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Editor: John R. Mitchell.



Selecting A Peer Review Team With the "Right Stuff"

By Gerald H. Banwart,
Member, PCPS Peer Review Committee

If your firm is scheduled to undergo a peer review during 1988, you are probably asking yourself "What type of review would be best for us"? A number of alternatives are available to you, including a review by a team appointed by the AICPA (a "CART," for committee-appointed review team), by another member firm (a firm on firm review), by an authorized association (if your firm is a member of an association), or by an authorized state CPA society.

The peer review team captain and team members are key factors in determining how helpful and efficient your peer review will be. You have the most control over their selection if you have a firm on firm review. (In the interest of full disclosure, I should mention that my firm has performed a number of firm on firm reviews.)

In recent years, member firms have performed more than 40% of the reviews. To have another firm perform your review, you must first identify one or more qualified firms. The AICPA Quality Control Review Division staff will, on request, send you a list of firms that have indicated an interest in performing peer reviews.

You should then investigate the background, suitability, and experience of several of these firms. This will help you to ensure an efficient and effective review that will provide the most benefit to your firm.

This article explores the factors you should consider when selecting another firm to perform your peer review.

Background of the Firms

The first step is checking the background of the firms that you have identified as possible candidates. To do this, you may ask the AICPA Division for CPA Firms to

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Division Launches New Communications Program

by John S. Bliss, Principal
Bliss, Barefoot & Associates Inc.

Please take a look at the symbol that appears on the masthead of this newsletter. You may have seen it before, and you're sure to see it more often from now on, because it is the new "mark" for the Division for CPA Firms—and all Division members.

This symbol was selected at a meeting of the Division's Joint Coordinating Committee on October 8, 1987, following their selection of our firm as public relations and advertising counsel. Its importance comes from the role it plays in member identification, which is a key component in the Division's 1988 marketing and communications program.

The Second Decade

You deserve recognition for your leadership role in the profession. The Division for Firms spent its first 10 years pioneering the highest quality standards for accounting and auditing services. Now the entire AICPA membership has endorsed a practice monitoring program. With the passage of the Plan to Restructure, the Division enters a new era—symbolized by the arrow on the masthead.

The Division's second decade will be characterized by the ongoing commitment of Division members to "take the extra steps" in the future, just as they have in the past. The JCC selected the arrow because it represents some of the best qualities of the membership. It is strong, positive, and achievement-oriented. It is contemporary and up-to-date. And it is unified in direction and purpose.

Obviously, the symbol alone can do nothing. But when it is supported by a broad communications pro-

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Surge In Section Membership Follows Recruiting Letter

Late in February Division leaders wrote to partners and proprietors of nonmember firms, explaining some of the benefits of membership, emphasizing that the Division's peer review program is proven and in place, and inviting the firms to join. In the next five weeks more than 500 firms joined the Section. Applications are still being received at press time. More than half the new members are sole practitioners.

Division officials attribute much of the renewed interest in membership to the AICPA's recent adoption of a mandatory quality review program. Firms apparently reasoned that, since reviews will be required in any case, it makes sense to take part in a program that is established and recognized, and that has a ten year record of helping its members. Another factor may have been the growing recognition, in the business and financial communities, of the significance of Division membership and peer review.

Even before the latest promotion PCPS membership had been growing steadily for about two years. In the twelve months preceding the recent surge membership increased almost 6%. Here is the number of member firms at recent dates:

Early March 1986	1555
Early March 1987	1695
Early March 1988	1793
Late March 1988	2300

Peer Review Committee Announces Meeting Schedule to Expedite Report Processing

Member firms are understandably eager to publicize their peer reviews as soon as they have been completed. The review procedures, however, provide that a firm should not publicize its peer review documents until it has been advised that the documents have been accepted by the Peer Review Committee (PRC).

However, the PRC cannot act on a review until the

related documents have been received and processed by its staff. Normally, the PRC will act on a review when the staff has received the report, comment letter and response, and—for reviews conducted by committee-appointed review teams—working papers, at least thirty days before the committee meets. (When reviews reveal problems, or are conducted during the peak season—October, November and December—somewhat more time may be required.)

Some members have suggested that they could schedule their reviews more advantageously if they knew when the PRC would meet. The PRC meeting schedule for the balance of 1988 is: April 23, June 6, August 5 and November 11. □

Reviewers' Training Courses Scheduled Nationwide

"A Guide For Conducting Peer Reviews" will be presented this year in more than a dozen cities, from Alaska to Florida. The first presentation, on April 27-28 in Miami, will immediately follow the PCPS Conference. (Contact AICPA's Meetings Division for information.) State CPA societies have scheduled a bumper crop of presentations, as follows:

May 20	Anchorage, AK
June 3	Livingston, NJ
June 6	Atlanta, GA
June 13	Timonium, MD
June 16	St. Louis, MO
June 30	San Antonio, TX
July 1	Denver, CO
August 4	Houston, TX
August 5	Boise, ID
August 11	Nashville, TN
September 19	Atlanta, GA
October 4	Dallas, TX
October 5	Philadelphia, PA
October 17	Greenbelt, MD
October 27	Providence, RI
November 17	Des Moines, IA

For information about any of these courses contact the CPA society in the indicated state.

In addition, two associations of CPA Firms have indicated that the course presentations they have scheduled for their own members will be open to others if space is available. These presentations are on May 11 in Washington, DC, presented by Accounting Firms Associated (904/375-2324); and July 18 in Boston, presented by The International Group of Accounting Firms (800/272-4423). □



Auditors' Reports: Early Application Is Encouraged

Early this year the Auditing Standards Board approved nine "expectation gap" Statements on Auditing Standards. Their first and most visible effect (other than the favorable impact they have made on key Congressmen) will probably be seen in reports on audited financial statements.

The SAS changing the auditors' reports is effective for reports issued on or after January 1, 1989. However, earlier application is permissible. Reportedly, a number of large CPA firms plan to start using the new standard report in July 1988.

At a recent meeting of Technical Issues Committee, members commented that many local firms would also probably use the new report before it is required, at least for "clean" opinions.

Copies of the new SASs will be mailed to AICPA members early in May.

Selecting a Peer Review Team

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mail you information contained in the firms' public files, which includes peer review reports, letters of comment and annual reports. While this information is helpful, you should also contact the firm directly. This will enable you to obtain resumes of the partners and managers who do peer reviews as well as detailed information about the type of clients the firm serves.

The firm's attitude towards performing reviews is also important. You should try to select a firm that will view you as an important client and not as an unwelcome intrusion. I recently heard of a review in which, to save money, a firm hired another firm in the same city. The reviewing firm sent people over to do the review when they had time, sometimes spending only a few hours at a time. While this may have helped fill up otherwise non-chargeable time for the reviewing firm, it resulted in an inefficient review.

The type and size of the team captain's and mem-

bers' practice unit have an important effect on the reviewer's efficiency and effectiveness. I have seen reviews where reviewers from larger, multi-office firms had difficulties in reviewing and providing helpful suggestions to a small one office firm. However, a reviewer from a slightly larger firm (or one who has been with a larger firm) may be helpful in providing insights into practice problems you may encounter as you grow.

You should determine that the firm has received an unqualified opinion on its own most recent review, since this is a requirement for reviewing firms. Also, check the letter of comment and the firm's response, since these can reveal a great deal about the firm's quality.

Finally, inquire whether the firm can meet your timing and scheduling requirements.

Experience Of The Firm

The second step is learning more about the potential review firm's experience. You should, of course, consider whether it has the necessary experience in the industries in which you practice. For example, if your primary clients are farmers, for whom you prepare income tax basis compilations, you do not want the reviewing firm to send its SEC expert. If you have SEC clients or clients in a specialized industry, or if you perform work under the Single Audit Act, you should make sure that the candidates have experience in these areas.

You should also identify the individuals who will comprise the peer review team and inquire about their peer review experience, since it is important to check the qualifications of the specific individuals assigned rather than just relying on the firm's general reputation. Simply having the necessary industry experience does not guarantee that the reviewers will have the skills and experience to evaluate your system of quality control.

If the team members are from the same firm and have worked together on peer reviews, many of the potential inefficiencies of using people from different firms should be eliminated. A partner in our firm participated in a four-person CART review where all the team members traveled to the firm's home office the night before the review to meet the team captain and discuss plans for the review, and then spent over half the next day traveling to the offices they were actually going to review. This represented wasted time that would not have been spent on a well planned firm on firm review.

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Peer Reviews Conducted by PCPS Committee-Appointed Review Teams Cost Summary—1987 Review Year

Firm Description	Number of Firms	Average Number of Professionals	Cost Per Review			Average Cost Per Review—1986
			Low	Average	High	
Sole Practitioner, No Professional Staff	4	1	\$1,355	\$1,534	\$ 1,754	\$1,268
2-5 Professionals:						
1 Partner	12	3	1,790	2,493	3,805	2,246
2 or more Partners	21	4	1,136	2,622	3,938	2,159
6-10 Professionals	33	8	2,108	3,451	5,885	3,638
11-20 Professionals	34	15	2,292	4,889	9,103	4,609
Over 20 Professionals	14	30	2,528	8,156	14,044	8,522
Report Reviews	12	2	231	601	1,317	663

Notes:

1. Cost includes reviewers' time charges, AICPA's 10% administrative fee, and reviewers' expenses.
2. The 1987 reviews include all those conducted on site by PCPS committee-appointed review teams for which the costs were fully processed at the time of compilation. Cost information is not available for firm-on-firm reviews and those administered by state societies or associations.
3. Hourly billing rates for reviews of firms with less than 20 professionals and no SEC clients are \$70 for team captains, \$60 for team members who are partners or proprietors, and \$50 for other team members. For firms with 20 or more professionals and all firms with SEC clients, the rates are \$10 higher in each classification. These rates were effective September 1, 1987. Prior rates were \$10 less.
4. PCPS member firms normally incur these costs once every three years.
5. Report reviews are offsite reviews available to firms that perform no audits.

MSC Asks For Advanced CPE; AICPA Responds

In a series of meetings with representatives of the CPE Division, the PCPS Member Services Committee stressed the need for technical courses that are written and presented at an advanced level, so they would be suitable for partners and managers in local firms. Some existing courses, the MSC pointed out, might include material that is suitable, but when the class includes recent graduates along with partners and managers, the experienced personnel are held back.

MSC members then worked closely with CPE representatives on three separate courses designed just for

partners and managers. Together, they developed the course concept, detailed the content, and identified suitable faculty.

Two of the courses are one day seminars: *Advanced Accounting For Partners and Managers*, and *Advanced Auditing for Partners and Managers*. State CPA societies have already scheduled about a dozen presentations of each, starting in July.

The third is the two day *National Accounting and Auditing Advanced Technical Symposium*, which will be presented in Washington, DC on June 13-14, and again in Las Vegas on July 11-12. Nationally known experts will deliver lectures and conduct workshops on a variety of technical subjects.

All three will emphasize areas that have been affected by recent developments and pronouncements. For information, contact the AICPA's CPE Information Hotline: 800-AICPANY (in NY, 212/575-5696). □



Peer Reviews Show Big Improvement the Second Time Around

The accompanying statistics on accepted peer reviews clearly demonstrate the effectiveness of peer review in improving the quality of practice. Of the firms undergoing their first reviews, almost 14% received qualified or adverse reports. On subsequent reviews, this declined dramatically, to 8%.

The statistics are worth studying for various other reasons. They demonstrate, for instance, that the Division's program is a seasoned one—more than 3000 reviews over the last ten years. Any startup problems and growing pains are things of the past.

Firms should not fear the review process; 89% of all reviews resulted in "clean" or unqualified reports. In 92% of the reviews, the reviewers helped the reviewed firms by providing specific written suggestions for improvement.

The program's continuing success should be a source of pride to those who have participated by undergoing reviews, conducting them, or serving on committees that set the ground rules and evaluate the results. □

Division for CPA Firms Peer Review Reports Accepted From Inception Through January 1988

Type of Report	Total		First Reviews		Subsequent Reviews	
	Number	Percent	Number	Percent	Number	Percent
Unqualified:						
With letter of comment	2704	81%	1593	78%	1111	86%
Without letter of comment	246	8	171	8	75	6
	2950	89	1764	86	1186	92
Qualified	338	10	235	12	103	8
Adverse	40	1	36	2	4	—
	<u>3328</u>	<u>100%</u>	<u>2035</u>	<u>100%</u>	<u>1293</u>	<u>100%</u>

Letters Support PCS Initiatives

In late January PCPS Chairman Robert L. Israeloff and his SECPS counterpart, John D. Abernathy, wrote to all member firms congratulating them on their support of the Plan To Restructure Professional Standards, and emphasizing the continuing importance of the Division's role:

- Our peer review program is proven and in place. The AICPA . . . program will phase in gradually between 1989 and 1993.
- We are about to roll out a new communications program to support our members.
- As an advocate for the smaller firm the PCPS . . . has successfully represented the interests of member firms. . . .

Here is one of a number of responses addressed to Mr. Israeloff.

Dear Bob:

That was a very good letter. . . . Just because everyone will get some sort of peer review does not lessen the value of Division membership. If anything, the new requirements should make it easier to attract PCPS members since they now can enjoy the extra benefits with little extra peer review cost. . . .

David W. Cottle, CPA
President, David Cottle & Co.

(Editor's note. Apparently, many agree. The Division recently mailed a membership promotion letter to principals in nonmember firms. Within five weeks more than 500 applications were received.)

Here is another letter, on a different subject.

Dear Bob:

The January *PCPS Reporter* indicated that the PCPS was addressing financial reporting under the Uniform Capitalization Rules and the accountants' report for statements presented on OCBOA, whether audited, reviewed or compiled. We wish to commend your leadership for addressing so forcefully these very timely topics. . . . Keep up the good work!

Richard Hart Harrington, CPA
Gordon, Harrington & Osborn, PC



Communications Program

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gram, it will let your clients and colleagues know that, as a member of the Division, your firm devotes time and energy to achieving high quality standards.

Program Elements

The communications program has many different elements, designed to benefit members both directly and indirectly. You will soon receive a folder that describes the whole program in detail, but here are some highlights:

Advertising—Division advertising is scheduled to appear in *American Banker, Inc.*, the *Wall Street Journal*, the *ABA Journal*, and *Roll Call*, a publication that reaches Congress. The advertisements will run from March through June and reach more than three million people.

Member Materials—Members can order materials with the new symbol to use in their own marketing programs, including advertising slicks, lapel pins, Division brochures, Division directories, membership certificates, and logo sheets for applying the new symbol to firm stationery. All of these materials draw attention to your Division membership with clients, potential clients, staff and colleagues.

Plus, the Division offers practice development materials you can distribute to clients and colleagues on tax planning and other subjects of interest, such as lease-purchase decisions.

Mailings to Congress and the Press—We will be sending information to members of Congress, their staffs, and key journalists around the country. These mailings describe the historic role of the Division in maintaining the highest performance standards of the profession.

Bank Presentations—Senior AICPA staff and committee members are available to make presentations with you at local banks to describe the importance of the Division and encourage referrals to member firms.

Regional Conferences

The Division for Firms has always placed a high priority on advocacy—providing members with a stronger voice at the AICPA and with standard-setters. When our firm was developing the 1988 communications program, the JCC encouraged us to find ways to strengthen this role, so that member opinions can be heard on professional matters and technical issues that affect both public

and private companies.

As a result, the Division is inviting members to a series of one-day regional conferences where they can participate in active dialogue with leaders of the Institute, the press and the regulatory authorities on issues of importance to the profession. These regional conferences in June will be recommended for CPE credit.

This is the first time that the Division has sponsored members-only regional meetings, and the first time that it has held meetings with a "big picture" view of the future of the profession and quality control.

Plan to join us. Pick the most convenient conference, and note it in your calendar. Details will be mailed shortly to member firms, or you may call 212/575-6451 for registration information.

Northeast—	Thursday, June 16 Washington DC/Capital Hilton
Southeast—	Friday, June 17 Dallas, TX/DFW Airport Hilton
Midwest—	Thursday, June 23 Chicago, IL/Westin Hotel
West—	Friday, June 24 San Francisco, CA/Le Meridien

Speakers will discuss the challenges of change in the accounting, economic, regulatory and political environments. The programs promise to offer lively conversation with a dose of controversy. Featured will be members of:

- Congress and senior regulators
- the Auditing Standards Board
- the Public Oversight Board
- the AICPA chairman and vice chairman
- the Washington D.C. press corps

We believe the quality of the speakers and their subjects will attract media coverage, which will draw more attention to the Division's member firms.

These meetings will also offer a chance to meet and talk with other members—in large and small firms—who are committed to the highest levels of practice quality.

An Invitation

Member participation is key to the success of any Division program. We look forward to hearing your input. I will be at the PCPS Annual Conference in Miami with my associate Abby Gouverneur—as well as at each of the regional conferences—to describe the marketing program in more detail and to hear your suggestions. See you there! □



Selecting a Peer Review Team

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You also need to determine whether the team captain has attended a peer reviewers' training course since 1985, since this is required by both sections. Reviewed firms are responsible for determining that the reviewers meet the Section's basic qualifications. Failure to meet these qualifications can cause (and has caused) the peer review committee to reject peer review reports.

You should ask for references in other firms your size that the candidates have reviewed. Call them and discuss their experiences. Ask them whether they received helpful insights from their reviewers and whether they considered the reviewers to be knowledgeable, efficient and fair. Many firms consider the informal exchange of ideas to be the major benefit of a peer review. Inquire whether the candidates were helpful in sharing ideas from their own practices.

Fees

You should discuss the fee after you have determined that the firm is qualified. Since you are now "the client," you need to remember the advice you give your own clients: "The lowest fee isn't necessarily the lowest cost." A firm that can plan, perform and report on an engagement efficiently will save unnecessary time on your part, both during and after the review. A clear understanding in advance will help avoid misunderstandings later. If the review is to be on a fixed fee basis, determine if there are any contingencies. If it is to be on an hourly basis, obtain a budget reflecting the rates that will be charged.

To enable the reviewers to provide you with an accurate budget, you will need to give them sufficient background information. Items that would be helpful include: copies of your prior peer review report, letter of comment, and your response to that letter (make sure at this time that you have done what you said you would do); copies of your inspection reports since your last peer review; a copy of your quality control document and those parts of your audit or procedure manuals, if any, related to the supervision and review of engagements; information on the number of accounting and auditing hours; the size and location of your offices; and information regarding the number of SEC clients and Single Audit Act engagements. It is also a good idea to give the review team some information about your largest audit clients in order to help them budget their time and make sure the right people are on the team. Be a good client; be prepared for your "auditor."

Timing

A properly planned peer review is like a properly planned audit; it is not an accident! It takes careful forethought, and the further in advance it is planned the better. You have a better chance of having an efficient and effective review if you plan it well in advance. It is not unusual for reviews to be planned six to nine months ahead.

* * *

If you have any questions about selecting a firm, or would like further assistance, call the AICPA Quality Control Review Division staff at 212-575-6650. A checklist of factors to consider in selecting a peer reviewer is available from the staff.

PCPS Advocate

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