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Competence in management advisory services; Statement on management advisory services 2

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Competence in Management Advisory Services

1. Statements on Management Advisory Services No. 1 states in part:

“...Independent accounting firms have the responsibility to evaluate their ability to render management advisory services of a professional quality in each specific area. They also have the responsibility to refrain from representing themselves [to clients] as qualified and willing to accept work in areas where they do not possess the required competence. Competence in professional work involves both the firm’s technical qualifications of staff personnel and the ability to supervise and evaluate the quality of the work performed...”

The committee considers it desirable to amplify the application of this statement and to provide guidance to the CPA whereby, in the exercise of his judgment, he may consider whether he is competent.

The Nature of Competence

2. Statements on Management Advisory Services No. 1 tentatively describes the nature of management advisory services as involving the application of an analytical approach and process, in conjunction with knowledge and experience in specific subject areas, to the solution of management problems. Competence in management advisory services refers to knowledge, experience,

*Issued by the Committee on Management Services
American Institute of Certified Public Accountants*

skill, and research capability in applying judgment and finding and implementing solutions via this analytical approach and process.

3. In performing management advisory services, it is expected that the independent accounting firm will bring to a client situation a professional-level ability to find facts and define problems, to structure problems so attention is focused on fundamentals rather than symptoms and fringe issues, to communicate and persuade people to accept the definitions and be disposed to take action, to find and sift alternative solutions, to know sources of technical information, to consider what others have tried and what worked and did not work and why, to adapt general or theoretical solutions to fit particular situations in a practical way, and to be objective.

While some attributes involved in performing management advisory services relate to factual matters and are subject to objective evaluation, other essential elements relate to judgmental, psychological, and personality factors susceptible only to subjective evaluation.

Acquisition of Competence

4. Considerable variety is found in the educational and experience backgrounds of both CPAs and others recognized as proficient in management advisory services. There are those with academic degrees in accounting, general management, marketing, engineering, and other fields. Some have industry experience while others may have worked for consulting firms, and still others may have had all their prior experience with independent accounting firms. The common characteristic is that, generally, all have met the fundamental intellectual standards in some academic field and have built their proficiency from that base. This proficiency has been built by actual performance under more experienced supervision or by undertaking simple problems before those that are more complex; by reading and self-study; by attending courses offered by colleges and universities or by trade and professional associations; and by researching for solutions to actual problems during the course of an engagement.

A range of capability can thus be built upon a base of aca-

demic achievement. The academic training and examination requirement for the CPA certificate provides such a base. In fact, the pervading nature of financial accounting provides as broad and adequate a base as any other area in which initial qualifications could be attained.

5. In establishing a range of capability in management advisory services, an independent accounting firm is likely to commence with a base of accounting-related matters. This then, may lead a member into cost controls, budgeting, inventory controls, and other areas of management concern. However, as a member approaches such areas, more special training and experience becomes necessary.

6. Competence in management advisory services relates to both proficiency in applying the analytical approach and process, and to knowledge of the subject matter and techniques concerned. These are acquired by education and audit or other experience, and by the actual performance of management advisory services.

In addition, consulting attributes of problem definition, motivation, communication, and the like, which relate to psychological and personality factors are also important. A specific approach that works well for one may not work equally well for another. Management advisory services involve a large element of personal relations, and in time, the practitioner develops a pattern of approach that works best for him.

The specifics of a particular industry or functional area of an organization, as well as applicable operating techniques, are often found in professional or other literature. The practitioner is, therefore, often in a position to generally prepare for a specific assignment in advance and to research for possible solutions as the nature of a problem unfolds. In those instances in which the acquisition of the necessary knowledge is not a natural part of the conduct of the engagement as a result of the fact-gathering procedure or of the normal research process, the CPA should question his competence to carry out the engagement.

Areas and Extent of Participation

7. The CPA's decision regarding his competence in a given

instance will depend upon his knowledge of the subject matter, as developed through experience, training, and as related to the purposes of the engagement; the degree of knowledge about the subject possessed by the client; and the role to be assumed.

Some management advisory services relate essentially to accounting systems and financial matters that coincide with the same subject matter which is of concern in the audit process. The purpose, however, is different as the CPA is not only concerned with the propriety of what the client did in the past (attesting) but also with what should be done to improve matters in the future (management advisory services)—but the subject matter is the same.

Other management advisory services may involve planning, control, and information systems for application throughout an organization that relate to other subject matter. This may require some study in areas such as production, inventory, and other nonfinancial functions. However, in performing such services, the member is concerned with the organization, planning, standards of performance, data processing, measuring and recording, and reporting aspects, and he need not undertake to solve the underlying problems of how to produce or market a product.

Still other management advisory services are directed toward the solution of the management aspects of these underlying problems and are even less related to financial accounting. Such matters as decision rules for inventory control, production scheduling, and the like may have financial accounting aspects but such aspects are largely incidental.

Another form of specialization is in techniques, such as computer technology or operations research. The original purpose of developing such specialization may have been to assist clients in the finance and control function. But computers and operations research can be used to solve problems wholly unrelated to this area, and clients may appropriately seek the help of CPAs in solving other problems where these particular competences are required.

The need for the CPA to have specialized training and experience increases the further he elects to go in the technologies involved.

8. The CPA is further advised to consider not only the subject matter of his service but how far he is prepared to go in the application of the analytical approach and process. He may elect to assist his client in all the steps of analysis or something less than that. In some subject matter, he may find facts or go on to defining the problem and stop at that point or he may refer the client to other sources of assistance. In other subjects, he may develop a program of action and, in still others, he may offer to advise and provide technical assistance in implementation.

9. The scope of management advisory services is such that no one person can be expected to develop sufficient specialized knowledge and skill in all areas in which clients might require assistance. A wide range of management advisory services can normally be performed only by a firm which includes both generalists and individuals who have acquired specialized qualifications in the subject matters or techniques involved.

Standards of Competence

10. The CPA certificate is the accepted minimum evidence of high-level competence in the public accounting profession. The profession is, and has been for many years, identified as experts in management advisory services as well as accounting, auditing and tax matters. Beyond that, in the field of auditing, the profession has further stated certain general standards for the guidance of practitioners in *Statements on Auditing Procedure No. 33*, which are:

- “1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
- “2. In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors.
- “3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.”

In addition, Statement No. 33 states that, “In the observance of generally accepted auditing standards, the independent au-

ditor must exercise his judgment in determining which auditing procedures are necessary in the circumstances to afford a reasonable basis for his opinion. His judgment is required to be the informed judgment of a qualified professional person.”

The explanatory sections of Statement No. 33 related to these auditing standards refer to the acquisition of proficiency through a combination of education and experience. Professional experience requires working under the supervision of a more experienced superior and such superior, exercising authority upon an engagement, is expected to exercise his judgment regarding the degree of supervision appropriate.

11. The Committee on Management Services believes that general standards analogous to those adopted for auditing are applicable to management advisory services.

- 1. Management advisory services are to be performed by persons having adequate training and experience in both the application of the analytical approach and process, and in the subject matter under consideration.**

The committee believes that qualification as a CPA is a proper base on which to develop proficiency in management advisory services. Possession of the certificate evidences the presumption that certain basic prerequisites have been met in certain areas of management advisory services; however, it is the responsibility of each member to build his qualifications on that base and assess and establish his competence in any given instance.

The committee recognizes that competence of an independent accounting firm in an area or areas of management advisory services may be strengthened by employing persons possessing specialized training and experience in non-financial fields. The firm, however, should only undertake those professional engagements for which it has the necessary qualification to supervise and evaluate the work of its staff members.

- 2. In all matters relating to a management advisory services assignment, an independence in mental attitude is to be maintained by the member and his staff.**

The committee recognizes the application of the Code of Professional Ethics to management advisory services including the

independence rules when the CPA also serves as independent auditor of the client's financial statements—Opinions 12 and 14 of the Committee on Professional Ethics. Aside from the matter of also serving as independent auditor, general standard 2 is directed toward a client's right to have a completely objective, unbiased, and forthright point of view brought to the matter being considered in management advisory services.

3. Due professional care is to be exercised in the performance of management advisory services.

The committee believes that a paragraph in Cooley on Torts quoted in *Statements on Auditing Procedure No. 33* is directly applicable here. This quotation reads:

“Every man who offers his service to another and is employed assumes the duty to exercise in the employment such skill as he possesses with reasonable care and diligence. In all these employments where peculiar skill is prerequisite, if one offers his service, he is understood as holding himself out to the public as possessing the degree of skill commonly possessed by others in the same employment, and, if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that the task he assumes shall be performed successfully, and without fault or error. He undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon pure errors of judgment.”

Conclusion

12. The Committee on Management Services is of the opinion that the CPA should only undertake those engagements where he or his firm meets the competence requirements discussed above.

This is not an unusual decision for a professional man to make. For example, on the matter of competence, the legal profession leaves the decision of competence to the individual member of the profession. Rule Number 31 of the Canons of Professional Ethics of the American Bar Association says in part, “Every

lawyer upon his own responsibility must decide what employment he will accept as counsel. . . .”

The evaluation of the competence of a CPA or an independent accounting firm in the area of management advisory services is primarily a subjective one. The matter of competence to perform an engagement requires that each CPA objectively view his background and ability and determine whether, in fairness to his client and/or the public, he is in a position to undertake an engagement.

The Statement entitled “Competence in Management Advisory Services” was adopted unanimously by the twenty members of the committee.

NOTES

This Statement is published for the guidance of members of the Institute in carrying out a management advisory services practice. It represents the considered opinion of the Committee on Management Services and, as such, contains the best thought of the profession as to the best practices. Members should be aware that they may be called upon to justify departures from the Committee recommendations.

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