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9-1989

## PCPS Advocate, Volume10, Number 4, September 1989

American Institute of Certified Public Accountants. Private Companies Practice Section

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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.



## PCPS Responds on Discriminatory Clauses

Responding to communications from several PCPS members who are threatened with losing key clients, the PCPS chairman sent the following letter to the editors of more than a dozen banking, insurance and legal journals.

Dear Sir or Madam:

The Private Companies Practice Section of the American Institute of CPAs is committed to maintaining and improving the quality of practice by local CPA firms through a twelve year old program of mandatory peer review and other membership requirements. The Section's roughly 5,000 member firms are very concerned about an unjustified impression that the size of a CPA firm has a bearing on its competence and professionalism.

This perception has led some credit grantors, underwriters and bonding companies doing business with clients of our members to require that certain accounting and auditing services be performed only by large national CPA firms. These requirements often disrupt longstanding professional relationships between clients and their CPAs, to the detriment of both.

In 1981 the Institute's Board of Directors, which speaks on behalf of over 286,000 CPAs throughout the country, issued a resolution specifically deploring this practice. The resolution is still timely, and we ask that you bring its message to the attention of your readers.

The resolution points out that, since all CPAs must meet the same standards of competence for licensure and are required to adhere to the same professional standards, loan agreements and other legal instruments should only provide that needed accounting services be performed by a certified public accounting firm "mutually acceptable to the parties."

Wording such as this will help assure that no CPA firm is arbitrarily eliminated from consideration merely because of its size, and will afford clients the opportunity of broad selection among all firms that can meet their requirements.

Sincerely,

Robert L. Israeloff, CPA  
Chairman, Executive Committee  
Private Companies Practice Section

AICPA members who would like the Board policy statement brought to the attention of specific lenders or other users of the profession's services who appear to be operating contrary to the policy should contact Donald J. Schneeman, the Institute's General Counsel and Secretary. ☐

## Peer Review and Quality Review: Parallel Programs

The passage of the Plan to Restructure Professional Standards in January 1988 by an overwhelming majority of AICPA members requires all firms to participate in an "approved practice monitoring program." Currently there are three such programs — PCPS peer review, SECPS peer review, and AICPA quality review. In most states the latter will be administered by the state CPA society. Pending approval by the AICPA membership of the mandatory SECPS membership requirement, firms with audit or accounting practices can satisfy the AICPA membership requirement by belonging to the PCPS or going through the quality review program.

Some CPAs may have questions about these programs. Are they the same? How are they conducted? How were they developed? Do they produce the same results? To explore these questions, your PCPS Advocate interviewed practitioners who serve on quality review and PCPS committees — the people who help determine the scope, standards, checklists and report acceptance for the programs.

The key message from these leaders is that for on-site reviews, standards and results will be essentially the same under quality review and peer review. C. David Stauffer of Stauffer & Co. in Colorado provides a unique vantage point. The only practitioner who sits on both the PCPS Executive Committee and the Quality Review Executive Committee (QREC), he says, "A properly conducted review on the same firm should come up with the same results under quality review or peer review." Adds J. Mason Andres, partner in the Texarkana and Little Rock firm of Thomas & Thomas and chairman of the Peer Review Committee, "When you put them side by side, it's basically the same program because quality is the objective of both."

### Not Reinventing the Wheel

As a member of the standards task force for QREC, Bruce N. Huff of Davis Kinard & Co. of Abilene, Texas helped to develop the quality review program after the passage of the Plan to Restructure. He notes, "We realized that we didn't need to duplicate the research effort that had been developed for peer review, since the peer review program had been proven and in place for more than ten

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## Chairman's Corner

J. Mason Andres  
Chairman, Peer Review Committee

*(Editor's Note: Mason Andres, a partner in the Texarkana and Little Rock, Arkansas firm of Thomas & Thomas, is stepping down as Chairman of the PCPS Peer Review Committee. He held this position for three years after serving as a member of the committee for two years. Following are some of Mason's fondest memories of his service on the committee.)*

### The Long View from Arkansas

The funniest thing I remember from being on the Peer Review Committee happened when I had just started, and I guess I was still a little wet behind the ears. Another member of the committee and I were sent on an oversight assignment to a big city firm. I was excited because it was one of my first official duties and I wanted to do a good job. We were visiting the firm to check out its audit workpapers to make sure the peer reviewer's report and letter of comments were accurate and on target.

Well, when the firm handed me a file I had requested, I opened up the workpapers to get started. But then I noticed something was terribly wrong. The work was completely foreign, and I couldn't make heads or tails of it. It turns out the workpapers were written in Egyptian! I'm just an old boy from Arkansas, and that really got me. I mean, I can read Southern English, but I sure as heck can't read Egyptian.

That was five years ago. I remember how "slamdunked" I was when I first joined the committee, realizing just how big a job it was going to be. Here we were, a group of local practitioners, looking at other firms' professional reputations. Back then, we still were working out some of the kinks in the process, refining the checklists and technical information, figuring out how we could really help first find their "warts" and then fix them.

Of course, the AICPA staff does the brunt of the work. However, over time, the committee's role has changed somewhat. In the beginning, staff only furnished us with copies of the report and letter of comments. Now, we get more background information from staff, and we also spend a lot more time going over the finer points of the review, to make sure a firm gets its fair shake. Committee members go out to firms more, to see what the reality is, in some cases to temper a slight harshness on the part of the reviewer.

The challenge was — as it still is — to talk to these firms as peers. Overall, looking back on my five years' association with the committee, we've done a good job at that. Peer review has evolved into very helpful experience for most firms — not a clinical analysis, but a very balanced process that ensures that firms get their fair shake. We are an arbitrating committee, a committee of peers, and I think we have fulfilled that role well.

To me, it's a good example of how PCPS has become the leadership group for all local firms. We took peer review and made it work. I'm also proud to say that in my tenure as chairman, the Peer Review Committee has also taken a much more active role in speaking to the standard setters, to make sure that we give them input on the realities of practicing for smaller firms and smaller clients.

For example, the Auditing Standards Board and FASB have visited with us, so that we can express our views on certain standards and how they are implemented at the local level. Along with the SECPS Peer Review Committee and the Technical Issues Committee, we help these people understand that the vast majority of CPAs out there *aren't* working with General Motors or CBS. They need to hear and understand that input, and PCPS is taking the lead. As a result of PCPS efforts, concerns of local practitioners are more frequently on the agenda now than they were five or ten years ago.

Another issue that people understand more clearly now is that the quality level of this profession is something that we all need to be concerned about. Through peer review, and now quality review, we are making sure that we, as a profession, run a tight ship. And it has been my privilege to see that ship become more seaworthy over these past few years.

The names of firms become familiar, and we have watched them improve. It's great to see the results. Many firms that I remember receiving an adverse report in the early days now receive unqualified reports with no letters of comment. Two examples in particular spring to mind — and both, of course, demonstrate what firms are willing and able to do when they're committed. One firm on the East Coast had three problem reviews. We talked to the managing partner, discussed the issues, and recommended he hire a consultant to review his reports and workpapers. The difference in that firm is like night and day. It is a growing, healthy organization now that has a great future ahead of it.

In another instance, one firm had received some adverse publicity and there were serious ethics questions raised as a result. We were asked to go in and discuss the issue with the firm and, believe me, we approached it with great trepidation. When we talked things over, we found out the firm had some problems — but its heart was in the right place. We came to the joint conclusion, diplomatically, that the firm needed to use a bit more discretion in its client dealings. The issues were cleared up and, again, the firm is thriving.

Step by step, firm by firm, we are enhancing the profession and its image in the eyes of our clients, the business community, and all of those who know CPAs. In a sense, it's protecting our birthright. As I look ahead to the future of this profession, I realize that we will need to become more involved in the educational process. We need tougher testing and a more selective entry program



for students so that we can continue to raise our quality standards.

I've been glad to have been a part of the PCPS Peer Review Committee. Through it, I've established long-term professional relationships and friendships with a group of hardworking, dedicated individuals who are extremely principled and spend a great deal of time away from their practices in support of our goals. I extend my thanks and sincere appreciation to the committee members, and to the hardworking AICPA staff who make an impossible task possible.

And to all PCPS members, I can only say we're off and running. This peer review system is pretty well tuned, and we have each other to thank for it. Congratulations — and on to the next challenge! □

## Marketing Ideas: Broadcasting your Peer Review Results

Last summer, the Appleton, Wisconsin firm of Schumaker Romenesko & Associates had its third peer review. In its peer review report, filed by Heindol-Banwart of East Peoria, Illinois, the firm received an unqualified report without a letter of comments.

Then the fun began. According to Sarah Traas, marketing director of Schumaker Romenesko, "We recognized that the results were an objective testimonial to the quality of our services, and we decided to give it as much visibility as we possibly could."

And promote it they did. The firm realized that this "news hook" gave them an opportunity to reach out to clients, potential clients and referral sources with their most important message: quality. "In this competitive environment, we need to take advantage of every chance we get to remind people that we are among the best firms in the country," said Traas.

"While we know that the results of the report are available to the public, it's not realistic to expect bankers and other referral sources in Wisconsin to take the time to call the AICPA to request them on a regular basis," she continued. "So we decided to make the news as widely known as possible." In an ongoing effort that has lasted almost a year, the news of the positive peer review results has appeared in:

- local advertising
- news releases to local media and chamber of commerce publications
- all proposals and letters to new clients
- a special brochure
- an article in the firm's quarterly newsletter for clients
- special inserts in bank and attorney newsletters
- announcements at seminars

- announcements at referral source get-togethers
- recruiting materials
- a framed piece in the firm lobby featuring the ads and the peer review acceptance letter from the AICPA

Advertising was an important part of the marketing effort. SR&A's ads ran for two weeks in the business sections of local newspapers and business magazines. "We would have run them longer, but we wanted to be careful of overkill. We didn't want to risk losing the sincerity of our message," said Traas. The advertising copy read as follows:

"Excellent. That's what we think of the ratings that place our accounting firm among the top 6% in the country. Schumaker Romenesko & Associates would like to thank each of our employees for the commitment to excellence that has resulted in this outstanding national rating. We're proud of our accomplishment, our firm...and most importantly our employees."

A footnote to the ad refers to the results: "Based on American Institute of Certified Public Accountants Peer Review Results — SR&A received an 'Unqualified Report Without Letter of Comment,' the highest result available." SR&A employs about 110 people including 13 shareholders, and has offices in Appleton, Green Bay and Oshkosh.

What about the results of this effort? "This is an image campaign, so we were not expecting the phone to ring off the hook. It's more subtle than that," said Traas. Partners in the firm have received many comments from clients and colleagues, and a number of congratulations letters from bankers and attorneys. "In the advertising, we decided to keep the reference to peer review very simple and succinct. In the brochure, we go into more detail as to what a review is and how it affects our clients."

"Perhaps most important," said Robert Fisher, the firm's partner-in-charge of quality control, "the majority of our clients didn't know anything about the peer review process. This gave us the opportunity to heighten their awareness. Peer review is unique — not many professions have anything like it." Fisher also noted that peer review results provide useful information for small businesses that are evaluating firms.

As an example, Fisher notes that, in a recent competitive bid situation, SR&A included its peer review results in its proposal letter and presentation. Although the results were not the most important information in the buying decision, they did make the prospective client inquire about the review status of all the other firms pitching the business. "I felt good about that, because we set the standard for other firms," said Fisher.

Would SR&A recommend a similar marketing effort for other firms? "Absolutely," said Traas although she recognizes that, for smaller firms, a large-scale comprehensive effort might not be economical. Traas suggests that small

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## Your PCPS Representative

When you have a comment, question or idea about PCPS, whom should you call? The following roster lists PCPS Executive Committee members by state. Find your state on the list to identify your representative. Then note his or her name, address and phone number (from the detailed listing) on your rolodex under "PCPS."

They'd like to hear from you!

### PRIVATE COMPANIES PRACTICE SECTION Executive Committee 1989-90

#### State Liaison Assignments

Alabama—J. Frank Betts  
Alaska—Edwin G. Jolicoeur  
Arizona—C. David Stauffer  
Arkansas—Jake L. Netterville  
California—David D. Green  
Colorado—C. David Stauffer  
Connecticut—Robert L. Israeloff  
Delaware—Raymond D. Falconetti  
District of Columbia—Steven Kaufman  
Florida—Robert R. Harris  
Georgia—James F. Kimmons, Sr.  
Guam—David D. Green  
Hawaii—David D. Green  
Idaho—Joseph R. Call  
Illinois—Ronald S. Katch  
Indiana—James D. Winemiller  
Iowa—Donley D. Fedders  
Kansas—James P. Luton  
Kentucky—Laura McAllister Bills  
Louisiana—Jake L. Netterville  
Maine—Gregory H. Lurie  
Maryland—Steven Kaufman  
Massachusetts—Gregory H. Lurie  
Michigan—James D. Winemiller  
Minnesota—Donley D. Fedders  
Mississippi—J. Frank Betts  
Missouri—Donley D. Fedders  
Montana—Joseph R. Call  
Nebraska—Stephen K. Bjorkman  
Nevada—Joseph R. Call  
New Hampshire—Gregory H. Lurie  
New Jersey—Raymond D. Falconetti  
New Mexico—Bernard S. Lauterbach  
New York—Robert L. Israeloff  
North Carolina—Peter N. Chase  
North Dakota—Stephen K. Bjorkman  
Ohio—Lewis B. Frauenthal  
Oklahoma—James P. Luton  
Oregon—Edwin G. Jolicoeur  
Pennsylvania—Lewis B. Frauenthal  
Puerto Rico—Robert R. Harris  
Rhode Island—Robert L. Israeloff  
South Carolina—James F. Kimmons, Sr.  
South Dakota—Stephen K. Bjorkman  
Tennessee—J. Frank Betts  
Texas—Bernard S. Lauterbach  
Utah—C. David Stauffer

Vermont—Gregory H. Lurie  
Virgin Islands—Robert R. Harris  
Virginia—Peter N. Chase  
Washington—Edwin C. Jolicoeur  
West Virginia—Laura McAllister Bills  
Wisconsin—Ronald S. Katch  
Wyoming—C. David Stauffer

## Committee Update

Within a few weeks the Section will write to the managing partner of each member firm requesting nominations or volunteers for service on PCPS committees. There are three such committees, all drawn from member firms.

**The PCPS committees.** The Executive Committee consists of representatives — often the managing partner — of 21 firms. Each year one third of its members are appointed for three-year terms by the AICPA's incoming Chairman of the Board on the basis of recommendations of a nominating committee appointed by Council. The appointments must also be approved by the Board and the existing Executive Committee.

The Executive Committee appoints the members of the Peer Review and Technical Issues Committees. Appointments are for one year terms and members are usually not asked to serve more than three such terms.

The three committees' 56 members represent 34 states. Here is an analysis of the size of their firms.

Number of Partners	Number of Firms			
	All Three Committees	Exec.	PRC	TIC
1-5	26	12	11	3
6-10	13	3	8	2
11-25	14	5	1	8
Over 25	3	1	1	1
	<u>56</u>	<u>21</u>	<u>21</u>	<u>14</u>

**Open door policy.** The Executive and Technical Issues Committees invite attendance at their meetings by AICPA members interested in the Section's activities, up to the meeting room's reasonable capacity. These meetings give CPAs a first hand look at what committee service involves. They also give PCPS members opportunities to meet their committee representatives and to hear current PCPS concerns, and to provide input that the committees need. Since preacceptance consideration of peer review reports occupies a major portion of the PRC meetings, these meetings are usually restricted to committee members.

Committee meetings are held in various cities throughout the country. If you would like to attend one you should contact the AICPA staff at (212) 575-6447. The staff will give you details of time and place and, if time permits, send you a copy of the agenda materials. ☐

**Executive Committee 1989-90**

- Robert L. Israeloff, Chairman*, Israeloff, Trattner & Co., 11 Sunrise Plaza, Valley Stream, NY 11582; 516/872-3300
- J. Frank Betts*, Eubank & Betts, P.O. Box 16090, Jackson, MS 39236; 601/982-1282
- Laura McAllister Bills*, Laura McAllister Bills, CPA, 1716E Mileground, Morgantown, WV 26505; 304/296-8177
- Stephen K. Bjorkman*, Dale E. Gruntorad & Co., 202 South 11th, Suite 201, Lincoln, NE 68508; 402/475-4004
- Joseph R. Call*, Rudd & Company/Chartered, 725 South Woodruff Avenue, Idaho Falls, ID 83401; 208/529-9276
- Peter N. Chase*, Peter N. Chase, CPA, PC, 9293 Corporate Circle, Manassas, VA 22110; 703/361-7114
- Raymond D. Falconetti*, Faw, Casson & Co., P.O. Box 516, Dover, DE 19901; 302/674-4305
- Donley D. Fedders*, Williams & Company, 814 Pierce Street, Sioux City, IA 51102; 712/252-4041
- Lewis B. Frauenthal*, Frauenthal & Associates Co., 1111 Chester Avenue, #800, Cleveland, OH 44114-3516; 216/781-6106
- David D. Green*, Adler, Green & Hasson, 10920 Wilshire Boulevard, Suite 1200, Los Angeles, CA 90024; 213/208-1200
- Robert R. Harris*, Berger, Harris, McAlpin & Company, 111 Orange Avenue, Suite 300, Ft. Pierce, FL 33450; 407/461-6120
- Edwin G. Jolicoeur*, LeMaster & Daniels, 800 Seafirst Financial Center, Spokane, WA 99201; 509/624-4315
- Roland S. Katch*, Katch, Tyson & Corren, 191 Waukegan Road, Northfield, IL 60093; 312/446-0550
- Steven Kaufman*, Kaufman, Shapiro & Mostow, 6931 Arlington Road, #400, Bethesda, MD 20814; 301/657-1910
- James F. Kimmons, Sr.*, James F. Kimmons, CPA, 303 Fourth Avenue NE, Eastman, GA 31023; 912/374-5442
- Bernard S. Lauterbach*, Lauterbach, Borschow & Co., 715 N. Oregon Street, El Paso, TX 79902; 915/544-6950
- Gregory H. Lurie*, Gregory H. Lurie, CPA, 292 Washington Avenue Extension, Albany, NY 12203; 518/456-4094
- James P. Luton*, Luton & Co., P.O. Box 13069, Oklahoma City, OK 73113; 405/848-7313
- Jake L. Netterville*, Postlethwaite & Netterville, 8550 United Plaza Boulevard, Suite 1001, Baton Rouge, LA 70809; 504/922-4600
- C. David Stauffer*, Stauffer & Co., P.O. Box 391, Canon City, CO 81212; 719/275-7449
- James D. Winemiller*, Blue & Co., P.O. Box 80069, Indianapolis, IN 46280; 317/848-8920

**Peer Review Committee 1989-90**

- Charles J. McElroy, Chairman*, Larson Allen Weishair & Co., Interchange Tower, Ste. 1800, 600 South County Rd. 18, Minneapolis, MN 55426
- Russell J. Beirich*, Lund & Guttry, 415 S. Palm Canyon Dr., P.O. Box 2714, Palm Springs, CA 92263
- Sheila M. Birch*, Ciuni & Panichi, Inc., 25201 Chagrin Blvd., #200, Beachwood, OH 44122
- Philip J. DeCaprio*, Macare, DeCaprio and Cusano, PC, 66 North Main Street, Branford, CT 06405
- Barbara H. Gonzales*, McElroy, Quirk & Company, 800 Kirby Street, Lake Charles, LA 70601
- John F. Hamilton*, Finch Hamilton & Co., 1330 Lady Street, Suite 504, P.O. Box 11625, Columbia, SC 29211
- William H. Hawthorne, Jr.*, Varnadore, Tyler, Miller & Williams, P.A., 2424 Manatee Ave. West, Bradenton, FL 34205
- David K. Johnson*, Anderson ZurMuehlen & Co., PC, P.O. Box 1147, Helena, MT 59624
- Douglas C. Koval*, Philip Vogel & Co., P.C. 12221 Merit Dr. #1200, Dallas, TX 75251
- W. Douglas Logan*, W. Douglas Logan, CPA, 110 West Pryor Street, Athens, AL 35611
- John B. Marinan*, John B. Marinan, 73 Roebling Rd., Bernardsville, NJ 07924
- Douglas S. Mathison*, Parent Dott & Co., 1017 N. Spring St., P.O. Box 516, Beaver Dam, WI 53916

- Richard H. Murvin*, Carter, Belcourt & Atkinson, PA, 500 South Florida Avenue, 8th Floor, Lakeland, FL 33801
- Gary S. Nelson*, Nelson, Trimble & Company, 18 NW Oregon, Bend, OR 97701
- Kenneth J. Osborn*, Gordon, Harrington & Osborn, PC, 630 Turnpike Street, North Andover, MA 01845
- Frank S. Purdy*, R.D. Hunter & Company, One Mack Centre Drive, Paramus, NJ 07652
- Fred Shanafelt*, Sweeney Conrad, PS, 1416 112 Avenue, NE, Bellevue, WA 98004
- Fredrick L. Silbernagel, III*, Stoy, Malone & Company, 7315 Wisconsin Avenue, Bethesda, MD 20814
- George S. Smith*, Burkhalter & Co., PA, P.O. Box 39225, 188 E. Capitol Street, 1 Jackson Place, Suite 700, Jackson, MS 39225-3027
- Randy S. Watson*, Yanari, Watson, Lyons, & Paschall, PC, 9250 E. Costilla Avenue, #450, Englewood, CO 80112
- Walter H. Webb*, Call, Barrick, Ethridge, Webb & Co., 206 North Harrison, P.O. Box 790, Cushing, OK 74023

**Technical Issues Committee 1989-90**

- Edward F. Rockman, Chairman*, Alpern, Rosenthal & Company, Ste. 200, The Pitt Building, 213 Smithfield Street, Pittsburgh, PA 15222
- Ernest F. Baugh, Jr.*, Joseph Decosimo and Company, Suite 1100—Tallan Building, 2 Union Square, Chattanooga, TN 37402
- Jerome F. Beeson*, Presnell, Gage & Co., 1150 West State Street, P.O. Box 1693, Boise, ID 83701
- John R. Benham*, Roberts, Cherry and Company, 650 Olive Street, Shreveport, LA 71104
- Melroy C. Clark*, Eide Helmeke & Co., 205 American Bank Building, Moorhead, MN 56560
- Jacob J. Cohen*, Walpert, Smullian & Blumenthal, P.A., 29 West Susquehanna Avenue, Baltimore, MD 21204
- John C. Compton*, Cherry, Bekaert & Holland, 3100 One First Union Center, Charlotte, NC 28202-6006
- James B. Dodson*, Harris, Huber and Company, P.C., 123 West First, Suite 860, Casper, WY 82601
- J. Larry Griffith*, Mosebach, Griffith and Company, 5835 Grand Avenue, Des Moines, IA 50312
- William L. Hancock*, Mayer Hoffman McCann, 420 Nichols Road, Kansas City, MO 64112
- James W. Ledwith*, Steres, Alpert & Carne, Second Floor, 1901 First Avenue, San Diego, CA 92101
- Judith H. O'Dell*, Beucler, Kelly & Co., Ltd., 125 Strafford Avenue, Wayne, PA 19087
- Lawrence E. Rubin*, Rubin, Brown, Gornstein & Co., 230 South Bemiston, St. Louis, MO 63105
- Kenneth J. Wunderling*, Hood and Strong, 575 High Street, Palo Alto, CA 94301

## Register Soon for TEAM Meetings

Don't forget — PCPS is holding its first series of TEAM meetings for firms with ten or fewer professionals. These are professional roundtable discussions, where firms from different cities can talk frankly about matters such as billing policies, marketing strategies and personnel problems.

These meetings are a special service for PCPS members with **TEN** or **At Most** professionals. The first was September 11, in Los Angeles. The next two are at airport hotels:

On Monday, October 30 in Dallas/Fort Worth

On Monday, October 30 near Washington, D.C.

The fee is just \$100. To register, call or write AICPA Meetings and Travel at 1211 Avenue of the Americas, New York, NY 10036-8775, (212) 575-6451. □



## Advocacy Activities Highlight Committee Sessions

PCPS committees continue their vigorous advocacy in behalf of CPAs who serve private companies. Here is a report on recent activities.

**Public Accountancy Bill.** The Institute's State Legislation Committee is starting to review the 1984 model public accountancy bill, which was published jointly by the AICPA and the National Association of State Boards of Accountancy. Responding to that committee's request for preliminary input, the Executive Committee recommended three specific improvements, all related to professional liability. First, the Committee said the bill should permit CPAs to practice as limited liability corporations. In addition, the bill should prescribe a specific statute of limitations for accountants' malpractice actions, and should incorporate the privity concept.

**Plain Paper Financial Statements.** Largely in response to PCPS committees' earlier urgings, the Accounting and Review Services Committee (ARSC) scheduled a September meeting to identify issues related to a proposed new service that public accountants could provide. The proposal would enable members to prepare interim financial statements, appropriately labelled, for nonpublic companies without reporting on them.

The Executive and Technical Issues Committees submitted a joint letter supporting the proposal. Their chairmen willingly accepted invitations to present their views in person to the ARSC.

**CIRA Guide.** The Technical Issues Committee (TIC) has been following the development of a proposed audit and accounting guide for Common Interest Realty Associations (CIRAs), such as condominiums, co-ops, and homeowner associations. In a recent comment letter, the TIC questioned whether certain portions of the guide are consistent with the authoritative pronouncements of the Accounting and Review Services Committee and the Auditing Standards Board. The TIC's letter cited questionable provisions in eleven specific paragraphs of the proposed guide. The TIC reasoned that issuing a guide with such apparent inconsistencies would only confuse practitioners as they attempt to implement it.

**Insurance Agents Guide.** The TIC welcomed a proposed accounting and reporting guide for insurance agents and brokers. There are some 6,000 such entities in the U.S., but only 8 are publicly owned. Consequently, financial reporting is diverse and illustrative statements are scarce. The guide is well done and, when issued, should be very helpful to practitioners.

The TIC offered two suggestions for improving the draft guide. First, the guide should include sample financial statements to assist practitioners and their clients, and to encourage uniformity. In addition it should clarify and illustrate a difficult provision concerning the gross and net methods of balance sheet presentation and when each should be used.

**Firm Designation.** The TIC responded affirmatively to the proposed deletion of Ethics Ruling No. 147 and 148. Deleting these rulings would permit sole proprietorships to be designated "and Associates" or "and Company."

**Postemployment Benefits.** The FASB's proposed statement on "Employers' Accounting for Postretirement Benefits Other than Pensions" seems to have attracted more attention—and opposition—in the business community than any of its earlier proposals. The TIC studied the proposal intensively, and agreed in principle with its objective of measuring and reporting, on an accrual basis, the costs and obligations of postretirement benefits. Nevertheless, the TIC concluded that without compromising this objective the proposal can be simplified for plans and arrangements typically found in smaller companies. Its letter proposed three specific steps.

First, small companies should be able to recognize the accrued obligation by using the accounting prescribed for individual deferred compensation arrangements. This could eliminate or simplify many of the needed calculations. The TIC's letter provided details on how this would work.

In addition, the TIC takes exception to requiring the recording of a long term obligation for benefits that are discretionary and may or may not be renewed for future years. Benefits such as these are quite prevalent in small companies.

Also, the TIC acknowledged the Board's proposal to delay the Statement's effective date two years for non-public employers whose plans have fewer than 100 participants. The FASB indicated that a major reason for the delay was the anticipated difficulty in developing the actuarial data that these companies will need. Nevertheless, the TIC concluded that the 100-participant cut is too low and should be significantly increased.

**Prospective Financial Statements.** Responding to an exposure draft of a proposed statement of position on accountants' services on prospective financial statements, the TIC deplored the inconsistencies between the reporting terminology for services on prospective financial information and that used for historical financials. Words such as audit, examination, review, compilation, agreed-upon procedures, and assembly are used for both types of financial presentations, but they can have different meanings implying different levels of assurance. This is confusing not only to the users of financial information, but also to CPAs. The TIC suggested an approach to eliminating the inconsistencies and confusion.





**Capital Reporting.** Responding to a GASB discussion memorandum, the TIC emphasized the need to simplify governmental reporting, pointing out that skilled accountants—let alone the general public—do not understand governmental financials unless they have specific training in them. The TIC then suggested several steps that would be helpful, and responded directly to a dozen specific questions that the GASB posed. □

## Peer Review and Quality Review

*Continued from page 1*

years. Plus, we know that many of the same people who perform peer reviews will also be doing quality reviews. So we looked for places where the two programs could use similar documents — such as engagement checklists — and we tried to work with other existing materials.”

Huff went on to say that “when the draft quality review standards were exposed for public comment, we received detailed input from PCPS about the differences between the two programs. We considered their remarks carefully, along with all the other comments we received in the exposure process.” As a result, many apparent differences in standards reflect a desire to keep the language as simple as possible. Any other “differences” are primarily administrative in nature or dictated by the terms of the Plan to Restructure.

One major difference is that the results of all PCPS peer reviews are held in a public file, while the results of quality reviews are not. Peer review reports have always been available to the public. According to Robert L. Israeloff, the Chairman of the PCPS Executive Committee, “the public file is a strong demonstration of how these firms are committed to the quality of their practices. This Division has performed well over 4,000 reviews in the last decade, and just about every firm involved acknowledges that it’s a better firm today because of this process.”

In the most recent statistics, 86% of all initial reviews receive an unqualified opinion, 12% a modified opinion, and under 2% an adverse opinion. In subsequent reviews, adverse reviews shrink to 0.2% of the total, and unqualified reports rise to 92%. Says Israeloff, “That’s strong evidence both that the program works *and* that it is a reasonable one.”

In another difference, PCPS review reports are reviewed and accepted by a national committee of practitioners, while quality reviews will be administered and accepted in most states by state society committees. And the volume of work will vary tremendously. While PCPS currently has about 5,200 member firms, the quality review program will have to administer reviews for more than 40,000 firms in the next five years. The QREC will have to work closely with the various state societies in order to promote consistency in their findings and acceptance decisions and, says Huff, “to guard against inequities.”

In both programs, a firm’s initial review is designed to be positive, educational and remedial. That’s because the

goals of the programs are the same: to encourage firms to improve the quality of their practices. Commenting on the implementation of corrective measures following an adverse or modified review, Andres comments, “I believe that the committee is very open-minded and liberal in determining what the firm needs to do to correct a situation, especially on the first review. The most effective actions are those that a firm decides for itself. And we’ve found, over the years, that the majority of firms appreciate the input we do give them, and they and their staffs are motivated to do a better job.”

In subsequent reviews, and in “tough calls,” the peer review committee can and does require firms with significant deficiencies to take additional steps such as revisits by review teams, CPE courses, or filing annual inspection reports. Only experience will show what specific corrective actions will be required for firms under quality review, especially for subsequent reviews, and how often it will happen. But Bruce Huff notes, “the QREC anticipates that firms will cooperate in taking necessary corrective measures, just as in PCPS peer reviews. And the state society programs should ensure that appropriate followup measures are taken when necessary.”

## PCPS Leadership

“We’ve always been proud of the fact that PCPS has led the way in spearheading the profession’s efforts to improve quality,” says Israeloff. “Our peer review program is proven, it works, and it is responsive to the changing needs and environments that firms operate in today. The way we look at it, quality review is evidence that the rest of the profession has, in effect, ‘caught up’ with where we are.”

“That leads me to the most specific difference between PCPS and quality review,” says Israeloff. “Quality review is a requirement. PCPS is a voluntary, member-driven, dues-paying organization. We are a group of professional colleagues who share our ideas, our expertise and our voices, speaking out on behalf of smaller, local firms. We are a leadership organization for local firms within the accounting profession.” □

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Editor’s note: The remarks above refer to on-site reviews. There are some other differences in the programs for off-site reviews.

## Marketing Ideas

*Continued from page 3*

firms definitely write letters to their clients and referral sources and send news releases to local papers. Also, she advises that firms mention peer review in proposal situations and in interviewing prospective employees. “We found in a number of instances it can really make a difference,” she said. □





## Public Relations Tip: Developing a "Fact Sheet"

One way to increase the visibility of your firm is to become a resource for quotations in the local business press on accounting, tax and management issues. By doing a limited amount of preparation in advance, you can increase your chances of being called by the press when a news or feature story is being developed.

A key to becoming a trusted source is to provide business writers and editors information on your firm *before* they need it. That's the purpose of a fact sheet. Written on 1-2 pages of letterhead, the fact sheet should describe your firm, identify partners and key staff with short biographies, and outline the firm's areas of expertise in terms of industries and capabilities.

After you have developed this document (and proofed it well), send it to editors and writers who cover business issues in your area. Include a brief covering letter which (1) introduces your firm; (2) offers to serve as a resource for business stories; and (3) highlights specific subjects that you are comfortable discussing. If there is more than one spokesperson in the firm you should identify them by subject matter. For example, Al Jones is the best person to discuss tax news while Mary Ann Smith would be most helpful on accounting or auditing issues.

If there is time, you may also want to follow up with a phone call and set up a brief "get to know you" meeting between each reporter and your key people. That meeting may suggest its own story ideas — perhaps even a profile of your firm! Then, if you get a call on an issue and have questions about how to respond, tell the reporter you will call back, and get help from the AICPA Public Relations Division, (212) 575-3879. □

## CPAs to Vote on SECPS Membership

In an effort to maintain the self-regulatory status of the accounting profession, in November the AICPA will send all members a ballot on a change in Institute bylaws.

If passed, the ballot will make membership in the SEC Practice Section mandatory for all firms that audit public companies. PCPS Chairman Robert L. Israeloff strongly endorses this measure, and recommends that you and all your staff vote in its favor.

The SECPS maintains quality standards and public oversight for firms that practice before the Securities & Exchange Commission. Its programs are designed to raise the quality of public company audits, and to ensure that firms performing these audits uphold their special responsibility to the public.

A major consideration is that if the AICPA does not pass the measure the Securities & Exchange Commission could enact its own program to monitor public company auditors. That would invite government involvement in other areas of our profession—and in our own practices, according to Mr. Israeloff.

Many PCPS firms are already members of SECPS. They know that affiliation with this section can provide a competitive advantage in some situations. And SECPS costs are minimal. Dues are \$15 per professional, and are capped at \$100 per year for firms with fewer than five SEC clients. □

## PCPS Advocate

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