

1969

Role in management advisory services; Statement on management advisory services 3

American Institute of Certified Public Accountants. Committee on Management Services

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_news

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Committee on Management Services, "Role in management advisory services; Statement on management advisory services 3" (1969). *Newsletters*. 272.
https://egrove.olemiss.edu/aicpa_news/272

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Role in Management Advisory Services

Introduction

1. The purpose of this Statement is to consider the role of the member in the practice of management advisory services. Role is significant not only because of its effect on the success of management advisory services engagements, but because of its bearing on all aspects of the member's relationship with his client.

2. Statement on Management Advisory Services No. 1 states in part:

The role of an independent accounting firm in performing management advisory services is to provide advice and technical assistance, and should provide for client participation in the analytical approach and process. Specifying this as the proper role recognizes both the appropriate place of management advisory services and the realities of practice. This is the only basis on which the work should be done and it is the only basis on which responsible management should permit it to be done.

The Committee considers it desirable to amplify the application of this Statement in order to provide guidance to the member whereby, in the exercise of his judgment, he may determine his appropriate role in particular management advisory services engagements.

3. Role implies posture and actions in a given situation or

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

relationship; in this case, that involving the member as a consultant with client management and personnel. In considering this relationship, therefore, both consultant and client roles must be identified. Pervading all aspects of the consultant's role is his posture as an objective advisor.

4. Further, the matter of appropriate role in a professional relationship with a client depends on the nature and objectives of the professional service to be provided. The Committee, therefore, considers it important to first describe the nature and objectives of management advisory services as a basis for defining the role that should be assumed in the various types and phases of management advisory services engagements.

Background

5. Statement on Management Advisory Services No. 1 generally describes these services as “. . . the function of providing professional advisory (consulting) services, the primary purpose of which is to improve the client's use of its capabilities and resources to achieve the objectives of the organization. . . .

6. “In providing this advisory service the independent accounting firm applies an analytical approach and process which typically involve:

- Ascertaining the pertinent facts and circumstances
- Seeking and identifying objectives
- Defining the problem or opportunity for improvement
- Evaluating and determining possible solutions, and
- Presenting findings and recommendations,

and following the client's decisions to proceed, the accounting firm may also be involved in:

- Planning and scheduling actions to achieve the desired results, and
- Advising and providing technical assistance in implementing. . . .”

7. These activities usually involve a written statement of the scope and objective of the engagement, a work program related to the statement of scope and objectives, and the preparation of a written report or other form of documentation to be submitted to the client when the engagement is completed.

8. The execution of an assignment involving some or all of these phases is likely to result in a formal, structured relationship with the client. Structured management consulting can be described as consisting of one or more of three broad stages of effort—analysis, design, and implementation. The analysis stage consists of ascertaining the pertinent facts and circumstances, seeking and identifying objectives, and defining the problem or opportunity for improvement. The design stage consists of evaluating and determining possible solutions and presenting findings and recommendations. The implementation stage includes planning and scheduling actions to achieve the desired results, as well as advising and providing technical assistance.

9. The member may be called upon to provide services in some or all of the foregoing stages. While it is impossible to fit all management services engagements into a few clearly identified categories, it is pertinent to identify the various roles assumed by considering the consultant's role in engagements involving all steps in the analytical approach and process along with some discussion of services in which only a portion of the analytical approach and process is involved. These illustrations are offered as a basis for determination of role in the various situations that may be encountered in practice.

10. This Statement deals only with management advisory services as defined in paragraphs 5 through 8. Services which members might be called upon to render other than those of an advisory nature as defined in paragraphs 5 through 8 are excluded from the scope of this Statement.

Statement

Role in Full-Scope Engagements

11. In many management advisory services engagements, particularly where implementation of a solution is dependent on a new or revised system, the first five study phases outlined in paragraph 6 that bring a matter to the point of recommendation for management decision are but the preliminary areas of service, and participation by the member is expected to continue through complete implementation. The objective is to supple-

ment management's capability by providing an objective point of view, a consideration of alternate courses of action, a broader perspective from experience in analogous situations, and technical assistance.

12. Effective participation by the member in this role requires the appropriate composition of management participants. Client representation should include both working level and decision level participants who are representative of the functions particularly affected by the matter.

13. This may be accomplished by organizing a team drawn from each of the functions concerned (plus those client staff technicians who can make a contribution), to work directly on the problem, together with a senior client management group whose responsibility is to make decisions and monitor and approve programs and results. The consultant makes his contribution by: advising on the overall program and the organization and composition of the participating groups, providing technical assistance at the working level, and monitoring progress and reporting on this and other important matters to the senior management group. To the latter end, the consultant should maintain a degree of participation during the engagement that permits him to be informed as to what is occurring and that will provide a basis for applying his professional judgment to what he observes.

14. The further the member's participation extends from initial fact finding through implementation, the greater the importance of client involvement. When implementation is concluded, the member's participation is also concluded, and only client personnel remain to carry on the solution. Therefore, the member should adjust his level of participation throughout all phases of the assignment so that he eventually completes his part of the assignment, leaving a complement of client personnel possessing the qualifications to proceed on their own.

15. The propriety of this role of advisor is clear if one considers that a consultant is not in a position to carry out his recommendations since he has no authority to marshal client resources or to make management decisions. Should he attempt to do so and allow himself to be placed in such a role, he ceases

to be a consultant and exercises management prerogatives—with consequent loss of the essential consulting requisites of impartiality and objectivity.

Role in Special Study Engagements

16. In some types of engagements, the client seeks only an impartial and objective study of a matter and the resulting recommendations. This may be to obtain confirmation or denial of a judgment client management has already tentatively reached or to obtain a marshalling of pertinent facts and views on a matter not previously studied. For example, such studies may relate to areas of management concern embracing a review of facts and conclusions on the selection of EDP equipment or the applicability of inventory control decision rules.

17. The nature and objectives in such engagements are analogous to audit services in the sense that an impartial, objective judgment is being sought by the client. The role of the member in these engagements is to proceed through the first five steps of the analytical approach and process outlined in paragraph 6, to apply objective judgment to the facts, and to present findings and recommendations to the client for decision and further action. The client's role in this process is primarily to supply pertinent information and subsequently, of course, to make the decision on the matter. In such circumstances, the client does not seek the member's assistance in achieving the desired result but only his professional judgment. The effective action beyond the point of decision is solely the responsibility of the client.

18. The Committee believes that a sound client-consultant relationship in these situations depends upon the client's disposition to obtain the consultant's impartial and objective point of view and the consultant's disposition to so respond. A relationship based on any other premise serves only for the member to lend his name to a predetermined course of action—hardly an acceptable professional posture for the independent CPA to assume. The member should therefore avoid accepting an engagement in which he is expected merely to carry out the client's dictates.

Implications of Limited Client Participation

19. Occasionally, clients seek to engage the independent accounting firm to provide solutions and results on a basis wherein the client expects to be involved only to a limited extent, if at all. The member should carefully consider the implications of such an exclusive role—particularly the degree of responsibility inherent in such an arrangement. Since the member cannot be responsible for continuing operations, he places himself and his client in a difficult position if he has had the sole responsibility for design and installation of changes with which he subsequently has no further involvement. Only client management is in a position to assume responsibility for all aspects of change (including operations) and, therefore, ultimate success is most likely to be achieved when both consultant and client management recognize this fact and arrange their roles accordingly.

20. An additional, and often related, problem arises when there is a tendency or disposition to apply a packaged solution indiscriminately. Such approaches can inhibit client participation, underestimate the individuality of each situation, and bypass the analytical process. This increases the likelihood of the development of solutions that do not meet actual needs.

21. The appropriate response to the above situations is to fully inform the client of the limitations and risks inherent in such an undertaking and to establish a balanced client-consultant relationship that the member believes can lead to a successful result. Failing this, he may find himself acting in a position inconsistent with his objective advisory role and accordingly, may deem it appropriate to withdraw from the engagement.

22. There are degrees of technical assistance that may be provided depending upon knowledge and experience available in the client organization. The Committee believes, however, that a member should not undertake an engagement that includes implementation unless:

1. The client understands the nature and implications of the recommended course of action.
2. Client management has made a firm decision to proceed with implementation based on this understanding and consideration of alternatives.

3. Client management accepts overall responsibility for implementation of the chosen course of action.
4. Sufficient expertise will be available in the client organization to fully comprehend the significance of the changes being made during implementation.
5. When the changes have been fully implemented, client personnel have the knowledge and ability to adequately maintain and operate such systems as may be involved.

23. The measure of ultimate contribution by the consultant is the effectiveness with which management acts on a sound recommendation and the degree to which, at the conclusion of the consultant's participation, the client's personnel have acquired the capability to continue at a higher level of effectiveness in the future.

Informal Advice

24. During the course of providing any type of service, independent accounting firms are called upon to give informal advice on many diverse questions. Clients seek these opinions from the representatives of an independent accounting firm in view of their knowledge of the particular client's affairs and their broad exposure to other situations. This type of service differs from the structured approach to management advisory services, as described in Statement on Management Advisory Services No. 1, in that the nature of such services is informal and therefore no presumption should exist that an extensive study has been performed to identify and consider pertinent facts and alternatives. Further, no responsibility is assumed for seeking to achieve client action or for seeking to assure that any ensuing action will be effective. Here, the appropriate role is simply to respond as practicable at the moment and to express the basis for the response so that such informal advice is offered and accepted for what it is.

25. The Committee believes, however, that while there may not be any presumption on the part of the member that pertinent facts and alternatives have been identified and considered,

he should be aware that such qualifications may not be fully appreciated by the client and should govern his discussion accordingly.

Consulting Role and Independence

26. Statement on Management Advisory Services No. 1 states:

When the services to a client also include expression of an opinion on the fairness of financial statements, the matter of role has special significance, since it also relates to the independence of the accounting firm. Opinion 12 of the American Institute of Certified Public Accountant's Committee on Professional Ethics is explicit on this point. The accounting firm's role is to provide advice and technical assistance and to avoid making management decisions or taking positions that might impair the firm's objectivity.

27. The Committee believes that the objective, advisory posture that has been advocated in the previous paragraphs of this Statement on Role is the most effective form of consulting and the one most likely to produce lasting benefits to the client. The Committee also believes that when the member as a consultant assumes this objective, advisory role, he places himself in a posture that complies with the admonition to avoid making management decisions or taking positions that might impair the firm's objectivity.

28. The compelling need for independence in the attest function is such, however, that these principles must be carefully followed in actual practice. For example, in some cases management may indicate a willingness to abdicate its role as decision maker and the member will need to insist on a proper arrangement of roles. Failing in this, he may need to decline the engagement.

29. This posture seems clear because the member in the role of objective advisor is not in a position to make management decisions. The ultimate choice of any course of action must be made by management because as a consultant, the member cannot command the resources necessary to implement that decision.

30. The Committee also believes that the objective advisory role that has been described places the member in a position that will not impair his objectivity in his other relationships with his client. He should, however, always be alert to the way his role may be viewed by others and not permit himself to be placed in a posture inconsistent with this Statement that could cause serious question regarding his objectivity and independence.

Summary

31. The Committee on Management Services suggests that each member carefully assess the principles set forth in this Statement to determine the appropriate role to assume in providing these services in any given opportunity for an engagement. In undertaking any management advisory services engagement, the member must understand the nature and objectives of the service he proposes to perform, and the related role and responsibility inherent in that undertaking.

32. Throughout this Statement emphasis has been given to the importance of an objective consulting role in providing management advisory services. This role is advocated essentially because such a posture is the most effective, responsible, and professional form of management advisory service. It is also a role that is consistent with a member's obligation to be independent and objective in all aspects of his relationship with his client.

The Statement entitled "Role in Management Advisory Services" was adopted unanimously by the twenty-one 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.

COMMITTEE ON MANAGEMENT SERVICES (1968-69)

JORDAN L. GOLDING, *Chairman*
RANDALL P. ANDERSON
BERTRAND J. BELDA
JAMES B. BOWER
ROBERT N. BOWLES
C. CRAIG BRADLEY
SIDNEY BROTMAN
JOSEPH E. CARRICO
FRANCIS C. DYKEMAN
PAUL L. HERTENSTEIN
FELIX KAUFMAN
JOHN D. LESURE

HOWARD N. MILLER
ROBERT D. NIEMEYER
WILLIAM D. OSMUNDSON
THOMAS C. OTTEY
ISAAC O. PERKINS
ARTHUR J. SCHOMER
JAMES E. SEITZ
DANIEL M. SLEDZ
JOHN P. SULLIVAN

HENRY DE VOS, *Manager,*
Management Services