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AICPA Professional Standards: Management advisory services as of June 1, 1985

American Institute of Certified Public Accountants. Management Advisory Services Executive Committee

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AICPA PROFESSIONAL STANDARDS

VOLUME B

Accounting and Review Services

Ethics • Bylaws

International Accounting

International Auditing

Management Advisory Services

Quality Control • Tax Practice

AS OF JUNE 1, 1985

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MS Section 11**Definitions and Standards
for MAS Practice**

**Effective for MAS
rendered after May
1, 1982, unless
otherwise indicated**

.01 CPAs have historically served as business advisors and consultants, performing functions that are described as "management advisory services (MAS)." In general, management advisory services consist of advice and assistance concerning such matters as an entity's organization, personnel, planning, finances, operations, systems, controls, and other aspects of current or proposed activities. Such services are often closely related to the auditing, tax, and accounting and review services that CPAs provide.

.02 A management advisory service may range from a response to an inquiry based only on the knowledge and experience of the individual practitioner consulted to one involving an extensive project. For the purpose of Statements on Standards for Management Advisory Services, all such services are categorized as either MAS consultations or MAS engagements.¹ Professional practices for each of these two forms of MAS will be different; standards for each of them will be provided in this and subsequent statements.²

Purpose

.03 This statement is the first in a series that will

- a. Provide guidance to enable members to comply with rule 201 [ET section 201.01] of the AICPA Rules of Conduct within the context of management advisory services.
- b. Establish, under rule 204 [ET section 204.01] of the AICPA Rules of Conduct, other standards deemed appropriate for such services.

Definitions

.04 Certain terms are defined below for purposes of Statements on Standards for Management Advisory Services.

¹ MAS consultations were referred to as MAS "informal advice" prior to the issuance of this statement.

² A series of Statements on Management Advisory Services was issued in the past to provide practical advice on MAS. They are not enforceable under the AICPA Rules of Conduct. Some of the material in those statements may be incorporated into future MAS standards and practice aids. Until then, practitioners may continue to consult such statements, although it should be recognized that future publications may contain guidance that differs from the views expressed in those statements.

Management advisory services (MAS). The management consulting function of providing advice and technical assistance where the primary purpose is to help the client improve the use of its capabilities and resources to achieve its objectives.³ For the purpose of illustration, “helping the client improve the use of its capabilities and resources” may involve activities such as

- a. Counseling management in its analysis, planning, organizing, operating, and controlling functions.
- b. Conducting special studies,⁴ preparing recommendations, proposing plans and programs, and providing advice and technical assistance in their implementation.
- c. Reviewing and suggesting improvement of policies, procedures, systems, methods, and organization relationships.
- d. Introducing new ideas, concepts, and methods to management.

MAS engagement. That form of MAS in which an analytical approach and process is applied in a study or project. It typically involves more than an incidental effort devoted to some combination of activities relating to determination of client objectives, fact-finding, opportunity or problem definition, evaluation of alternatives, formulation of proposed action, communication of results, implementation, and follow-up.

MAS consultation. That form of MAS based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, and the mutual intent of the parties. It generally involves advice or information given by a practitioner in a short time frame. Usually, information is received through discussions with the client and, by mutual agreement, is accepted by the practitioner as represented. The nature of an MAS consultation and the basis for the practitioner’s response are generally communicated to the client orally. The practitioner’s response may be definitive when existing personal knowledge is deemed adequate; otherwise, it may be qualified, in which case limitations are stated. A qualified response often reflects cost, time, scope, or other limitations imposed by the client’s specific circumstances.

MAS practitioner. Any Institute member in the practice of public accounting while engaged in the performance of an MAS service for a client, or any other individual who is carrying out MAS for a client on behalf of any Institute member.⁵

³ Recommendations and comments prepared as a direct result of observations made while performing an audit, review, or compilation of financial statements or while providing tax services, including tax consultations, are not MAS as herein defined.

⁴ Statement on Auditing Standards 30 [AU section 642], provides guidance on studies made for that purpose.

⁵ A member shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the member, would place him in violation of the rules of conduct (See ET section 92.04-.05).

Standards for MAS Practice

.05 The following general standards apply to both MAS engagements and MAS consultations. They are contained in rule 201 [ET section 201.01] of the AICPA Rules of Conduct, and apply to all services performed in the practice of public accounting.⁶

Professional competence. A member shall undertake only those engagements which he or his firm can reasonably expect to complete with professional competence.

Due professional care. A member shall exercise due professional care in the performance of an engagement.

Planning and supervision. A member shall adequately plan and supervise an engagement.

Sufficient relevant data. A member shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

Forecasts. A member shall not permit his name to be used in conjunction with any forecast of future transactions in a manner that may lead to the belief that the member vouches for the achievability of the forecast.

.06 The following technical standards apply to MAS engagements, as defined in paragraph .04. They are established under rule 204 [ET section 204.01] of the AICPA Rules of Conduct. Technical standards for MAS consultations, as defined in paragraph .04, may be established in future statements.

Role of MAS practitioner. In performing an MAS engagement, an MAS practitioner should not assume the role of management or take any positions that might impair the MAS practitioner's objectivity.⁷

Understanding with client. An oral or written understanding should be reached with the client concerning the nature, scope, and limitations of the MAS engagement to be performed.

Client benefit. Since the potential benefits to be derived by the client are a major consideration in MAS engagements, such potential benefits should be viewed objectively and the client should be notified of reservations regarding them. In offering and providing MAS engagements, results should not be explicitly or implicitly guaranteed. When estimates of quantifiable results are presented, they should be

⁶ The use of the terms "MAS engagement" and "MAS consultation" to differentiate the two recognized forms of MAS is not intended to exclude MAS consultations from the meaning of the term "engagement" as it is used in rule 201 [ET section 201.01].

⁷ An Institute member or his employee might at times serve in the role of management for a client. The Statements on Standards for MAS do not apply to situations in which the member or his employee serve in that role, but, under rule 101 [ET section 101.01] of the Rules of Conduct and Statement on Standards for Accounting and Review Services no. 1 [AR section 100], independence might be impaired for the purpose of an audit, review, or compilation of financial statements.

clearly identified as estimates and the support for such estimates should be disclosed.

Communication of results. Significant information pertinent to the results of an MAS engagement, together with any limitations, qualifications, or reservations needed to assist the client in making its decision, should be communicated to the client orally or in writing.

Effective Date

.07 This statement is effective for MAS rendered after May 1, 1982.

➤➤➤ *The next page is 15,041.* ➤➤➤

MS Section 21**MAS Engagements**

Effective for MAS engagements undertaken on or after May 1, 1983, unless otherwise indicated

Introduction

.01 Statement on Standards for Management Advisory Services (SSMAS) No. 1 [section 11], *Definitions and Standards for MAS Practice*, categorizes management advisory services (MAS) as MAS engagements or MAS consultations.¹ It defines an MAS engagement as

That form of MAS in which an analytical approach and process is applied in a study or project. It typically involves more than an incidental effort devoted to some combination of activities relating to determination of client objectives, fact-finding, opportunity or problem definition, evaluation of alternatives, formulation of proposed action, communication of results, implementation, and follow-up.

.02 This statement provides guidance on the application of certain of the standards set forth in SSMAS No. 1 [section 11].

Nature of MAS Engagements

.03 MAS engagements generally involve gathering and analyzing appropriate information concerning the client's business, operating results, financial condition, systems and procedures, or other matters needed for the development of conclusions and recommendations to assist a client to achieve its objectives.

.04 Engagements performed by MAS practitioners vary widely in size, complexity, staffing and time requirements, and technical subject matter. An MAS engagement may require the joint participation of the MAS practitioner, the client, and other personnel with the skills required to achieve the engagement objectives.

.05 While performing an MAS engagement, a practitioner may be asked to respond to a client inquiry on an MAS matter that is not related to the engagement. The nature of the inquiry and the response in such circumstances may fall within the definition of an MAS consultation, in which case the standards for MAS consultations would apply.

¹ Recommendations and comments prepared as a direct result of observations made while performing an audit, review, or compilation of financial statements or while providing tax services, including tax consultations, are not MAS as defined in SSMAS No. 1 [section 11].

Professional Competence in MAS Engagements

.06 Professional competence in performing MAS engagements includes an ability to identify and define client needs, select and supervise appropriate staff, apply an analytical approach and process appropriate to the engagement, apply knowledge of the technical subject matter under consideration, communicate recommendations effectively, and, when required, assist in implementing recommendations.

.07 An MAS engagement may require more than one individual and diverse technical skills. The MAS practitioner should carefully assess the combined abilities, education, and experience of the individuals on his staff, or otherwise engaged by him, who are to participate in a specific MAS engagement. In deciding whether he or his firm can reasonably expect to complete the engagement with professional competence, the MAS practitioner may also give consideration to the skills, education, and experience of client personnel and personnel from other organizations who have assumed responsibility for tasks related to the engagement.

Planning and Supervision in MAS Engagements

.08 The MAS practitioner should plan and supervise an MAS engagement in a manner that provides reasonable assurance that the work is conducted in accordance with the understanding with the client and with the professional standards set forth in Statements on Standards for Management Advisory Services and the AICPA Rules of Conduct.

.09 If staff is needed, the MAS practitioner should determine that a sufficient number of persons with appropriate skills and experience are available to perform the work.

.10 A plan should be developed to guide the conduct, supervision, control, and completion of the engagement. The plan should be modified, if necessary, during the course of the engagement. Engagement planning should include consideration of the approach and tasks required to achieve the engagement objectives.

.11 Throughout an MAS engagement, the MAS practitioner should exercise professional judgment concerning the level of documentation and the amount of supervision required, based on the experience of the persons involved and the complexity and duration of the assignment.

.12 An MAS engagement should be directed by an individual who is competent to supervise the personnel assigned, evaluate the quality and completeness of the work performed, and accept responsibility for successful completion of the engagement.

Sufficient Relevant Data in MAS Engagements

.13 The MAS practitioner should obtain sufficient relevant data to complete an MAS engagement in a manner consistent with the understanding with the client. Sufficient relevant data may be obtained by interview, observation, review of client documents, research, computation, and analysis. The nature and quantity of information that constitutes sufficient relevant data will vary with the scope and circumstances of each engagement. It normally consists of information needed to analyze the courses of action that might be considered. Sufficient relevant data include information that supports conclusions or recommendations.

.14 The MAS practitioner should exercise professional judgment in determining the nature and quantity of information required to develop conclusions or recommendations that fulfill the objectives of the MAS engagement. In making this determination, the MAS practitioner should consider the objectives, nature, and scope of the engagement, the costs of data gathering versus the benefits of added data, the intended use of the engagement results, and related circumstances. The source, reliability, and completeness of the data, and any limitations thereof, should be considered in forming and reviewing conclusions and recommendations.

Role of Practitioner in MAS Engagements

.15 A pervasive characteristic of the practitioner's role in an MAS engagement is that of being an objective adviser. In performing an MAS engagement, the practitioner should not assume the role of management.² Because of the various advisory services that may be performed by the MAS practitioner and the singular responsibility of the client to make all management decisions, the roles and responsibilities of all parties should be clearly defined in the understanding with the client.

.16 An MAS engagement should be structured to enable management to make decisions on matters requiring action by providing for review and approval of the engagement findings, conclusions, recommendations, and other results. The implementation of any course of action recommended during an MAS engagement must be authorized by management.

² An Institute member or his employee might at times serve in the role of management for a client. The Statements on Standards for MAS do not apply to situations in which the member or his employee serve in that role, but, under rule 101 of the AICPA Rules of Conduct [ET section 101.01] and Statement on Standards for Accounting and Review Services No. 1 [AR section 100], independence might be impaired for the purpose of an audit, review, or compilation of financial statements.

Understanding With Client in MAS Engagements

.17 Prior to undertaking an MAS engagement, the practitioner should consider such matters as the following in reaching an appropriate understanding with the client:

- Engagement objectives
- Nature of the services to be performed
- Engagement scope, including areas of client operations to be addressed and limitations or constraints, if any
- Respective roles, responsibilities, and relationships of the MAS practitioner, the client, and other parties to the engagement
- The anticipated engagement approach, including major tasks and activities to be performed and, if appropriate, methods to be used
- The manner in which engagement status and results are to be communicated
- Work schedule
- Fee arrangements

.18 The MAS practitioner should exercise professional judgment in determining the nature and extent of documentation appropriate in the circumstances. MAS engagements normally include a documented understanding with the client, which may be in the form of an accepted proposal letter, a confirmation letter, an engagement arrangement letter, a contract, or a file memorandum documenting an oral understanding.

.19 Written documentation of the understanding may not be appropriate in some situations. Client confidentiality requirements or other engagement circumstances might explicitly preclude such documentation.

.20 If circumstances require a significant change in the nature, scope, or limitations of the services to be performed, the MAS practitioner should modify his understanding with the client.

Client Benefit in MAS Engagements

.21 Before beginning an MAS engagement, the MAS practitioner should obtain an understanding of the possible benefits, both tangible and intangible, that the client wishes to achieve.

.22 The MAS practitioner should not guarantee results either explicitly or implicitly. The ultimate achievability of results will depend on the effectiveness of client management in implementing the MAS practitioner's recommendations and on client management's ability to address changes or uncertainties. The MAS practitioner should communicate to the client reservations concerning the achievability of the anticipated benefits.

.23 If potential benefits are quantified, they should be described as estimates, and the support for such estimates should be disclosed. If estimated benefits or estimated costs change significantly during an engagement, the client should be informed.

Communication of Results in MAS Engagements

.24 The principal findings, conclusions, recommendations, or other results of an MAS engagement, including the major facts and assumptions upon which results are based, should be communicated to the client, together with limitations, reservations, or other qualifications.

.25 During lengthy or complex engagements, interim client communication is desirable. Interim communication encourages client involvement and decision-making and keeps the client informed of results and progress.

.26 Final reports to a client may be written or oral depending on factors such as

- The understanding with the client.
- The degree to which the engagement results are provided to the client as the engagement progresses.
- The intended use of engagement results.
- Sensitivity or significance of material covered.
- The need for a formal record of the engagement.

.27 When an MAS practitioner does not issue a written report to the client, a memorandum to the file should be considered, outlining matters such as results achieved and documentation provided to the client.

Effective Date

.28 This statement is effective for MAS engagements undertaken on or after May 1, 1983.

➤➤➤ *The next page is 15,051.* ←➤➤➤

MS Section 31**MAS Consultations**

Effective for MAS consultations occurring after May 1, 1983, unless otherwise indicated

Introduction

.01 Statement on Standards for Management Advisory Services (SSMAS) No. 1 [section 11], *Definitions and Standards for MAS Practice*, categorizes management advisory services (MAS) as MAS engagements or MAS consultations.¹ It defines an MAS consultation as

That form of MAS based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, and the mutual intent of the parties. It generally involves advice or information given by a practitioner in a short time frame. Usually, information is received through discussions with the client and, by mutual agreement, is accepted by the practitioner as represented. The nature of an MAS consultation and the basis for the practitioner's response are generally communicated to the client orally. The practitioner's response may be definitive when existing personal knowledge is deemed adequate; otherwise it may be qualified, in which case limitations are stated. A qualified response often reflects cost, time, scope, or other limitations imposed by the client's specific circumstances.

.02 This statement provides guidance on the application of certain of the general standards of the profession (see SSMAS No. 1 [section 11]) to MAS consultations and establishes certain technical standards applicable to MAS consultations.

Nature of MAS Consultations

.03 MAS consultations may occur concurrently with the performance of other professional services, such as audit, review, or compilation of financial statements, tax services, or an MAS engagement. MAS consultations also may be the only type of service provided to a client. They may entail advice concerning a single matter or continuing consultations on a wide variety of matters. MAS consultations may occur casually in telephone conversations, take place in nonbusiness settings, transpire during periodic meetings at the client's or

¹ Recommendations and comments prepared as a direct result of observations made while performing an audit, review, or compilation of financial statements or while providing tax services, including tax consultations, are not MAS as defined in SSMAS No. 1 [section 11].

practitioner's offices, or may entail specific written inquiries or responses.

.04 MAS consultations may constitute a significant portion of a practitioner's services to a client. Implicit and explicit understandings between the practitioner and the client form the basis for client reliance on the professional advice that is given. An MAS consultation generally is based on the practitioner's existing personal knowledge of the technical matters in question and those aspects of the client's financial, business, and, perhaps, personal affairs to which the inquiry applies. Depending on the inquiry, the practitioner's response may be immediate or may be made after reference to client file information and technical source materials, discussions with colleagues, or consideration of the advantages, disadvantages, and financial consequences of available alternatives.

.05 Examples of MAS consultations include: advice in the form of explicit recommendations, guidance on a suggested course of action or method of inquiry, limited analysis of options or the advantages and disadvantages of alternative actions, and fact finding in the form of limited technical research on a specific matter.

Interpretations of General Standards

.06 The following paragraphs interpret general standards of the profession (see SSMAS No. 1 [section 11]) as they apply to MAS consultations.

Due Professional Care in MAS Consultations

.07 In an MAS consultation, the practitioner should exercise professional care that

- The advice furnished is clearly communicated.
- The advice and the manner in which it is given do not generate a degree of reliance that is inappropriate in light of qualifications that apply to the advice.

Planning and Supervision in MAS Consultations

.08 The nature and extent of planning in an MAS consultation will vary with the complexity of the inquiry and the entity involved and usually will be entirely a mental process that includes the following steps:

- Understanding of the inquiry and nature of service requested by the client
- Consideration of knowledge of the entity and the subject of the inquiry
- Determination of steps to be taken to respond to the inquiry

If staff is used, supervision required will depend upon their qualifications and experience.

Sufficient Relevant Data in MAS Consultations

.09 In an MAS consultation, the practitioner often is furnished with information by a client that is not verified, corroborated, or reviewed by the MAS practitioner. When this is the case, the client should be informed that the advice given is dependent upon the accuracy and completeness of the unverified client information.

.10 The MAS practitioner should consider whether the information provided is relevant to the matter at issue and whether it appears to be sufficient to provide a basis for a definitive response to the client. If the practitioner does not obtain sufficient relevant information for that purpose, the practitioner should consider whether a qualified response can be given or whether a response cannot be given without further study and analysis.

Technical Standards for MAS Consultations

.11 The following technical standards apply to MAS consultations. They are established under rule 204 of the AICPA Rules of Conduct [ET section 204.01].

Role of MAS practitioner. In performing an MAS consultation, an MAS practitioner should not assume the role of management or take any positions that might impair the MAS practitioner's objectivity.²

Understanding with client. An oral or written understanding should be reached with the client concerning the nature, scope, and limitations of the MAS consultation to be performed.

Client benefit. Since the potential benefits to be derived by the client are a major consideration in MAS consultations, such potential benefits should be viewed objectively and the client should be notified of reservations regarding them. In offering and providing MAS consultations, results should not be explicitly or implicitly guaranteed. When estimates of quantifiable results are presented, they should be clearly identified as estimates, and the support for such estimates should be disclosed.

Communication of results. Significant information pertinent to the results of an MAS consultation, together with any limitations, qualifications, or reservations needed to assist the client in making its decision, should be communicated to the client orally or in writing.

² An Institute member or his employee might at times serve in the role of management for a client. The Statements on Standards for MAS do not apply to situations in which the member or his employee serve in that role; but, under rule 101 of the AICPA Rules of Conduct [ET section 101.01] and Statement on Standards for Accounting and Review Services No. 1 [AR section 100], independence might be impaired for the purpose of an audit, review, or compilation of financial statements.

Role of Practitioner in MAS Consultations

.12 In the conduct of an MAS consultation, the MAS practitioner often functions as a general business adviser presenting recommendations to a client faced with decisions to make. The circumstances under which the service is provided require the MAS practitioner to recognize and seek to minimize the possibility that the client might erroneously conclude that the practitioner has

- Assumed responsibility for making the required decisions.
- Guaranteed, through his recommendations, the implicit or explicit benefits the client seeks.
- Predicated his advice on full consideration of all relevant information.

Client Understanding and Communication of Results in MAS Consultations

.13 In MAS consultations, the client inquiry, understanding between parties, and practitioner response often occur in the same conversation. In such an environment, the practitioner, the client, or both may presume that the other has a knowledge and understanding of pertinent matters that actually were not communicated to the other party. The MAS practitioner should recognize this possibility for misunderstanding and take reasonable steps to prevent it by giving attention to matters such as

- The specific or general nature of advice sought.
- The financial and operational significance of the advice given.
- The limitations, lack of certainty, or incompleteness of the information.
- The complexity of the inquiry, the advice, or the conditions or qualifications that might attach to the practitioner's response.

.14 The nature and form of communication with a client in an MAS consultation is a matter of professional judgment. In many cases, especially in connection with the practitioner's general advisory role, circumstances will dictate that the understanding with the client and practitioner response be oral; in some cases the combination of circumstances in an MAS consultation might justify written communication to the client.

Effective Date

.15 This statement is effective for MAS consultations occurring after May 1, 1983.

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