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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

DIVISION BUSINESS MEETING SCHEDULED

The Division for Management Advisory Services will hold its business meeting on Friday, October 13, 1989, at the Institute's New York office. Because space is limited, invitations will be extended on a first-come, first-served basis to division members who send written requests to attend.

The agenda will include reports by the Institute's MAS committee chairmen and others, as well as discussion of MAS practice issues and current and prospective MAS division projects. Since this is a division business meeting, CPE credit will not be offered.

BROCHURE SURVEY RESULTS

To date, over 370 division members have responded to the recent survey on proposed subjects for additional MAS client brochures. The responses (8 percent of the division membership) indicated the following order of interest: (1) business planning, (2) arranging financing, (3) forecasts and projections, (4) cash management, (5) budget preparation, (6) profit improvement, (7) business valuation, (8) cost reduction and (9) inventory management.

Of the respondents, 100 had previ-

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QUALITY CONTROL FOR MAS ENGAGEMENTS?

The Institute has recently required that every practice unit undergo a quality review so that its partners and staff can retain Institute membership. Should there be MAS quality-control requirements too?

Establishing quality controls for MAS engagements would enhance the likelihood that a practitioner, in performing an engagement, would conform to professional standards. The control process isn't aimed at the quality of the solution or the resulting client benefits; rather, it provides assurance that the practitioner exercises due care during an engagement. The subject of MAS engagement controls is addressed in MAS Practice Administration Aid No. 1, *Development of an MAS Engagement Control Program*. A recent survey provides some insight into how such controls are applied in practice.

In 1988 the Illinois CPA Society Management Consulting Committee conducted a survey on MAS quality control by gathering information on engagement control procedures. The survey followed the MAS Practice Administration Aid's division of an MAS engagement into four phases: pre-engagement considerations, engagement planning, engagement management and engagement conclusion.

The committee considered matters preliminary to the actual conduct of the engagement through the conclusion and review of the work. To determine if variances in control procedures related to the size of the assignment, the survey used two categories of engagements: those under 40 hours and those over 40 hours. Finally, the committee related survey responses to basic firm demographic and practice data.

Nearly 100 CPA firms with six or

more Illinois state society members received questionnaires; 35 completed and returned the questionnaires. Of these, 17 had fewer than five staff members performing full-time management consulting services, and 10 of these 17 firms had been engaged in management consulting for 10 years or less. On average, the 17 firms had 11.6 years of management consulting experience, with .8 members devoting full-time attention to management consulting services at the partner level.

The firms had a wide-ranging scope of service, as follows:

<i>Consulting Service</i>	<i>Firms</i>
Management accounting	26
MIS/Data processing	30
Manufacturing operations and inventory control	22
Human resources	20
Valuations & acquisitions	5
Litigation support	3
Marketing	3
All other	5

PRE-ENGAGEMENT CONSIDERATIONS

Partner or management-level responsibility for engagement definition was largely universal regardless of engagement length. But both written documentation and preliminary engagement research were less frequent for engagements under 40 hours. Respondents also reported that they would turn down an engagement, regardless of size, if

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So You Want To Be A FORENSIC ACCOUNTANT

Accountants are taking on a new role: expert witness

DENNIS W. YOCKEY

Forensic accounting suddenly has become a growth segment of the profession, largely as a result of today's litigious business environment. Just as forensic medicine concerns the application of medical facts to legal problems, forensic accounting denotes the use of the accounting discipline to help determine issues of fact in business litigation.

In the past, both management accountants and public accountants were engaged to provide expert accounting testimony in legal cases. But such engagements were relatively infrequent and not regarded as part of standard CPA practice or part of the normal responsibilities of the corporate accountant.

But increased competition within the public accounting profession for the traditional practice mainstays—audit, tax and management consulting engagements—combined with an increased demand for litigation support services has caused many accounting professionals to reassess their views.

If you are interested in forensic accounting here are some observations based on my experience. What are the personal characteristics and attributes that a person should possess to provide forensic accounting services successfully? What types of litigation matters are forensic accountants concerned with? What is the typical process of a forensic accounting situation? What skills and techniques should an effective witness have?

PERSONAL ATTRIBUTES

A forensic accountant should possess the personal attributes that are found in most successful accountants, such as an ability to dissect and organize a myriad of detail, perseverance, an analytical thought process and an ability to cope with time pressures.

Because of the nature of the work, forensic accountants should be able to logically present a position with conciseness and then be capable of articulating their findings or position. The ability to isolate the key economic or accounting points or facts, present those facts in the least confusing manner possible, and then clarify the written findings in the simplest terms possible often is critical to the success of the case.

Creativity is also an essential trait of a successful forensic accountant. Forensic accounting services require the same, if not greater, level of knowledge of GAAP in order to determine that no violation of accounting principles occurs. In many instances the evaluation and analysis of factual matter and ultimate calculation of damages in a case are directed by logic and creativity and are not governed by GAAP.

The last attribute could be labeled self-constraint. Matters are litigated because there is a dispute between parties that cannot be resolved by the parties involved and must therefore be resolved by an authorized third party. Generally, there have been attempts, sometimes numerous and almost always lengthy, by the parties to arrive at a mutually acceptable resolution to the dispute. A natural adversarial relationship develops between the parties during this process and by the time the matter is actually litigated the level of animosity between the parties is generally very high. By representing one party, an accountant automatically becomes a target of this animosity from the opposing party. This fact, combined with the fact that opposing counsel's

assault on the forensic accountant's findings can include an attack on your personal competence and credentials, makes it critical that you keep in proper perspective each participant's role and interest.

TYPES OF LITIGATION MATTERS

You can be called upon to assist legal counsel in a variety of types of litigation matters. Legal cases involving issues of loss of income require the testimony of an accounting professional to quantify such losses. Loss of income cases can involve historical losses or forecast future losses. Loss of economic income can result from breach of warranty, breach of contract, accidents, natural disasters, negligence, fraud, arson, libel and other factors. As a forensic accountant, you must focus strictly on the loss of income determination and not attempt to render an opinion on liability aspects.

In developing an approach to quantify loss of income in a matter, you need to consider a number of elements—

- Historical operating results of the entity, if available.
- Historical operating results of comparable entities in the same geographic area and, if possible, in the same market.
- Economic conditions at the time the liability event occurred and conditions thereafter.
- Other changes or events that might impact the entity's operations in addition to the liability event (e.g., change in key management, turnover of other key employees, labor contract disputes, loss of major customer(s), inventory control problems, excessive staff and so on.)
- Operating results subsequent to the liability event.

Keep in mind that your company or client will be convinced that the liability event has been the sole causative factor in the diminishment of company earnings. This may be an accurate assertion, but you as an expert must be alert to other possibilities and analyze the impact of such events. Failure to do so might render your calculations meaningless. You can be certain that the opposing party has performed such an analysis and will be prepared to ask you about the details of any other poten-

tially major causative factors during cross-examination.

Each situation must be evaluated independently, so it is important to obtain as much background information as possible regarding the operating environment of the company. You must then use your professional training to evaluate the operations of the entity through the use of financial ratios, account analysis, discussions with management, discussions with customers and/or suppliers and discussions with competitors.

Documentation of procedures performed and sources of information is critical. As a witness, you can be asked to provide a copy of all work papers supporting your findings. You may be

"Anything stated in your deposition can be reiterated during the trial, so it is imperative that you be well-prepared and familiar with all details of your position."

asked for the source of information supporting your findings and whether you have considered alternative sources for the data.

Because of the possible questions you may face it is important to have a logical indexing system for your work and be familiar with all the details within your work papers. You must be satisfied that your sources of information are the best available or be able to defend the reason(s) for their use if they are not. Because your work papers are subject to discovery, it is important that they not contain comments that might be misinterpreted and therefore damaging to your position.

Another type of case with which accountants frequently become involved is the contractual dispute. These cases center around employment contracts, partnership agreements, joint operating agreements and any other form of agreement between parties. There usually are provisions contained within the agreement, either explicitly or implicitly, regarding calculation of profit

sharing, employment compensation, management fees or other forms of monetary remuneration. Accountants are asked to review the provisions of the agreement and, based upon their interpretation, calculate the disputed amounts using appropriate financial data from the entity. Specialized knowledge is often required.

TYPICAL LITIGATION PROCESS

Following the filing of a civil action the court generally allows a period for discovery by the parties. During this time, each party has the opportunity to submit written interrogatories to the opposing party requesting information or access to records which it believes will assist it in developing its case. You should be involved in this process by drafting questions for your lawyer's submission to the opposing party. In drafting these questions, you should be as complete and precise as possible because—

- Substantial time may elapse between submission of interrogatories and response thereto.
- Responses will not be as complete as you desire. If you request specific books and records, make sure you describe the general function of the records if at all possible, because the opposing party may refer to the document by another title.

Given that it is generally not in the interest of the opposing party for you to have the best information possible, you should be aggressive in your efforts to ensure satisfactory compliance with your requests for information.

During the latter stages of the discovery period you may be deposed by the opposing party's lawyer. The deposition process is designed to allow the other side to obtain your findings, positions on issues and support for those findings and positions. It is taken in the presence of a court reporter who compiles a written transcript of the deposition. Depositions can be lengthy because lawyers want to assure themselves that there will be no surprises in the trial, assess the strength of your case and determine how effective you are as a witness.

Anything stated in your deposition can be reiterated during the trial, so it is imperative that you be well-prepared

and familiar with all details of your position. The transcript should be read and any errors corrected before you sign it. Generally, the opposing party delves into the details of your work during the deposition process. The opposing lawyer will use information from the deposition to develop a rifle approach aimed at the heart of your arguments.

During pretrial preparations you will either prepare exhibits or schedules for use in the trial or you will be asked to prepare a report on your findings. Most accountants tend to be verbose in preparation of their report because they wish to exhort the merits of their position and display all the fine work they have performed. Avoid this pitfall. Be brief but highlight the strengths of your position. One item or phrase in your report, however significant, that you are not certain of or have not fully researched can lead to the impairment of the creditability of your work, if opposing counsel attacks the validity of that item or phrase.

In addition to serving as a witness, you can assist your own legal counsel by helping him or her develop deposition questions for accounting personnel of the opposing party and suggest cross-examination questions. Spend whatever amount of time is necessary to ensure that your legal counsel understands clearly the strengths and weaknesses of your position.

WITNESS TECHNIQUES

Trial before jury, judge or administrative body represents the culmination of all the fact-finding procedures. As an expert witness you should—

- Evaluate the strengths and weaknesses of your position and the position of your opponent. Don't just concentrate on the merits of your case, otherwise you will not be able to defend your position against opposing positions.
- Not try to play lawyer. Counsel must consolidate the findings and positions of all his witnesses into the strongest presentation possible. The relative importance of your testimony will vary from case to case.
- Be sincere. The courtroom is not the place for any display of arrogance by a witness. Your desire is to explain your position and convince all par-

ties that it is appropriate in the circumstances; however, it is important to do it in a professional manner.

- Focus on the lawyer asking the questions. Never give the impression that you may have any intent other than answering all his questions truthfully or completely.
- Do not allow opposing lawyers to establish a tempo. They will seek to get a "yes"/"no" response pattern to their questions at the pace they believe is beneficial to their strategy. Be cognizant of the path they are attempting to lead you down and avoid answering any partially correct or incorrect questions with a "yes" or "no" response.
- Don't become angry. Lawyers can become antagonistic at times in their questioning. You fall prey to this strategy if you lose your composure because you will present a poor impression to the jury. Worse yet, you can lose your concentration and offer poor quality responses.
- Know your credentials, including: date graduated; degree; date certified, including certificate number; previous testimony, including dates and positions on issues; and other training which qualifies you to testify on the subject matter.
- Review deposition transcripts prior to the trial to ascertain that none of your findings or positions at trial differ from what you stated in the deposition. You can often determine the area the opposing lawyer is most interested in by the deposition questions.
- Ask an accounting colleague to do a cold review of your work and cross-examine you prior to the trial.

Forensic accounting is a fast-developing area in the accounting field. Those who wish to practice it must call upon their accounting skills and hone their communication skills in order to be successful in this challenging role.

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Dennis W. Yockey, CPA, is a partner in the Wichita office of Grant Thornton, where he chairs the management consulting department. He has served as an expert witness in various litigation matters. He is a member of the Wichita chapter of NAA, through which this article was submitted.

PUBLICATIONS REVIEW

Consulting Skills for Information Professionals by Donald M. Arnoudse, L. Paul Ouellette and John D. Whalen, Dow Jones-Irwin, Homewood, Illinois, 1989, 180 pages, \$35.00.

The nature of CPAs' work often makes them information professionals as they grow knowledgeable about computer and communications technology. In addition, many CPAs recognize the need to develop and apply information consulting skills in practice, industry and government. *Consulting Skills for Information Professionals* will help CPAs achieve this goal.

The book advocates a problem-solving partnership between information systems professionals with technical know-how and information users whom they serve. While the three authors have conceived of this relationship in terms of an internal technical specialist and an administrator, it seems equally appropriate for an MAS practitioner and a client. As a matter of fact, MAS practitioners have always had this kind of partnership with clients because client management, and not practitioners, make management decisions.

The authors use part 1 to explain why a problem-solving partnership is best for an information systems assignment. It requires the partners to work as a team, communicating and interacting, and this type of relationship enhances the chances for success. Chapter 2 provides a 15-point profile of the problem-solving partner, highlighting such traits as "seeing things from the client's perspective" and "working with (not around) tension and conflict."

In part 2 the authors discuss the consulting cycle, describing the consultant's role from the initial client contact to the end or extension of the project. This material may not be new to many readers, but it is done in terms of a problem-solving partnership, and details many of the human relationship aspects not always addressed in the consulting process.

Additional material on the human side of information systems consulting appears in part 3. It includes interac-

tive listening (hearing, empathizing, analyzing, responding) and structuring client meetings for success. A potential problem—client resistance—gets needed coverage as the authors identify and define it, and provide readers with a five-step strategy to deal with it. Such nontechnical considerations differentiate an information systems consultant from an information systems technician, which is an important distinction for the MAS practitioner.

Part 4, the book's final section, advises readers to market information systems services by aligning them with client needs. Among the marketing tools and techniques it suggests are a client handbook, publications (such as newsletters) and speaking engagements.

The two-part appendix consists of checklists based on sections in the main text, and a bibliography divided into a consulting section and an information systems section.

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ously used one or both of the existing brochures in mailings to clients, and 30 had received inquiries about MAS as a result. These results seem to indicate you have about one chance in three of generating some client interest in MAS through a brochure mailing.

MAS COMMITTEE SERVICE

Division members who wish to serve on any of the Institute's MAS committees (see the article on page 5) should submit their applications no later than January 1990 for possible appointment effective October 1990. Call (212) 575-6449 for application forms and information.

We advise members in larger firms and nonpartners to seek firm clearance to serve before submitting applications. Service generally involves four two-day meetings a year, held at various locations across the country, and completion of assignments between meetings.

QUALITY CONTROL FOR MAS ENGAGEMENTS ?

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they believed (1) they lacked the competence or experience to perform it, (2) it was beyond the firm's scope of practice, (3) the client would not benefit from it or (4) they found the client or engagement unacceptable.

ENGAGEMENT PLANNING

Developing a formal engagement plan and requiring a second-partner review were directly related to an engagement's size in the survey responses. On average, 91 percent of respondents prepared a formal plan for engagements over 40 hours. Only 63 percent did so for engagements under 40 hours. Disregarding the engagement's size but factoring in the firm's size, this figure dropped below 80 percent for firms with less than 25 professional staff members.

ENGAGEMENT MANAGEMENT

Monitoring time estimates and target dates occurred only 75 percent of the time, regardless of the engagement's length. Formal working-paper documentation was only slightly higher, with an 81-percent occurrence rate. For an oral review of an engagement's progress with the client, however, the rate was 94 percent. Practitioners prepared written progress reports for 72 percent of engagements over 40 hours, but for only 50 percent of engagements under 40 hours.

ENGAGEMENT CONCLUSION AND REVIEW

For engagements over 40 hours, clients received final reports in oral form 66 percent of the time and in written form 75 percent of the time. For the under-40-hours category, oral reports were presented 72 percent of the time compared with 59 percent for written reports.

While practitioners prepared formal indexed working papers in 75 percent of larger engagements, only 50 percent of respondents conducted postengagement technical reviews. A somewhat higher 63 percent conducted follow-up visits to clients to evaluate performance on larger engagements.

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PERMANENT MAS DIVISION COMMITTEES

The *MAS Executive Committee* develops and interprets standards for management advisory services and certain attest services. It also considers current developments that might affect MAS practices and communicates technical information to practitioners. Its Publications Task Force reviews practice aids and special reports developed by the subcommittees.

The *MAS Practice Standards and Administration Subcommittee* develops and interprets Statements on Standards for the MAS Executive Committee. It also develops MAS Practice Administration Aids, as well as undertaking other projects that enhance practitioners' ability to manage and administer management advisory services.

The *MAS Small Business Consulting Practices Subcommittee* develops MAS Small Business Consulting Practice

Aids. It undertakes other projects that enhance practitioners' ability to advise and assist small business clients.

The *MAS Education and Information Subcommittee* helps develop and monitor AICPA and other MAS education programs. It promotes MAS careers and encourages MAS education by visiting colleges and universities. It assists in the Institute's efforts to develop and distribute information on MAS, such as MAS brochures.

The *MAS Technical and Industry Consulting Practices Subcommittee* develops MAS Technical and Industry Consulting Practice Aids using task forces of selected volunteers.

The *Computer Applications Subcommittee* develops material on computer-based client application systems for publication as MAS Technical Practice Aids, MAS Special Reports or other appropriate Institute publications.

The *Information Technology Research Subcommittee* studies and reports on how information technology affects CPA practice.

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SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

Everyone knows that one way to promote your firm and develop your practice is through speaking to business and social groups whenever you get—or can create—an opportunity to do so. But when is the last time the public was interested in a speech about auditing? And how many would stay awake through a speech explaining the latest revisions in tax regulations unless there are some real hot-button items?

So what can you talk about? Think MAS if you want business people to actually listen to what you say. Talk about pocketbook issues, and relate to the audience. You might want to try one of these topics:

- How to get the bank loan you need (890610)
- How CPAs solve the problems of small business owners (90574)
- How to be sure your business is located in the right place (890593)

- Microcomputer applications for small business (890589)
- To sell or not to sell: A question for small business owners (890606)
- Going concerns: Keeping your business in business (890555)

You can obtain scripts for each of these subjects through the AICPA's Order Department. Send \$3.00 for each speech, specifying the appropriate product number, shown above, to:

AICPA Order Department
P.O. Box 1003
New York, N.Y. 10108-1003

Once you have speech material, becoming a frequent MAS speaker—or assigning this task to someone in your firm—may seem easier. A local chamber of commerce or business association chapter will likely find a spot for you if you make your availability known and provide a list of possible topics, such as those above.

Whoever makes the presentation should personalize and practice it, and make it interesting as well as informative. Remember, the speaker is representing your firm to potential MAS clients.

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