs. It's very important to stay a member, to be a member, to be an active member; because when PCPS speaks for 5,000 firms, or 10,000 firms — and that's not beyond the realm of possibility — we have a strong voice in the Institute that can make things happen the way we would like to see them happen.

We have continued to emphasize advocacy. Another present activity that we're proud of is the TEAM concept — for **TE**n **A**t **M**ost. The PCPS TEAM is specifically designed for firms with ten or fewer professionals. Why? Because this group has told us over and over again, "we are ignored by the profession, we need a home; we need a place." We believe that place is within PCPS. We are having our first TEAM meetings in the fall — West, Central, and East. We hope you will participate if you're a firm with ten or fewer professionals. You'll find camaraderie and hands-on help with practice management and professional issues. You'll be able to relate to other participants easily. That's why we are sponsoring the TEAM meetings.

What about the future? Well, we must solidify our membership, as I've said. The more members, the stronger we are. We really do have a voice, and a place in the Institute.

We're very pleased with the increase in PCPS membership. We've grown now to approximately 4,300 firms. There are about 3,800 firms that belong to PCPS only, and another 500 firms that belong to both PCPS and SECPS. And membership continues to grow as every day new firms submit applications to the Institute. (Editor's Note: Currently, membership exceeds 4,700 firms.)

Why do firms join PCPS? We took a survey, and printed it in the April issue of our newsletter, the *Advocate*. The two primary reasons for joining were "to improve the quality of our practice," and "peer review." The two are obviously related, and it indicates the esteem in which our peer review program is held. It's time-tested, and I think you'll find that any firm that goes through peer review is a better firm for having done so. I know that my firm is. Our first review in 1982 changed our procedures up, down, and backwards. As a result, we're a much better firm, and can compete for larger clients as a result of improving our quality control system.

The peer review program of PCPS and the quality review program of the Institute may eventually be merged together. How it's going to happen, when it's going to happen, I don't know. But, I think it's going to happen. And, if that's so, what will PCPS be?

*Continued on page 8*





## PCPS Speech Inserts Available

Speech inserts are now available to help members explain why they belong to the PCPS, and how their membership benefits their clients, their personnel and their profession.

Two separate texts are available, one for CPA audiences and one for lay audiences. Each was developed to be used as part of a presentation on other topics. Used in its entirety the CPA text should take eight to ten minutes to deliver; the lay text should take about six minutes.

Both texts stress the benefits of peer review and of the PCPS's advocacy activities in behalf of the CPAs who serve private companies. They were developed for the PCPS by the Institute's Public Relations Division.

To order a copy of the inserts write to the Private Companies Practice Section, American Institute of CPAs, 1211 Avenue of the Americas, New York, NY 10036. There is no charge.

### Chairman's Corner

*Continued from page 6*

ence in practice and in industry. The actual drafting can, of course, be done by staff, but this must be under the close control of knowledgeable practitioners.

#### 6. Provide for adequate exposure

Before any portion of a guide is issued which involves changes in current practice — such as a prescription of specific new accounting rules for an industry — we urge

that the new procedures be exposed in draft form to obtain the opinions of a wide range of knowledgeable experts on the subject.

To sum up, the process does need improvement, but care must be taken to avoid inadvertently penalizing private companies or the CPAs who serve them.

### PCPS: Where We Are

*Continued from page 7*

I think it will become more like an association of firms. Many of the larger local firms belong to associations of firms. Unfortunately, if your firm is not large enough or if you're in a geographical area where these associations already have members, you cannot get the benefits of being an association member.

That's where PCPS comes in. We want to be your association. We want to provide hands-on interchange, hands-on statistics, hands-on information for you to help run your practice. And I see in the future — and in the very near future — that we will become more and more of an association of firms of all sizes.

We will continue to speak out on professional issues. We are not afraid to go to any of the powers in the Institute, to tell them what we want. But we need to hear from you. We need to hear from the membership of PCPS as to what's bothering you — what changes might be made in the Institute; what programs could be put in to benefit us. We can't do it alone. The Executive Committee is out there to try to lead and guide. But we really welcome your input and encourage you to let us know what both PCPS and the Institute can do for you.

The Mission Statement of the AICPA stresses the importance of serving the public interest. I fervently believe that as CPAs, we have a compact to serve the public interest. At the same time, we can serve our own interest. There is nothing wrong with the AICPA looking out for its own members. And PCPS, while working for the public interest, and in the public interest, is also working in our members' interest.

I know you benefit from membership. I hope you will bring in other members. And I hope you realize that we, PCPS, represent you at the Institute.

## PCPS Advocate

American Institute of CPAs  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

