Six Largest Accounting Firms Are Among 30 Largest Private Companies: Certified Public Accountant
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NEWS & VIEWS

BROADLY SPEAKING

U.S. CHAMBER OF COMMERCE ADVOCATES TAX RELIEF

In "1992 Outlook for Small Business" appearing in the January 1992 issue of *Nation's Business,* editor Roger Thompson presents the U.S. Chamber of Commerce's proposal for tax relief for families,workers, savers, investors, and entrepreneurs:

- Give families a $300 tax credit for children ages 6 to 18 and a $1,000 credit for children under 6. Credits in excess of taxes payable for the year would not be paid to the family.
- Reduce the top capital-gains rate to 15% for individuals and corporations, with a 7.5% rate for lower-bracket taxpayers. Also, index capital gains for inflation, thereby eliminating tax on the gains produced by inflation.
- Restore depreciation for investments in plant and equipment to the faster write-offs permitted before TRA 86.
- Establish a new type of individual retirement account that would permit penalty-free early withdrawals for first-time home buyers and children's college expenses.
- Repeal the passive-loss limitations that bar investors in rental real estate from taking the same kind of tax deduction for losses as investors in other types of ventures.
- Establish research incentives,including permanent extension of the research and experimentation tax credit.
- Cut the social security payroll tax by two percentage points, one each for the employee and the employer, from its current combined rate of 15.3% on the first $55,000 of wages.

In addition to this tax relief, the Chamber advocates federal spending restraint while setting a goal for annual growth of the economy at 4% for the remainder of the decade. Until such growth is achieved, it also recommends that a moratorium be declared on all new federal regulations. According to the Chamber, recent experience has shown at least one situation where the cost of compliance relating to an increased revenue source was in excess of the benefit derived.

SIX LARGEST ACCOUNTING FIRMS ARE AMONG 30 LARGEST PRIVATE COMPANIES

The December 9, 1991, *Forbes* listed the 400 largest private companies in the U.S. The six largest accounting firms were among the top 30. Ernst & Young, the largest of the "Big Six" in the U.S., according to *Forbes,* is larger than Montgomery Ward, Goldman Sachs & Co., Trans World Airlines, and American Standard, to name a few.

POB ANNUAL REPORT COMMENTS ON THE PROFESSION

The Public Oversight Board of the SECPS of the AICPA in its 1990/91 Annual Report commented on current developments and other matters impacting the integrity of the audit process. It is the POB's objective to communicate its experiences and views so that the public's perception and understanding of that process are not distorted and the public's confidence in the system is not inappropriately eroded.

Auditor Independence. Auditor independence is the focus of most allegations of audit failure. In today's aftermath of economic boom and the S&L crisis, the performance and independence of auditors are constantly challenged, and cries for change are heard. The POB, however, does not think that recent events have revealed a fundamental flaw in the profession or its practices.

Rather than rushing to overhaul the system, the POB gives advice to independent auditors to maintain "a healthy degree of skepticism" and be "unrelenting in approaching difficult and complex financial statement issues—despite client tensions and outright disagreements...auditors must insist on the most appropriate application of GAAP and not accept a presentation designed without regard for the intent of the rules." Withstanding the tensions that encounters with clients over difficult issues can create is often "the sternest test of auditor professionalism," and "in the final analysis what independence is all about."

Lessons from QCIC Cases. The POB Quality Control Inquiry Committee (QCIC) is notified by members of SECPS when a firm or its personnel are named in lawsuits alleging audit failure. QCIC considers whether allegations of audit failure were caused by an aberrational error, a shortcoming in quality controls or a need to reconsider professional standards.

The POB commentary identified five areas from the closed QCIC cases for consideration by member firms:

- Approximately 55% allege inadequate response by the auditor to client internal control deficiencies.
- Approximately 33% allege failure by the auditor to detect the consequences of management fraud.
- The probability of a public company auditor being named in a complaint increases by 600% after the auditor/client relationship has been terminated.
- The probability of a successor auditor being named in a complaint is 300% higher than the probability of an action being brought against continuing auditors of public companies.
- In about 33% of the cases, the engagement team consulted at the regional or national office level with other knowledgeable experts about matters alleged in complaints.

WATCH OUT: ILLEGAL SOFTWARE

CPA Digest in a recent issue gives warning to CPAs about the "sleeping giant" of unauthorized copying and use of computer software. When you buy a single-user version of a software package, you are paying for one license to use that package. If the software is copied and used elsewhere in the office or at home, the license agreement is violated.

The alternative is to acquire a site license, which allows the unlimited use on separate PCs at one site. A third choice is a network license that allows use on all machines connected by a particular local area network. The cost of the site and network licenses is, of course, greater than for the single-user license.

CPA Digest reported activities of the Software Publisher's Association making inquiry of businesses requesting