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Mid-Year Report of Committee on Practice Review To the Council of the American Institute of Certified Public Accountants, March 9, 1964

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MID-YEAR REPORT
OF
COMMITTEE ON PRACTICE REVIEW

To the Council of
The American Institute of Certified Public Accountants

Since its last report to Council, the committee on practice review has held one meeting, on March 9, 1964 at the office of the Institute in New York. However, the work of the committee has continued on a high level of activity as indicated in the following sections of this report.

Review Cases

During the eighteen months the committee has been in existence sixty-six cases have been submitted to it for consideration. At present forty-five of these cases have been completed and the remaining twenty-one are in various stages of processing. In general, the number of reports reviewed by the committee has been sufficient to keep it active but the number of members submitting reports is not as large as desired.

The operating procedures followed by the committee in the review of cases have previously been reported to you. These procedures, which are designed to have cases handled on a confidential basis, have worked very well. With rare exceptions the auditors have been most cooperative in providing informative replies to inquiries made by the committee.

The committee remains convinced from the limited number of reports referred to us that the surface has barely been

scratched and that initiation and pursuit of similar activities by all state societies is most desirable.

State Society Programs

Our committee has continued its encouragement of state societies to set up practice review programs. At the latest count at least twenty-two of the state societies had active programs or were in the process of activating programs.

In September 1963 the committee distributed to presidents of all state societies a loose-leaf book containing information regarding the scope of activities and method of operations of the committee, together with information as to the status of activities undertaken or being considered at the state or local level. Information regarding the numerous developments in state society programs since September 1963 is currently being distributed.

Members of our committee have cooperated with committees in several states in the formulation of state society practice review programs.

The members of the practice review committee have expressed concern as to the type of practice review program which is being initiated in a number of state societies or chapters. The programs in question are those where a practice review committee receives a report from a bank and returns review comments to the bank, the receipt and return being made through an intermediary representative or coordinator of the bankers' association. In submitting the report, the bank or the intermediary deletes the names of the company

and the auditors and disguises the report contents to prevent identification. After receiving the practice review committee comments, the bank may or may not discuss them with the reporting auditor. In order to serve an educational purpose, publication of the cases studied may be made either by the state society or by the bankers' association, or by both of them in cooperation.

Under this procedure, the reporting auditor is never in communication with the practice review committee to express his views or to give background information on the items in question, and except by chance he will not receive the review comments of the accountants' committee. The Institute's committee on Practice review suggests that this type of program may pose legal liability problems, first, as to accountants responsibility from the viewpoint of the reporting auditor and, second, as to libel from the standpoint of the society's practice review committee, and further believes that, while the procedure may be educational to specific bankers and to a lesser extent to accountants generally, it is unlikely to be helpful, educationally or otherwise, to the reporting auditor.

Other Activities

The committee has appointed a subcommittee to consider the type of data from the review cases the committee has processed which might be published. It is expected that the review cases will supply data which, when disguised to prevent identification, will provide material for a publication expected to be of educational value to AICPA members. Publication has been tentatively set for this fall.

The Accounting Principles Board has been requested to give consideration to two matters of principle, recently encountered by the committee in the review of reports, which require research and clarification. They are (1) reconsideration of paragraph 19 of A.R.B. No. 5¹ which permits the carrying of unconsolidated subsidiaries at cost and the taking up as income only dividends received and (2) consideration as to whether income from "carved-out" oil or gas interests should be deferred and taken up as income when deliveries are made or recorded as current income in the year of the sale.

The committee continues to ask for your aid in making the practice review program fully effective. The full support of Council and the membership is necessary to make the program effective not only through referral to the committee of reports for review but also, most importantly, in encouraging the development of practice review programs at the state society and chapter level.

Respectfully submitted,

Emmett S. Harrington, Chairman
COMMITTEE ON PRACTICE REVIEW