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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

SURVEY BENEFITS

Members recently received a questionnaire requesting information about their areas of expertise and experience. The division will use the responses to establish a member data base, which will facilitate an exchange of MAS information, and perhaps services, between members. The data base will also help identify members who have the background to serve on MAS task forces requiring specialized knowledge and experience. In addition to the data base, the questionnaire will provide members with an opportunity to comment on current and future division projects as well as important MAS issues. Please submit your completed survey as soon as possible. Call (212) 575-6290 if you need another copy.

TREADWAY COMMISSION ON MAS

In its recently released report, the National Commission on Fraudulent Financial Reporting recommended that a public company's audit committee approve in advance the types and extent of management advisory services that the company's independent public accountant will perform. In its response to the report, the AICPA strongly objected to the recommendation. It stated, in part, that "such a requirement could cause managements or audit committees to arbitrarily bar all management advisory

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OPERATIONAL AUDITS: AN MAS TOOL

Why are CPAs the most logical parties to offer the services described as *operational audits, comprehensive audits, management audits or performance audits*? Because CPAs have training and experience in using audit techniques and in serving as business advisors to management. These two functions give CPAs an insight into the varied business operations of many clients and an appreciation for the relationship between financial and operating controls.

Many accountants in industry and government have long considered operational auditing an important duty of the internal auditor. But operational audits by CPAs in public practice have somehow never lived up to their potential, despite periodic emphasis in the professional literature during the past two decades.

When would a CPA in practice—or one in industry or government, for that matter—conclude that an operational audit is needed? Often it happens when senior management believes a problem exists but can't identify it, or when new managers want an objective review of their units or companies. In such cases, a proposal for an operational audit may be very well received.

An operational audit may also be successfully proposed when a sudden change in profitability calls for general belt-tightening. Many CEOs will demand across-the-board layoffs because they are the fastest way to reduce expenses. However, such cuts could cause understaffing in key areas that had been running lean and allow overstaffing to persist in areas that may be less vital.

An operational audit can help cut costs using a scalpel instead of a meat cleaver. It may mean the difference between a turnaround and bankruptcy. An effective proposal for an operational audit will have to convince the CEO to spend more money (the fee) to ultimately reduce costs.

CPAs who perform operational au-

ditions can also benefit by learning more about the client's overall operational details than any one of its functional or unit managers is likely to know. When this becomes evident, the owner or CEO may increasingly turn to the CPA for objective advice.

In 1982 the AICPA published the Report of the Special Committee on Operational and Management Auditing entitled *Operational Audit Engagements*. For the first time, the AICPA recognized operational auditing and declared it a distinct form of management advisory services that may also have some of the characteristics of a financial audit engagement.

The report, which can be purchased from the AICPA's Order Department, helped codify operational auditing engagements. It describes an operational audit engagement as one that involves a systematic review of an organization's activities, or a stipulated segment of them, in relation to specified objectives. It also recognizes that an operational audit may have one or more of the following purposes: to assess performance, to identify opportunities for improvement and to develop recommendations for improvement or further action.

The report lists operational auditing benefits such as improving profits, reducing costs, determining problems areas and enhancing management control. Sell these benefits when making your proposal. The operational audit is

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DIVISION BEGINS SECOND YEAR

On August 1, 1987, the AICPA's Division for Management Advisory Services marked a milestone, beginning its second year of operation. With approximately 4,000 members, it already represents the largest organization of professionals interested in management consulting. And there is enormous room for growth, since over 63,000 AICPA members have expressed a direct interest in MAS.

The division's membership breaks down as follows. About 65 percent are either sole practitioners or with local CPA firms. Some 10 percent are with larger CPA firms, and the remaining 25 percent are in industry, government or academia or have not identified their employment status. (In larger CPA firms, most full-time MAS practitioners are not CPAs and cannot become members of the division under AICPA rules.)

The first year of division operation saw more MAS publications issued by

the Institute than in any previous year. Each division member automatically receives every new MAS practice aid and special report as soon as it is issued. For the 1986-87 year, members received six publications plus a 5¼-inch disk containing an extensive MAS bibliography. Members also received samples of two MAS client brochures, which they can order in quantity for distribution if they wish. And of course members received quarterly issues of *The CPA Management Advisor*.

In the year ahead the division intends to issue practice aids highlighting MAS engagements for individual industries. It also hopes to provide still more benefits by creating a member data base. (See "Survey Benefits" in the Bulletin Board column on page 1.)

The first annual meeting of the Division for Management Advisory Services will also take place this year in New Orleans on October 14, following the annual MAS Conference. (See "Courses and Conferences" below for more information.)

Members with questions or suggestions about the division can contact the division staff by calling (212) 575-6290. Your increased participation and feedback will help make this division more responsive to your MAS needs.

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COURSES AND CONFERENCES

ANNUAL MAS CONFERENCE AND DIVISION MEETING

The MAS Division will hold its annual conference, along with its first membership division meeting, on October 12, 13 and 14 at the Sheraton New Orleans Hotel and Towers. Together, the conference and division meeting will provide a total of 19 hours of CPE credit. Members of the Division for Management Advisory Services will have the opportunity to discuss MAS projects and issues with MAS committee members and staff.

The CPE sessions will cover the following subjects:

- The Future Belongs to the Omniscient (keynote address)
- Effective MAS Communications (oral and written)
- Litigation Support
- MAS Opportunities in the Health Care Industry
- Inventory and Production Management
- Office Automation
- MAS Marketing and Practice Administration
- Introduction to Business Valuation
- Valuation Engagements: A Case Study
- EDP Trends
- Trends Within the Profession

You recently received a brochure describing the conference and annual meeting and containing registration and reservation forms. To ensure your place, complete and submit the registration and reservation forms by September 14. Hotel reservation forms received by the Sheraton after September 14 will be accepted only if rooms are still available. If you do not have a brochure, call the AICPA Meetings Department at (212) 575-6451 for further information or to obtain a brochure.

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MEMBERSHIP BENEFITS, 1986-87

Members who joined the division for Management Advisory Services in August 1986 enjoyed many benefits during the division's first year.

For the full 1986-87 membership year just completed, members received the following publications: *Litigation Services; Mergers, Acquisitions and Sales; Written Communications of Results; Personal Financial Planning; The Team Approach; Valuation of a Closely Held Business;* and *A Study of MAS Practice and Knowledge*, which included a 5¼-inch disk containing an extensive MAS bibliography. Members also received samples of two MAS brochures, *The CPA and Management Consulting* and *Before You Decide on a Computer Consult Your CPA Because. The CPA Management Advisor* kept members up to date on division news each quarter.

Members who joined later in the year received publications on a pro rata basis. You may purchase individual MAS publications by calling the AICPA Order Department, toll free, at 1-800-334-6961 (outside of New York State) or 1-800-248-0445 (in New York State).

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CONLON TO HEAD MAS EXECUTIVE COMMITTEE

Joseph Conlon, Jr., who will become chairman of the MAS Executive Committee in September, is a man for all seasons, AICPA style. He can understand the problems of both big and small CPA firms. As a Chicago-based partner at Grant Thornton, which has about 4,000 staff in the United States and 13,000 worldwide, he knows what it's like to be part of a large organization. But since Grant Thornton "serves mostly middle-market companies," many owner-operated according to Conlon, he can also relate to sole practitioners and small to medium-sized CPA firms with similar clients.

As chairman of the executive committee, Conlon wants to guide the MAS Division in actively assisting its members. He explains that this could include "informing the public about using accounting-based consultants, getting highly qualified individuals to become MAS practitioners and having an eye open to capitalize on the environment," in areas such as changing technology.

Conlon sees MAS as "a leading growth area for firms." He says management consulting by CPAs is currently undergoing a period of self-evaluation, but believes it will become steadily "more integrated in the growth of small and medium-sized businesses."

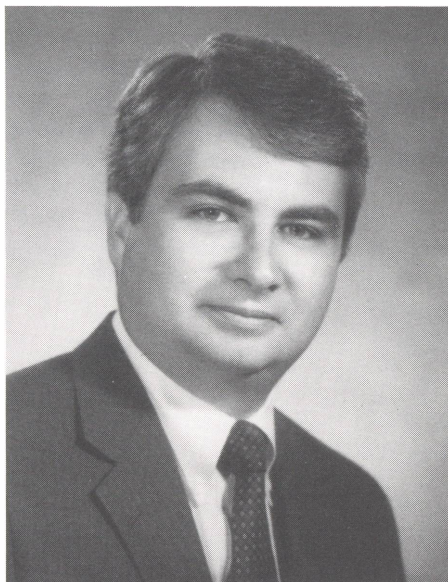
Conlon has had ample time to observe how MAS has grown. He "became interested in what you could do with consulting in a CPA firm" during a 1968 summer job at Main LaFrentz, now Peat, Marwick, Main. After completing his MBA at the University of Chicago, which complemented a bachelor's degree in business administration from Notre Dame, he returned to Main LaFrentz in 1969 to begin his full-time consulting career.

In 1974 Conlon moved to Grant Thornton, then Alexander Grant & Co., as a staff consultant. He became a partner in 1979. Currently his firm's regional consulting director for the Midwest, he oversees sales development and quality control; in his capacity as a practitioner he specializes in strategic planning.

Conlon, 41, joined the Institute in 1975 and has contributed much time to committee work. He served first on the Technical and Industry Consulting Committee for seven years (the committee began as a task force), and then spent two years on the MAS Executive

Committee before his appointment as its chairman. He also belongs to the Illinois CPA Society.

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Joseph Conlon, Jr., new chairman of MAS Executive Committee

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services by the entity's independent auditor to avoid any possible criticism. This would be contrary to the public interest in quality audits and would unfairly penalize public companies and their auditors."

DIVISION MEETING

Reserve your spot now for the first annual meeting of the AICPA Division for Management Advisory Services and the annual MAS Conference, both coming up in mid-October in New Orleans. See "Courses and Conferences" on page 2 for details.

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SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

Have you taken an inventory of the MAS skills of your partners and staff recently? If not, you may be missing a significant opportunity to focus your MAS practice development efforts to match the strengths of your personnel. A skills inventory can also indicate weak areas, which you may want to address by hiring new staff members or giving existing members an appropriate continuing professional education assignment.

You can easily develop a skills inventory by sending partners and staff members a questionnaire that lists various functional skills in broad or narrow categories. For example, microcomputer installation is a broad category while data base systems installation is a narrow one; human resources is broad while preparing job descriptions is narrow. Categorize industries in the same way; for example, real estate is broad while shopping malls is narrow. Tailor the questionnaire to suit your firm's size and detail needs.

Partners and staff members complete the questionnaire by either checking their areas of expertise and experience, or, in a more sophisticated system, entering a number from 0 to 5 to indicate their degree of expertise and experience. Then the results are tabulated either by computer or manually, and they can be used to analyze practice development and to staff specific engagements.

The skills inventory should be updated regularly to include new personnel, and revised periodically to reflect new expertise and experience gained by existing personnel.

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OPERATIONAL AUDITS Continued from page 1

merely the tool you use to achieve them.

Once you have successfully completed the engagement, it won't hurt to use the term *operational audit* in your report. Clients may remember the term in connection with what was accomplished, and might suggest a repeat operational audit, or one for another unit, at a later date. Once clients know what an operational audit is and what benefits it can bring, they will find it a much easier way to ask for help.

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PUBLICATIONS REVIEW

Business Information Sources by Lorna M. Daniells, University of California Press, Berkeley, California, 1985, \$35.00, 673 pages.

Have you been searching for the keys to the kingdom of available business information? Look no more. Lorna Daniells provides them in this book, which will make a valuable addition to every practitioner's library.

Business Information Sources responds to a vital need, because generalist MAS practitioners cannot be endless fonts of wisdom, knowledgeable about every client function in every client industry. What they must do is tap into existing stores of business information and synthesize what they find into workable courses of action. Since research takes time and costs money—an expense that gets passed on to clients in the number of hours billed—a faster way to zero in on needed information is important to MAS practitioners.

Daniells is the business bibli-

ographer at the Baker Library of the Harvard University Graduate School of Business Administration. Taking nothing for granted in her effort to turn her readers into efficient business researchers, she begins her book by discussing various libraries and information centers of use to businessmen. She also mentions several general encyclopedias that can serve well as initial sources of information on almost any subject.

The second chapter, "Basic Time-Saving Sources," may be most important for practitioners who do not use libraries frequently. Particularly noteworthy is the discussion of specialized business literature indexes and abstracts and computerized information services. Daniells describes over 50 lists of business books.

In the chapters that follow, Daniells breaks down business information sources into even more specialized areas. Readers learn how to locate infor-

mation about economic trends and statistics in foreign countries as well as in the United States. Daniells also explains how to find out about specific companies, organizations and even individuals. And she talks about data sources for such familiar areas as corporate finance and banking, management information systems, computers and marketing.

The final chapter of the book, "A Basic Bookshelf," is a must for anyone who wants to assemble a business reference library. What better way to begin one than to stock it with the 46 books and 28 periodicals listed. There comes a point in the growth of every CPA firm that a centralized business library becomes desirable and practical.

Daniells has written a well-organized and easy-to-use book. True to form, she has included a 120-page index to help her readers find just what they're looking for.

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