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Members in Small·Local Accounting Firms

February/March 2001

AICPA

FASB Publishes Special Report of the Joint Working Group of Standard Setters on Financial Instruments

Highlights

C2

Eight Ways to Market
Your Firm's Peer Review
.....

C3

Reminder: Peer Review
Changes for Firms Not
Auditing SEC Registrants
.....

C3

International Efforts Lead
to Third Edition of GAAP
Comparison
.....

C3

e-MAP: An Online
Practice Management
Resource
.....

C4

WebTrust Training Under
Development
.....

C4

IncAdvantage.com:
A Low-Cost Option
for Clients
.....

C4

Planes, Trains and...
Videoconferences?
.....

The business and investment environment has changed fundamentally due to advances in financial risk management and information technology, globalization of capital markets and accelerated use of sophisticated derivatives and other complex financial instruments. Because

of those changes, traditional accounting concepts for the recognition and cost-based measurement of financial instruments need to be modified.

The Financial Accounting Standards Board (FASB) has published a special report prepared by the Financial Instruments Joint Working Group of standard setters (JWG) that addresses these issues, and is soliciting comments by June 30. This special report recommends far-reaching changes to accounting for financial instruments and similar items, including:

- Measurement of virtually all financial instruments at fair value.
- Recognition of virtually all gains and losses resulting from changes in fair value of financial instruments in the income statement during the periods in which they arise.
- Elimination of special accounting for financial instruments used in hedging relationships.
- Adoption of a components approach under which parts of certain transferred financial assets are derecognized, while other parts continue to be recognized.
- Expansion of disclosures about financial instruments, financial risk positions and income statement effects.

Commenting on the importance of the JWG in improving accounting for financial instruments, James J. Leisenring, a JWG

member and Director of International Activities of FASB, said, "It is our hope that this draft will provide the basis for informed comment from interested parties and for rigorous analysis and field testing."

Although this report is not a formal part of a FASB project and the board has not deliberated the conclusions, it is related to the board's current project on reporting financial instruments at fair value. Standard setters in the countries represented in the JWG are publishing the special report at approximately the same time. Comments received will be shared among all of those organizations unless respondents specify otherwise.

The JWG was formed in 1997 to develop a coherent framework for accounting for financial instruments measured at fair value. The JWG consists of nominees of accounting standard setters or other professional organizations in Australia, Canada, France, Germany, Japan, New Zealand, five Nordic countries, the United Kingdom, and the United States, as well as the International Accounting Standards Committee. The positions taken in the special report reflect the views of a majority of the members of the JWG. They do not necessarily represent the view of the organizations, including the FASB, that nominated the members of the JWG.

A single copy of the special report may be obtained free of charge during the comment period by writing to the Order Department, FASB, 401 Merritt 7, P.O. Box 5116, Norwalk, Conn. 06856-5116. The report is also available on the FASB Web site:



www.fasb.org

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Eight Ways to Market Your Firm's Peer Review

By William Balhoff, CPA

Every three years, our firms go to the trouble and expense of participating in peer review. We know why: Not only does this process protect the public interest, but it also helps us improve client service and better manage our firms. While we, as conscientious accounting firms, may understand and appreciate the numerous benefits of peer review, this message has often escaped the greater business community. How can we increase awareness of the peer review process and its contributions to the business world?

Our challenge is to educate the greater business world about the value added by this process. There are many ways we can deliver this message to bankers and other lending institutions that use financial information prepared by accounting firms. We all understand the sometimes inconvenient commitment involved in peer review. To add the most value possible, we should use the peer review and its results as marketing and management tools.

Peer Review's Origins

PCPS, the AICPA Alliance for CPA Firms, instituted peer review in the late 1970s as a voluntary quality assurance practice. Due to the great success of the program, the AICPA adopted a quality review program in 1988 as a mandatory practice, which would further help the accounting profession to self regulate. In 1994, the two programs were merged into the AICPA Peer Review Program. CPAs can become peer reviewers only by undergoing stringent training courses on accounting and auditing and related quality standards, as approved by the AICPA Peer Review Board. PCPS recommends that the reviewer firm, chosen by the reviewed firm, be of similar size, geographic region and practice area as the reviewed firm. (For more information on how to boost the value of peer review to your firm, contact PCPS or visit its Web site.)



800/CPA-FIRM



www.aicpa.org/pcps

The Public File

In one small business survey, PCPS learned that business owners trust their CPAs above all other business advisers. This type of trust stems from firms' independence, integrity and self-regulation. CPA firms take responsibility for their own business practices and, as a profession, the practices of their peer firms. One key component of self-regulation, and one of the most distinctive features of a PCPS firm's peer review, is the public file, which allows potential clients and users of financial statements to view peer review reports. The public file includes only PCPS firms' peer review reports, encouraging member firms to be conscientious, because their results ultimately will become public knowledge.

For users of financial statements, the public file is a valuable source of information. Results posted there can give a fundamental

assurance of the quality of financial statements prepared by PCPS firms. Our evidence shows that when financial institutions become more familiar with the public file, they return regularly to check the credentials of the firms with which they interact.

How Can We Use Peer Review Results?

So, how can we underscore the importance of peer review to the greater business community? PCPS does its part in the education process by advertising the benefits of peer review in the top banking publications, such as *American Banker*. The purpose of these ads, which have been running since 1998, is to raise awareness among bankers and other fiduciary gatekeepers of the value of peer review to their work. The AICPA Peer Review Board has joined PCPS in the promotion of the benefits of peer review to bankers.

PCPS encourages rigorous training courses, offered by the AICPA Peer Review Board, through local state societies, to prepare reviewer firms for conducting peer reviews. This extensive educational program shows the dedication of the accounting profession to high standards and quality service.

But What Can Firms Do?

1. *Banker outreach.* Individual firms can further the education of financial institutions by having lunches with bankers to discuss the benefits of peer review. Once lending institutions are made aware of the peer review process, they appreciate the quality of statements prepared by reviewed firms.

2. *Proposal qualifications.* When writing new business proposals, we can also include a description of the peer review process and invite potential clients to review our firms' results in the public file. This allows us to provide one more professional attribute to our clients.

3. *Worthy of framing.* When a PCPS firm receives an unmodified review, it is awarded a certificate, which can be posted in its office. Firm managers can hang plaques and other forms of certification highlighting positive portions of the peer review for employees as well as clients to see.

4. *Kudos.* We can publicly recognize members of our firms who have contributed to the success of the peer review. Firm managers can reward outstanding employees monetarily through bonuses, offer complimentary lunches or other privileges, such as extra time off, and then highlight these rewards in the firm newsletter.

5. *How-to information.* Firms can direct referral sources to the public file by providing contact information and instructions for accessing peer review reports. Send a letter to let your best contacts know how to use this valuable resource.

6. *Brag to clients.* To spread the word, a firm can send an announcement that the firm has successfully completed its peer review. This communication can include a description of the peer review process as well as the results from the firm's latest review.

7. *The power of PR.* For visibility outside our firm walls, we can draft and distribute press releases, letting the local media know that the firm has gone through another successful peer review.

continued on page C3

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continued from page C2—**Eight Ways**

8. *Tell the world.* Another way to take full advantage of a great peer review report is to take out an advertisement in a local newspaper, congratulating the firm on its success.

What does a company do when it earns a not-so-glowing report? It uses the review as a starting point for dramatic improvement. While peer reviews are generally undertaken every three years, firms can request accelerated reviews. During this process, a firm may petition its state society or other administrative body for an earlier review. When the firm participates in its second review, it has the opportunity to correct all negatively rated procedures from the first. Thus, the firm has proof that it has improved and met all required standards.

The Dawn of Strategic Review

Reviewed firms respect the reviewers' expertise and hold them in high professional esteem. At the close of a formal peer review, the

reviewed firm typically asks additional assistance and information from the reviewer firm. Over the years, reviewer firms have come to assume a management consulting role, offering professional advice above and beyond that of the initial peer review.

This informal second step has inspired PCPS to examine the value of adding a strategic review option to the existing peer review. In the strategic review, the reviewer firm would analyze the reviewed firms' management practices, ranging from human resources to new service offerings. The reviewer firm can then make suggestions to the reviewed firm. If need be, they can help refocus the business to ensure it is growing in the right directions. Look for news on the development of the strategic review option from PCPS soon.

William Balhoff, CPA, a partner of Postlethwaite & Netterville, Baton Rouge, La., is chair of the PCPS Executive Committee.

Reminder: Peer Review Changes for Firms Not Auditing SEC Registrants

The *Standards for Performing and Reporting on Peer Reviews* were revised effective for peer reviews commencing on or after Jan. 1, 2001, for firms that do not audit SEC registrants. While this development is of interest to all CPAs, the revisions have the greatest impact on the nearly 18,000 small firms that perform only

review or compilation engagements and do not perform audits. Included in the revisions is a new tier of peer review called a "report review" that is available to firms that only perform compilations that omit substantially all disclosures. A report review retains the overall integrity of peer review through a streamlined process.

Under the revised standards, three types of peer review—system, engagement and report—replace the two existing types—on-site and off-site. The revised standards also

affect regulators, CPAs who perform peer reviews and state CPA societies.

CPAs with questions about peer review should call the state CPA society that administers their reviews or the AICPA peer review program staff:



201/938-3030

The revised standards can be obtained on the AICPA peer review Web site at:



www.aicpa.org/members/div/practmon/index.htm

International Efforts Lead to Third Edition of GAAP Comparison

Economic globalization requires increased international comparability in financial reporting. With this important goal in mind, accounting standard setters in Canada, Chile, Mexico and the United States have completed cooperative efforts to produce the latest edition of a report comparing generally accepted accounting principles in their countries. The Canadian Institute of Chartered Accountants has published the analysis of accounting pronouncements, *Significant Differences in GAAP in Canada, Chile, Mexico, and the United States*.

The analysis is the result of a coordinated effort by the American Free Trade Agreement Committee for Cooperation on Financial Reporting Matters, a standing committee that includes representatives of the Financial Accounting Standards Board as well as of the standard setters in Canada, Chile and Mexico. The analysis examines current accounting pronouncements and identifies differences in accounting standards, not just among the four countries, but also between those countries and the International Accounting Standards Committee.

Additional information is available from the Canadian Institute of Chartered Accountants, 277 Wellington Street West, Toronto, Ontario, M5V 3H2, Canada.



www.cica.ca

e-MAP: An Online Practice Management Resource

e-MAP, the online version of the *MAP Handbook*, offers CPAs quick and easy answers to practice management questions. A toolkit for managing small- to medium-size firms (including sole practitioners), *e-MAP* provides easy desktop access to extensive material needed to manage all aspects of a professional practice.

e-MAP features include:

- *Current guidance and extensive resources.* *e-MAP* is updated monthly with new content and links.
- *Convenient access.* This Web-based product gives you the ability to use *e-MAP* in your office, at your client or at home.
- *Easy searches.* Search one section or the whole collection.

A one-year individual access subscription to *e-MAP* is \$150 for AICPA members and \$250 for non-members. Full-firm access subscriptions are also available at special discounts.

To subscribe, log on to www.CPAWeb.org, register and complete the subscription request form. Contact the Member Satisfaction Center for more information.



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WebTrust Training Under Development

Concurrent with significant changes to the *WebTrust* program, the AICPA is also developing new training courses to assist practitioners. A new video course under development will discuss the newest version of *WebTrust*—Version 3.0 and the modularized principles and packages available—and will be offered to those who wish to obtain a *WebTrust* license, to get an overview of Version 3.0 or to gain an

understanding of how the program has changed since the firm obtained a license. Online training will tie in directly to each of the modules. Self-study courses will be available on *AICPA Infobytes* (www.CPAWeb.org) for Privacy and Confidentiality, Security (introduction and advanced class), Availability, Non-Repudiation, Digital Certificates and PKI, and Business Practices/Transaction Integrity. Finally, the AICPA is working to create partnerships with those already engaged in offering e-commerce/e-business training to identify opportunities to provide for the necessary competencies for *WebTrust* practitioners. The training is expected to be available in the late spring.

IncAdvantage.com: A Low-Cost Option for Clients

Entrepreneurs typically seek out their CPA's advice before forming a new business, which is a natural extension of every practitioner's consulting practice. Instead of handing off the client to more expensive filing and maintenance service providers, CPAs can now point their clients to IncAdvantage.com.



Through an exclusive arrangement with IncAdvantage.com, AICPA members can refer clients to an easy, low-cost way to obtain certain business formation and maintenance services, including state filings, registered agent services, corporate kits and document retrieval.

The IncAdvantage.com site describes how CPAs can enhance the value of consulting services by referring clients to IncAdvantage.com. IncAdvantage has appointed National Registered Agents Inc.

(NRAI) as the authorized provider of statutory representation services for all states. NRAI is the preferred provider for numerous *Fortune* 500 companies and tens of thousands of small- and medium-sized businesses. NRAI provides a high-quality professional service at an affordable price.

(IncAdvantage.com is a service company and does NOT provide legal or financial advice. The information provided by IncAdvantage.com is no substitute for competent legal or accounting advice.)

Planes, Trains and...Videoconferences?

The information superhighway may become the road most traveled by professionals, according to a new survey. Two-thirds (63%) of executives polled said they believe that technology has lowered the number of business trips today (see chart).

The survey was developed by Accountemps, the temporary staffing service. "A growing number of businesses are using e-mail, videoconferences and even online meetings conducted in real time to communicate with clients, customers and coworkers," said Max Messmer, chairman of Accountemps. "These high-tech alternatives are helping to curb the time and expense associated with frequent business travel."

But, Messmer notes, technology should not replace face-to-face communication entirely. "In many situations, personal interaction remains the most effective way to reach consensus on a business issue. Even the most advanced electronic communication tools are no substitute for a solid handshake," he said.

Before trading in your plane tickets, Messmer recommends asking the following questions:

- Is the topic of discussion confidential? If the information is sensitive, a one-on-one meeting may be more effective—and private—than a conference call or e-mail message.
- Is technology being used to avoid confrontation? Controversial or negative information is best delivered in person to minimize the possibility of miscommunication.
- How critical is the information being presented? It is easier to keep an audience engaged when you're with them in person. Participants on conference calls or online meetings may become distracted by other tasks and miss key points.

Executives were asked, "In your opinion, how has technology affected the amount of business travel today?" Their responses:

