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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA MAS DIVISION FOR MANAGEMENT ADVISORY SERVICES

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NEW COMMITTEE YEAR BEGINS

The MAS Executive Committee began the 1990-1991 committee year on November 9, meeting at the Institute's New York offices. L. Eugene Williams began his term as chairman (see article on page 2).

The Annual Business Meeting of the Division for Management Advisory Services was held the following day. The chairman of each MAS division committee and subcommittee reported on the work of the preceding year and plans for the coming year.

Representatives of 10 State Society MAS committees and several division members attended the meeting. The representatives reported the activities of their state societies and discussed possible cooperative projects.

NOMINATIONS FOR 1991-1992 COMMITTEE SERVICE

Division members who are interested in serving on an AICPA MAS committee should contact their State Society or write Torny Berntsen at the AICPA for information and an application form. (See page 4 for a description of the committees.) Openings on the MAS committees are limited, and selection is based on the candidate's ability to contribute to the work of the committee as indicated by background, experi-

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AUDITING WITH ADDED VALUE

Too many clients erroneously think that a financial statement audit or review provides benefits only to others. Consequently, they seek to pay as little as possible for it. But what if audits produced a significant return on the audit fee "investment?" What if the audit product offered by CPAs not only delivered the needed opinion on the client's financial statements but also improved the bottom line by providing management advisory services?

Well, there is a CPA "audit" service that provides MAS: the operational audit. Why don't CPA firms offer a combined financial audit and operational audit to clients as a service package with a single fee?

This operational audit, however, cannot be just an expansion of the old management letter concept. Management letters are by-products of the financial audit. They are generally based on the observations of the financial auditors, who do not focus on fixing nonfinancial problems in client operations.

The service package described here is a combined audit and MAS engagement. It would be staffed by personnel with expertise in the client's industry who can assess all aspects of the client's operations, not only financial data. This requirement may limit the number of industries to which a firm can offer the combined service.

PROBLEM SOLVING NEEDED

To be effective, the operational audit needs to include more than fact finding and weakness reporting. Many auditors apply the term operational audit to those limited efforts. Instead, it needs to be the type of operational audit often performed by MAS practitioners: a combination of fact finding and *problem solving*.

Clients will be apathetic about an

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engagement that promises only to tell them what's wrong with their operations. They think they already know that. However, they will be interested in a service that can improve productivity, reduce costs, and increase profits.

Some facets of combined financial/operational audits require the CPA to be cautious. Chief among these is the importance of management retaining its decision-making responsibilities so auditor independence is not impaired.

Another critical aspect is the need to assist in implementing operational audit recommendations. It is advisable, however, to quote a combined service fee that covers only the fact finding, weakness reporting, and recommendation development parts of the operational audit. The implementation engagement would be "Phase II," with a new fee quote based on the recommendations the client decides to implement. But the firm must be ready, willing, and able to do the implementa-

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tion work, even if it must arrange a cooperative engagement with outside specialists.

VALUE VS. HOURLY BILLING

When determining the fees for the implementation work separately, the practitioner can also consider value billing, rather than hourly billing, if appropriate. Clients may agree to a higher fee when they can readily relate the amount to the anticipated tangible or intangible benefits of implementing certain recommendations. The need to adhere to audit independence requirements would also apply to the implementation efforts.

The more effective a CPA proves to be at bringing about beneficial operating changes through a combined financial-operational audit, the easier it will be for the firm to justify a higher fee for that service. Clients will also have greater appreciation of the audit services ren-

***“Careful coordination
is the key
to engagement
cost control.”***

dered, both financial and operational.

But what can the firm do for an encore? How will it justify a higher service fee for subsequent annual combined audits if the changes recommended in the first year's operational audit are implemented? Suggesting changes in the same area of operations every year will not make for a happy client. Therefore, the operational part of each year's combined engagement needs to focus on a specific aspect of, not the entire organization. This approach will provide a reasonable fee for each yearly engagement as well as allow reviews of other operational aspects to be combined with the financial audit in future years.

Most operations are complex enough that review of a specific function need not recur for several years. The client can choose the function to be reviewed each year. The fee quoted would cover the fact finding needed for the selected area or function (e.g. sales, production, the xyz plant).

**INDUSTRY EXPERTS ON
THE AUDIT TEAM**

Once a firm defines its combined audit service, it needs to gear up to provide it. This involves securing personnel for the audit team with operations experience in the specific industry and an ability to develop and help implement effective, innovative solutions to problems. Without such personnel, the operational audit won't produce satisfactory results for the client and the CPA.

The firm needs to select industry experts who can also serve as business developers and give them access to current clients in their industries. Individuals with industry credibility and business development skills will be most successful in accomplishing the firm's next objective: to convince both current and prospective clients that the combined audit service adds value above the audit-only service and therefore warrants a higher fee.

Another challenge that faces the CPA performing a combined audit is to develop an engagement work plan that will use both auditor and industry-expert skills and time effectively. Careful coordination of fact-finding efforts by the audit team will be the key to engagement cost control.

CPAs have often provided both attest and consulting services for the same client. Combined financial and operational audit services could produce a viable, competitive approach to securing profitable engagements that provide both high quality attest and consulting services. Many clients will welcome a combined service that will benefit their organization as well as the third-party users of the financial statement audit or review.

Monroe S. Kuttner
Editor and Division Director

**DIVISION MISSION
STATEMENT**

For the benefit of new members and as a reminder to all members, we have reprinted the Mission Statement of the MAS Division on page 3. We will print the statement in this newsletter annually.

**WILLIAMS HEADS MAS
EXECUTIVE COMMITTEE**

For L. Eugene Williams, who became chairman of the MAS Executive Committee on October 1, leadership comes naturally. He cultivated his capacity to lead during a military career that spanned more than twenty years, including service as a planning officer to the Joint Chiefs of Staff in the Pentagon. During his career with Coopers &



L. Eugene Williams, new chairman of MAS Executive Committee

Lybrand, where he is now Midwest Regional Managing Partner of Management Consulting Services, Williams had many opportunities to strengthen this capacity. He anticipates capitalizing on it during a year of intense activity as he leads the committee in evaluating and reissuing standards that govern the conduct of consulting services nationwide.

**EXPANSION OF CONSULTING
RAISES NEW ISSUES**

The standards were last revised in 1981. With the continued expansion of consulting practice into new areas comes concern about the adequacy of present standards to guide practitioners in providing services. Williams feels particularly well grounded in this area. He has followed standards issues for more than twenty-two years, first addressing them in his graduate thesis,

"Independence—Management Consulting: Conflict for the CPA?"

Before going to Coopers & Lybrand's midwest region in Chicago in 1987, Williams served the firm in several other positions. He was managing partner of MCS for the Philadelphia area, partner-in-charge of the consulting practice in Columbus, Ohio, assistant in the national consulting practice, and staff director in the chairman's office.

In his current position, Williams is responsible for coordinating and expanding Coopers & Lybrand's consulting resources for the Midwest region. Those resources have developed into a world-class consulting team with expertise in manufacturing, insurance, business planning and finance, and health care.

Williams is a certified public accountant in several states and a member of the Illinois CPA Society. He did his undergraduate work at Louisiana State University and earned his MBA degree from Wharton.

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ence, and prior state society or AICPA committee service.

SSARS APPLICABLE IN MAS REPORTS?

Is the presentation of certain unaudited financial data in an MAS report a financial statement that would trigger the requirement to report under SSARS? Quite probably. But which unaudited data fit the SSARS definition of a financial statement? That is a question that many MAS practitioners—particularly non-CPAs—may have difficulty answering. The MAS Executive Committee began discussions on this matter at its November meeting to determine if any action is required.

MISSION STATEMENT OF THE MAS DIVISION

The Management Advisory Services Division is the component of the American Institute of Certified Public Accountants representing Institute members who serve as business advisors and management consultants. The division acts in accordance with the AICPA mission statement on behalf of AICPA members in general and those affiliated with the Membership Division for Management Advisory Services in particular.

The Division's purpose is to provide AICPA members with the support necessary to enable them to serve the public interest by providing quality management advisory and related services with integrity and objectivity and in accordance with MAS standards. This purpose is accomplished by activities that enhance the ability of AICPA members and their associates to assist businesses, governmental units, and not-for-profit organizations to more effectively and efficiently respond to the public's needs for goods and services.

In fulfilling its mission, the division gives priority to all aspects of those CPA services that involve a two-party relationship while recognizing the impact that such services may have on other areas in which there is significant public reliance on CPA skills.

To achieve its mission, the division engages in activities that are intended to accomplish the following:

1. Assist in developing and refining provisions of uniform certification and licensing standards that relate to management advice and consultation. (AICPA objective no. 1)
2. Provide standards of professional conduct and performance for MAS engagements and consultations. (AICPA objectives nos. 2 and 4)
3. Improve technical skills of those providing management advisory services. (AICPA objective no. 3)
4. Instruct the profession concerning the nature and value of management advisory services and their relationship to other aspects and activities of the profession. (AICPA objective no. 3)
5. Expand the practitioner's understanding of clients and their

needs. (AICPA objective no. 3)

6. Foster the blending of tax, accounting, and financial consulting into business advice. (AICPA objective no. 3)

7. Enhance the performance of audit and accounting services by expanding functional, industry, and technical business knowledge. (AICPA objective no. 3)

8. Assist industry and government accountants to be more effective members of their organizations. (AICPA objective no. 3)

9. Support the Institute's activities in monitoring and enforcing the professional standards of performance for MAS practice. (AICPA objective no. 5)

10. Inform the public of the advantages of using accounting firm-based consultants. (AICPA objective no. 6)

11. Enhance public confidence in the integrity, objectivity, due care, skills, knowledge, and public interest that accounting firm-based consultants apply to the conduct of MAS consultations and engagements. (AICPA objective no. 6)

12. Motivate highly qualified individuals to become MAS practitioners and promote the availability of educational programs to this end. (AICPA objective no. 7)

13. Encourage involvement in the MAS Division by public practitioners and members in industry, education, and government in order to unite them in their efforts to serve the public interest. (AICPA objective no. 8)

14. Establish the AICPA MAS Division as a primary resource on matters concerning two-party consulting activities. (AICPA objective no. 9)

15. Assist members in dealing with new developments in technology and management and with changes in the economic, business, and social environments. (AICPA objective no. 10)

16. Identify new service opportunities in response to changing client and employer needs. (AICPA objective no. 10)

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MAS DIVISION COMMITTEES

Division members who wish to serve on any of the Institute's MAS committees should submit their applications no later than January 1991 for possible appointment effective October 1991. Each committee's activities are described below.

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.

The MAS Executive Committee develops and interprets standards for management advisory services and certain attest services. The committee also considers current developments that might affect MAS practices, and it communicates technical information to practitioners and assists them in pro-

viding management advisory services through, for example, practice aids and 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 and undertakes other projects that enhance a practitioner's 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 a practitioner's 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, encourages MAS education through visits to colleges and universities, and assists in developing and distributing MAS education and information materials.

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, and other appropriate Institute publications.

The Litigation Services Subcommittee develops educational materials and practice aids on litigation services and monitors activities in this area.

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