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President's Letter, an update of AICPA activities for state society leaders, 1988-3

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President's Letter

an update of AICPA activities for state society leaders

1988-3

Dear Leader:

This letter is to keep you informed of important developments at the AICPA. Please remember your comments and suggestions about Institute activities are always welcome.

BOARD HIGHLIGHTS

Attached, for your information, is a copy of the highlights of the July 7-9 Board meeting. They will appear in the next issue of The CPA Letter.

FTC INQUIRY

In preparation for a special Council meeting planned for August 30, 1988, Louis Harris & Associates is conducting a poll on attitudes about the use of commissions, contingent fees and other similar practices to compensate CPA firms. The poll will sample knowledgeable users of CPA services as well as AICPA members. Its results will add to the Council's knowledge so that it can make an informed decision as to the FTC matter.

WASHINGTON ACTIVITIES

Temporary and proposed regulations on the election of a taxable year other than a required year by partnerships, S corporations and PSCs (Code 444) have been issued by the Treasury Department. Regulations, forms, instructions and AICPA highlights are available to members who send a self-addressed, 9" x 12" envelope with \$1.25 postage to : 444 Regulations, AICPA, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1007

The 1988 revision of Government Auditing Standards (Yellow Book) was recently issued. The revised standards, which become effective January 1, 1989, include new CPE and quality review requirements. The publication will be available this summer.

Over 80,000 governmental units throughout the United States will receive a new publication on "How to Avoid a Substandard Audit: Suggestions for Procuring an Audit". This handbook, which is produced by the National Intergovernmental Audit Forum chaired by Comptroller General Charles A. Bowsher, lists factors that should be considered in selecting an auditor.

The General Accounting Office recently issued a report "CPA Audit Quality: A Status Report on the Accounting Profession's Enforcement Efforts". The study's results found that the AICPA and state boards of accountancy "demonstrated a commitment to improving the quality of governmental audits" by taking a more proactive role in reviewing CPAs' work. While commenting favorably on the report, Congressman Brooks (D-TX), Chairman of the Government Operations Committee, nevertheless expressed disappointment that we do not identify members who have performed substandard work unless they are found guilty by the trial board. We will be responding to him.

SEC Chairman David Ruder testified before the Dingell Subcommittee May 2 on the SEC's response to the Treadway Commission's recommendations. He said the SEC will encourage self-regulatory organizations to upgrade and expand the scope of their standards with respect to audit committees, and that he would support legislation which requires auditors to report directly to the Commission information relating to auditor termination.

The SEC held an open meeting with the AICPA's Public Oversight Board (POB) on May 25. Discussions included the POB's efforts to strengthen the Special Investigations Committee; the question of scope of services and its effect on independence; and the peer review/quality control programs.

Another SEC open meeting was held on July 7. The Commission approved a proposal for management reports by public companies which would include management's comments on internal control. Public disclosure of 2(e) proceedings also was approved as the rule rather than the exception. An anticipated discussion of a peer review requirement for auditors of publicly held companies was deferred.

The Institute will sponsor a "Washington Campus" program for state society executive directors on December 5-8 in Washington. The program will assist participants in developing a basic understanding of the federal government's structure, operations and public policy-making process so the CPA profession can be more effectively represented on Washington-related issues.

Over 40 state society representatives met with IRS national office officials on June 27 to discuss a variety of tax administration issues and to review the recent filing season.

The Congressional Breakfast program has been very active. State society representatives from Missouri, Alabama, Colorado and Texas have recently met with their Congressional delegations. Separately, the Connecticut, Pennsylvania and Kansas societies have initiated visits to Washington.

TECHNICAL/CPE ACTIVITIES

The Auditing Standards Board approved for issuance the statement on standards for attestation engagements titled, Reporting on Pro Forma Financial Information. The statement will be available in September.

Auditors of entities that receive governmental financial assistance should be aware of an exposure draft on "Compliance Auditing". The proposed SAS provides guidance for testing compliance with laws and regulations related to financial assistance an entity receives from governmental units. The comment period on the exposure draft extends until August 15.

New projects of the Auditing Standards Board include consideration of: (1) guidance on the use of confirmations, (2) guidance on the use of internal auditors, (3) alternative models for general distribution reporting on an entity's internal control structure, and (4) a revised framework for the Codification of Statements on Auditing Standards.

The Ethics Division is currently revising the JEEP Agreement. Among the changes is the replacement of reprimand and minor violation letters with the issuance of letters of required corrective action.

The State Society CPE Conference is scheduled for July 20-22 in San Diego. Among the subjects to be discussed are the AICPA's CPE Business Plan and National CPE Curriculum.

COMMUNICATIONS

More than 200 people representing government and consumer groups attended an AICPA reception at the National Press Club in recognition of National Consumers Week. The AICPA used the occasion to introduce its new brochure: "Home Equity Loans: A Consumer's Guide".

The AICPA Public Relations Conference for state society public relations leaders was held July 13-15 in Baltimore. Featured speakers included AICPA Vice Chairman Robert L. May and Congressman Joseph DioGuardi, CPA.

MEMBER PROGRAMS

Approximately 60 state society representatives joined me in three discussion groups in early June. We talked about implementation of the plan to restructure professional standards, Washington developments, the AICPA's strategic planning process, and, in general, how the AICPA could be more responsive to local practitioners' needs.

The "CPA Client Tax Letter" is a new quarterly client newsletter, which the AICPA will begin publishing in August. Devoted exclusively to taxes, this six-page publication will focus on tax legislation, court decisions, IRS pronouncements and regulations as well as practical suggestions for dealing with tax matters.

The AICPA personal liability insurance umbrella program's reinstatement will be announced to all members in the very near future. Prudential Insurance will be underwriting the coverage.

"Education Requirements for Entry Into the Accounting Profession" is a recently revised booklet containing the AICPA's statements of education policy and the updated 150-hour illustrative academic program. The booklet is being mailed to administrators of accounting programs, deans of schools of business, state societies, state boards of accountancy and AICPA educator members.

State Society MAP and MAS leaders should try to attend the 14th Annual AICPA Conference for State Society MAP Committees scheduled for August 24 in Denver and the MAS Division's annual meeting and National MAS Conference to be held on October 27-28 in Las Vegas.

OTHER ITEMS

Approximately 38,000 firms of an estimated 45,000 have registered in the practice monitoring program or are otherwise accounted for. Additional steps are being taken to enroll the remaining firms.

Invitations to serve on AICPA committees for the year beginning October, 1988 will be mailed to prospective committee members the last week in July.

The AICPA and NASBA will co-sponsor the National Conference on State Regulation of the Profession in Dallas August 3-5. The conference will feature presentations on the positive enforcement and quality review programs and the implementation of the 150-hour education requirement. The prohibitions on commissions and contingent fees will also be discussed. State societies should have received registration information last month.

As part of the Treadway Commission's Oversight Implementation process, the AICPA, in cooperation with the AAA, FEI, NAA and IIA is mailing a survey to the CEOs of approximately 10,000 public companies. The CEOs are being asked to respond to questions about written codes of conduct, independent audit committees, the internal audit function, management reports and auditor reviews of quarterly financial data. The survey is expected to encourage top managements to focus on the Treadway Commission report and to implement its recommendations.

The North Carolina Supreme Court recently addressed the issue of accountants' liability to third-party users of audited financial statements in Raritan River Steel Co. v. Cherry Bekaert and Holland, a case in which the Institute filed an amicus curia brief. Although the Court did not adopt the Credit Alliance standard advocated by the AICPA, it did rule that before liability can be imposed, the auditor must know at the time the report is prepared that specific persons or a limited group of persons will rely on the work, and that the client intends there to be such reliance. The profession is trying to strengthen this decision through passage of legislation consistent with the Credit Alliance decision.

Six new state society executive directors engaged since last spring attended an AICPA Orientation Program on July 11 in New York. The participants were James Abbott (North Dakota), James Ahler (North Carolina), Gary Brown (Texas), Bryan Hassler (Alabama), Barry Melancon (Louisiana) and Sharon Uithoven (Nevada).

MANAGEMENT UPDATE

As noted in the June 15 CPA Letter, Jay Rothberg will be moving to the New York office to assume new responsibilities as my executive assistant for state society liaison. John Sharbaugh, executive director of the North Carolina Association, will replace Jay as director of communications and state society relations in Washington.

I am also pleased to announce that Don Weldon, CPA, will join the CPE Division as Director of Marketing. Don is the former CPE Director of the Texas CPA Society and will be completing service on the Texas Board of Accountancy. Don also has been an independent CPE producer.

Sincerely,



Philip B. Chenok
President

Attachment
