The Effect of Management Advisory Services Upon the Independence of the CPA

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THE EFFECT OF MANAGEMENT ADVISORY SERVICES
UPON THE INDEPENDENCE OF THE CPA

Controlling Purpose: This paper is to present the situation in which a CPA's independence may be compromised through MAS practice and how his autonomy may be protected.

I. This is an era of increasing numbers of malpractice suits against professionals.
   A. In public accounting, Management Advisory Services (MAS) have come under close scrutinization.
   B. The MAS specialist must prove his independence to peers, clients, and outside third parties.

II. The MAS specialist must perform objectively and independently at all times.
   A. He must maintain an independent attitude during all engagements.
      1. Many are calling for a tightening of control and standards within the profession.
      2. This autonomy involves two types of actual practice.
         a. Independence in fact in objectivity and integrity.
         b. Independence in appearance to the general public.
   B. The appearance of independence to the reasonable man is the primary key to most questionable cases.

III. Management advisory services have grown into an integral third area of the public accounting profession.
   A. The advice provided through MAS is intended to aid management in making decisions, not to make the decisions for management.
   B. MAS has actually been in existence longer than the attest function.
   C. There are actually two types of advice which exist.
      1. Informal advice transferred in everyday conversation.
      2. Structured engagements requiring analysis, design, and implementation of results.
         a. This work requires team effort.
         b. The practitioner must be a many faceted individual.
   D. The profession itself is taking steps to insure independence in MAS work.

IV. The AICPA is attempting to gain control of the thirteen categories of MAS work it has defined.
   A. The first category of MAS defined by the Institute is counsel on general business matters.
   B. Many businesses require advice on manual systems and procedures during growth.
   C. Financial and economic analysis involving such methods as ratio and break-even point analysis is construed as the third category of MAS.
   D. Managerial information and control aids in future planning of profits.
   E. Cost accounting such as standard costing and variance analysis, although elementary to the CPA, can provide needed cost controls for the client.
   F. MAS practitioners can prepare organizational charts to aid in the proper hiring of line and staff personnel in growing areas of business.
   G. Electronic Data Processing is seen by most as the field where the greatest MAS growth will arise.
H. Production processes and inventory control can be scheduled for optimum output at the most economical cost to the firm.
I. The executive recruitment processes can be performed by MAS specialists to alleviate burden from a growing and expanding client.
J. Market research, although seemingly foreign to the CPA firms, should provide merely the information gathering through MAS.
V. There has arisen, lately, some discontent with the services the CPA is providing to his client.
A. The Metcalf Report has called for discontinuance of several services.
B. No evidence, however, has shown that the MAS practitioner is compromising his obligation to independence.
VI. MAS entails a vast wealth of knowledge.
A. It is vital to the continued functioning of many businesses.
B. It is best to allow the knowledgeable CPA to provide such services.
   1. He must avoid involvement in management's decisions.
   2. MAS has come into its own as an integral third area of practice in the public accounting field.
THE EFFECT OF MANAGEMENT ADVISORY SERVICES
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Other major professions, such as law and medicine, have been, for some time now, subjected to the ever increasing claims against them by their clients for malpractice. This trend is now slowly catching the public accounting profession in its grasp. Accountants are requiring more and more malpractice insurance, and, although only human, they are being subjected to an ever increasing number of court cases with regard to their work. Due to this fact, the Certified Public Accountant (CPA) must be ever more aware of his Code of Professional Ethics and guard against compromising them for any reason.

Of the three areas of public accounting practice (auditing, tax work, and management advisory services), management advisory service (MAS) has been most closely scrutinized, and even criticized, as to its violation of the independence that is the foundation of the profession itself. This problem stems from the fact that an accountant's independency is jeopardized by involving himself in the decision making process of management.

The CPA's independence is being watched by various parties most of the time. An increasingly popular means of verifying the fact that a firm is performing to the standard of the profession is by publishing a peer review study. This study, done
by another CPA firm, attests to the fact of a firm's complying with the rules and regulations governing the profession. This should also dispell any doubts held by peers or clients of the firm. There is still another group to which the firm must prove its independence. This group being the general public, the interested third party, and, with regard to MAS, this has proved to be a most difficult task.

The public, usually the uninformed public, is a most difficult subject to satisfy as to a practitioner of MAS's independence. It may appear in many instances, without deeper investigation, that an industrial firm has hired a CPA firm to solve its problems by making decisions affecting the future outcome of a specific undertaking.

The MAS practitioner is engaged by businesses who do require help in making certain decisions, yet the practitioner takes the engagement keeping in mind his need to approach the task objectively and independently. As a CPA, or affiliated with a CPA firm, the MAS practitioner is subject to the second general provision of the generally accepted auditing standards which states, "In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors."¹ This applies to MAS work as well.

The liberalization of many areas of the accounting profession have brought with them the desire by many to tighten the control and standards within. As Louis M. Kessler writes:

¹American Institute of Certified Public Accountants, Certification of Statements on Auditing Standards, AU Section 220.01, p. 23.
Surely there will be further tightening of independence standards the resolution of questions regarding conflict of interest, and a demand for increased independent attestation. There will be a need for better standards of measurement and deeper involvement of the accounting discipline in the decision making process.\(^2\)

These actions would indeed aid in confirming the MAS practitioner's independence.

Independence itself is, as a concept of Professional Ethics, the ability to act with integrity and objectivity. That is, to be able to make impartial judgements and maintaining an impartial attitude on all matters. It requires a practice without bias toward the client or its management.

Independence requires that the practitioner be intellectually honest, but to be recognized as independent he must be free from any partiality or influence of the client, management, or its owners. There are two differing types of independence and both are essential aspects of the CPA and MAS practitioner's obligation. The first is independence in fact, which is what the Code of Ethics has defined. If a practitioner is acting with objectivity and integrity and is not obligated to the client, he is independent in fact. The second form of independence is also of prime importance to the profession and the MAS practitioner. It is independence in appearance. Kessler writes, "Admittedly the independence problem is far from resolved. While the respective audit and MAS partners in the same firm may know that they act independently and even

critically of each other, it is hard to demonstrate this to outsiders."³

This appearance of independence to outsiders has become a prime target of those critics opposing MAS practices within accounting firms. This type of independence must be guarded by and substantiated to the best of the profession's ability if MAS are to remain an integral part of the public accounting practice. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to impair independence. ⁴ Although not even a part of the task at hand, it is the attitude of the general public that most determines the practitioner's independence or lack of it.

Management advisory services have grown into an integral third area of the public accounting profession. Much of its origin lies in the relationships that have grown between a CPA and his audit client. The CPA has come to know his client's business quite well over the years. The client knows his CPA is very knowledgeable from audits for which the CPA has been engaged. Problems occasionally arise that require more technical or analytic skill than the client or his management possesses. This is where the opportunity for an MAS engagement arises. The advice provided by the accountant is to provide a basis upon which the client's management decisions can be

⁴American Institute of Certified Public Accountants, Certification of Auditing Standards, AU Section 220.03, p. 23.
made, but it is not at any time to provide the decision for management. The American Institute of Certified Public Accountants (AICPA) describes MAS as follows: 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. 5

This area of accounting has actually been around longer than the profession's mainstay, auditing. An early reference to MAS appears in the records of Edinburgh, Scotland, in 1744, to set up a system of bookkeeping. Auditing first began to be mentioned as an important facet of accounting in the 1880's. 6 This leads to the fact that MAS involves two different types of advisory service. These two areas are the informal type of information given to a client in the course of everyday conversation and the type of structured engagement with the firm's MAS department which results in the issuance of a management report.

Many local firms at one time or another provide for improving systems, help tighten internal control, aid in securing financing, look into profit margin adequacy, recommend some cash-flow forecasting, or consult with and give advice to a client on a myriad of different questions. 7 Unconsciously,

7Max Block, CPA, "A Management Service Department in a Local Accounting Firm," The CPA, 45 (June 1975), pp. 76-77.
the practitioner is involved in some type of informal MAS engagement almost everyday.

The AICPA identifies the four basic stages of a structured MAS engagement as obtaining the engagement, analysis, design, and implementation. The formal research and work done in this type of MAS engagement results in the presentation, to management, of formulated suggestions or plans to aid in the making of difficult decisions. This type of engagement requires a team effort of specialists in many varying fields of knowledge. The MAS practitioner can aid the client in many different ways. It is often wise, however, to "sub-contract" specialists from outside the firm and attorneys to handle those technical fields outside the expertise of a CPA firm's MAS practitioners.

The entire range of problems confronting a company in the areas of administration, finance, manufacturing, and marketing are included in the scope of management services. These varying disciplines of knowledge require MAS to involve expertise in quite a number of ways. It requires the experience of an accountant or consultant in determining break even points, a psychologist in suggesting a principal return to sales, a company planner in suggesting further work on developing sales, or a cost accountant in devising inventory profitability standards. This area of public accounting

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9William E. Arnstein, CPA, Management Services by Accounting Firms, p. 6.
requires a team effort in each engagement as no one single practitioner can be a specialist in each of the technical fields involved in MAS work.

In 1975 the American Institute of Certified Public Accountants set up a committee to find out what MAS actually is, what its practitioners do, and what special knowledge, qualifications or talents qualify them for MAS work. The Management Advisory Services Body of Knowledge and Examination Concepts (MASBOKE) committee adopted a definition of MAS stated by James E. Redfield of the University of Texas in 1961 as:

Management Advisory Services by Certified Public Accountants may be defined as those services which are designed primarily to furnish advice or assistance to management through a professional relationship with respect to planning, organizing, or controlling any phase of business activity. ¹⁰

The committee also emphasized the need for a professional examination paralleling that of the CPA examination over the areas of general knowledge, organizational functions and technical disciplines, and industry and the public sector. These areas were chosen to certify the practitioner's general knowledge and specialized fields of competence. It was determined, also, that the Code of Ethics should be expanded to govern this newest area of practice.

These findings are to help support and sustain those management advisory services practice standards, having previously been formulated, of (1) personal characteristics of integrity and objectivity, (2) competence in analytical approach

and process, (3) exercising of due professional care, (4) client benefit, (5) an understanding of all significant matters with the client, (6) planning, supervision, and control, (7) sufficient relevant data for solid recommendations, and (8) communication of results to the client. 11

The accounting profession is now moving in the right direction to take control of what has been a questionable facet of its work to many critics of MAS. The MASBOKE committee also determined another interesting, yet quite obvious, point about management advisory services. That being ...MAS embraced so many services that it would be impossible to cover them all.

It was also realized that the knowledge fields covered in MAS were so numerous and extensive that no one could be expected to be an expert in each of them."12

In an attempt to organize and place the body of MAS knowledge that is so vast, the AICPA made a survey of 2,504 CPA firms in order to determine the areas of MAS practice that were most popular. The results of this survey presented thirteen areas in which most MAS practice took place. The categories found to be those most practiced were 1) counsel on general business matters, 2) manual systems and procedures, 3) financial and economic analysis, 4) managerial information and control systems, 5) cost accounting, 6) organization and personnel, 7) EDP operations, 8) EDP systems, 9) production

and inventory controls, 10) executive and managerial recruitment, 11) marketing, 12) operations research, and 13) industrial engineering. These basic categories entail a vast amount of knowledge, experience, and expertise. No one should attempt to present himself as expert in all these fields, it is next to impossible to be so; instead, a number of practitioners who are specialists in a couple of fields can probably accomplish much more working together in a team.

The first category, counsel on general business matters, itself is still quite vague as to what it exactly entails. Within this category is where most informal type of MAS work would most likely take place. An example of this type of counseling would be that of a client leasing property to others. The practitioner should be involved in this aspect of the client's business from the very start. The accountant is not just there to do the year end entries of leases already made. In this type of situation it would be best for the client to negotiate with the lessee, prepare a draft of the lease agreement, and, prior to finalization, give it to the public accountant for reviewing and comments. The accountant can give a broad realm of advice upon which to consider such points as the interest rate, investment tax credits, the lease maintenance, insurance, bad debts, and lease administration.14

If the accountant were to sit in on the negotiations his

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presence may tend to have an adverse effect upon lessee-lessee communications. Independence of the CPA may be compromised by having an effect upon his client's decision as to terms of the lease agreement. The fact that the MAS practitioner sits in on the negotiations may also risk appearing as if independence has been violated to outsiders not familiar with the situation. The best way in which to remain independent of the client's decision making process is to avoid involvement in the negotiations. Advice may still be offered pertaining to the draft without affecting the decision previously made.

Another area of general counseling may involve advising a client on matters concerning insurance planning. This may also entail estate or industrial group insurance as well. The MAS practitioner may research and analyze the insurance needs and requirements of the client. The plans devised would be offered to the client and aid would be provided in the implementation of the plan decided upon.

Many states, however, now have laws governing those who can actually provide advice concerning insurance plans. The research and information may have a great bearing upon the decision by management, thus compromising the accountant's standard of ethics. Violation of a statute would also compromise that facet of independence involving the accountant's integrity and honesty.

There are ways in which a firm can circumvent the problem of violating state laws including:
1) First, if the CPA happens to be a licensed attorney in his state, all the state insurance consulting laws specifically exempt lawyers licensed to practice in their states from the insurance licensing requirement.

2) A second way to minimize the problems is for someone in the CPA's office to obtain an insurance consultant's license.

3) Have, through lobbying, state laws exempt the CPA from the insurance licensing requirement.

4) A final possible alternative would be to avoid giving insurance advice. Call in a Chartered Life Underwriter (CLU). 15

These alternatives still don't alleviate the total problem of having the practitioner's independence jeopardized. The CPA must avoid making the choice of policies for the client. Upon completion of the research, a practitioner must offer only his findings to management. Advice on which policies should be taken may cause independence to be violated. Thus, anything but completing the research and offering the findings to the client may be construed as having a hand in management's decision making.

Counseling on general business matters may also include the procurement of term loans by a client. This, being just the opposite of the leasing discussed earlier, requires many of the same type of processes involved in the leasing of assets. In many instances the CPA is the most highly qualified person to undertake such efforts as acquiring term loans. His knowledge of the various facets of the firm's operations,

the industry and market as a whole, and of financial considerations to be analyzed qualify him very well for this type of task.

All term loan negotiations require financial statements corresponding to generally accepted accounting principles (GAAP) consistency during the loan's term of existence. The CPA is in the best position to determine GAAP financial ratios and verify and determine restrictions on fixed assets, debt, and investments and acquisitions. The practitioner can aid the client in determining the best options to look for in obtaining a loan, but the CPA should not be involved in negotiating the loan for the client.

The MAS practitioner must protect himself against risking his independence in appearance to third parties. Participating in the negotiation will surely have a bearing upon the decision made by management. This type of practice will compromise the objectivity with which an accountant would need to be able to continue providing services for the client. Having influenced management's decision, there would no longer be independence between the MAS practitioner and the client. In summary, the role of the CPA is not to negotiate the terms of the loan but to assist the parties in making the deal they intend. 17

The second category, manual systems and procedures, involves the process by which many MAS engagements are acquired. Many small business clients don't have the experience or


technical know how within their management to set up more advanced and intricate manual systems. The client will most likely turn to his CPA for advice and guidance as he grows within his industry.

One of the basic types of services that may be requisitioned by the client is write-up work (bookkeeping). The client may outgrow his existing bookkeeping capabilities or may not have any type of such experience to begin with. At any rate, the CPA is the most logical prospect to turn to so that this problem can be alleviated.

This does present a problem, however, as to future periods when the client may require an independent audit of his books to fulfill such requirements as SEC registration. In ASR 126 the SEC states:

If any of these services involve managerial functions or the maintenance of basic accounting records, the accountant may find himself unqualified to render an independent opinion on the financial statements for any period in which these services were performed.\(^\text{18}\)

The involvement in managerial functions should not impede the independence of an accountant. Participating with management can't help but interfere with the objectivity of the firm in performing the attest function. In this instance the CPA has compromised his independence in fact and appearance, in fact that the client's management is not making its decisions autonomously of the firm, and in appearance as to the fact

\(^\text{18}\)Max Block, CPA, "Write-up Services and the Auditor's Independence," The CPA Journal, 45 (March 1975), p. 25.
that outsiders would probably be able to discern the coexistence of the firm and its client.

On the other hand, the function of merely keeping the books (write-up) sheds a different light on the effect it would have on a practitioner's independence. It is the opinion of the AICPA that the audit function goes deeper, beyond the entries and bookkeeping, down to the sources of the work. The invoices, shipping documents, and other documentary evidence are the client's property used in the audit by the auditor, and not under his direct control. The function of write-up work does not necessarily jeopardize the accountant's independence.¹⁹

One of the basic manual systems supplied by CPA firms doesn't compromise the practitioner's autonomy, so long as no part is taken in management's decision making process. This is true of most MAS practices, yet the accountant must still do his utmost to assume he appears independent.

Financial and economic analysis is the third major area of MAS work done by most accounting firms. One of the major types of financial analysis desired by most clients is ratio analysis for industry comparison. These ratios include the general areas of liquidity ratios, leverage ratios, activity ratios, and profitability ratios. Management is, of course, concerned with all those aspects of financial analysis -- it

must be able to repay its debts to long- and short-term creditors as well as earn profits for stockholders.\textsuperscript{20} These ratios aid the client, stockholders, prospective investors, and creditors in making decisions concerning the business. The ratios are also useful for comparison against industry averages and standards to gauge activity and growth needs for the client.

Economic analysis hinges, with regard to business, upon the break-even point analysis. This analysis takes into consideration many of the desired aspects of managing a business. It covers supply and demand of one's market along with fixed and variable costs required to remain producing and in business.

Together these analyses provide a strong force governing many of the day to day and long range decisions made by management. The preparation of such analysis is quite straightforward; figures obtained from the client are inserted into formulas to arrive at comparative ratios and curves. It appears that the practitioner would have a fairly difficult time impairing his independence in preparing analyses of this sort. The preparation is only part of what can be performed in an engagement of this sort. The MAS practitioner must act accordingly when presenting these analyses to the client. If they are merely presented, his independence should remain intact. If, however, he involves himself in the decisions to be made from them he may lose the objectivity that is so

necessary to solid independence.

Managerial information and control systems are seemingly an off-shoot of the previous topic; just a little more technical and a little closer to a compromise of the practitioner's independence. Preparing budgets and forecasts are two examples of providing information and control for management of a business presently and in the future. As William E. Arnstein writes:

Budgets are perhaps the most useful tool for planning and control available to business management. Most large companies have been using budgets for many years. So have many small companies. It is noteworthy that preparation of a budget is usually the first recommendation of the knowledgeable outsider brought in to help a company solve its financial troubles. 21

Budgets help provide for future use of men, materials, facilities, and financing required to make a profit. Budgets set standards to attainment when compared against actual sales and production statistics.

The National Association of Accountants has defined long-term forecasting as a systematic and formalized process for purposefully directing and controlling operations toward desired objectives for periods extending beyond one year. 20 Long- and short-range forecasting is provided to inform management well ahead of time of the resources needed to operate the business.

These types of information and control are very vital to

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21 William E. Arnstein, CPA, Management Services by Accounting Firms, p. 49.
22 Ibid, p. 53.
the successful operation of a business. The MAS practitioner can aid management in a big way by preparing these documents. The use of these instruments goes hand in hand with the adoption of operating goals in terms of sales and profits, and therefore the practitioner must be careful not to overextend himself and become involved with management in the setting of such definite goals. He could no longer be considered independent of the firm and the decisions of its management.

As accountants, cost accounting is something that is quite familiar, yet the client may not agree. The MAS practitioner can provide for the client such technical cost systems as standard costing, variance analysis, and job and process costing plans. As long as the accountant remains independent of actually effecting management decisions by applying these types of plans in the production process of the client, his independence will not be violated.

As a client's business grows and expands it requires additional manpower and personnel. MAS practitioners can prepare organizational charts to aid in the proper hiring of line and staff personnel for the most efficient functioning of the client's operations. MAS practitioners may even go as far as supervising the training of the personnel hired, but he can in no way remain independent of management if he participates in the actual supervision of the production processes.

Besides the skeleton of the firm's organization, the MAS practitioner may also aid in corporate planning studies in plant location, mergers, and acquisitions. Information for
the client can be gathered as to transportation, community attitude, zoning, labor supply, taxes, and building sites. He can develop criteria for buying, scout for firms to acquire, and act as a third party agent to conceal the identity of the client.

Through these services he can provide the client with various advantages and alternatives to these types of organization changes. The practitioner must provide independent suggestions for the client along with detailed documentation to back it up. The information must be provided objectively without the accountant's participation in the decisions that are made by management concerning organizational change. Particularly in this instance, he cannot be identified with the decision to change in any way and keep from becoming affiliated with the client's firm. This, of course, will destroy the practitioner's image of independence to third party observers.

Having an MAS practitioner with a background in computers can provide a great service to many growing clients. EDP is seen by most as the field in which the greatest amount of growth will be. Computers are becoming more and more sophisticated all the time, and the client, concerned with operating his business, cannot stay completely abreast of this fast moving field. The knowledgeable MAS specialist can alleviate many of the client's worries and apprehensions about the computer and its advantages to his firm.
The specialist can provide information concerning various types of computer systems and their operations and the advantages of the various component parts. He can provide an organizational chart for an effective EDP department for the computer's size and the client's output needs. The computer specialist can supervise the training of members of the client's staff to fill the jobs of programmer, operator, or analyst.

He can lend advice on the advantages to the client of systems designs available and the work and costs involved in their implementations. Systems designs such as payroll, sales analysis, sales ledgers, invoicing, general and purchase ledgers, and production control may be quite advantageous in the smoother functioning of a client's business.

The type of work done by computers is determined by several factors. The most important of these is size of organization. Smaller sole proprietorships do not generally require such technical sophistication, but the intermediate firms are now taking advantage of smaller, more compact systems which still provide the necessary output information to aid the client. Large national firms, of course, require large sophisticated hardware with the capability to digest large amounts of input quickly and accurately.23

The MAS computer specialist can provide all of the information and expertise to implement these types of systems and see to it that their operations are advantageous to the client.

He must avoid any decision making for management. He should provide every bit of information that will allow management to make the decision most advantageous to the client. He should, however, not involve himself in actually programming or influencing the type of programs to be used by the client.

Management specialists can, usually for the small firm, plan and schedule production processes for optimum output at the most economical cost to the firm. He can provide a blueprint to follow that will prove fast yet time, labor, and material efficient. Time and motion studies aid in determining how production can be maximized and control the costs that govern profit margins. The practitioner of MAS has the technical and analytic expertise to provide the client with constructive information as to production controls.

An integral part of the production process, inventory control, can greatly affect the production rate. The astute practitioner can offer suggestions that aid in minimizing a client's inventory investment and maintain production at its optimum level of efficiency. Suggestions as simple as the ABC method of categorizing inventory to focus cost control on the most expensive items may work a world of wonder in a smaller firm. Providing a statistical measure of the minimum level of inventory at which production can exist, above which the economic order quantity (EOQ) will maintain inventory levels will aid greatly in preventing production shut-downs.

24William E. Arnstein, CPA, Management Services by Accounting Firms, p. 115.
due to insufficient inventories.\textsuperscript{25}

This area tends to begin leaning somewhat to the questionable side when considering the practitioner's independence. It would seem to be most difficult to provide production schedules without affecting the decision of management, but as long as only the suggestions are provided it is feasible that the specialist in MAS can remain objective. The scheduling of production or the controls of inventory can be decided upon by the client's managers without interference from the CPA merely using his suggestions on paper acting as guidelines upon which to act or disregard. This type of use should in no way compromise his ethical independence.

There has been an increasing trend for companies to look to their accounting firms for assistance in finding and evaluating talent, particularly at management level in accounting, data processing, financial, and related areas.\textsuperscript{26} The one facet of executive recruitment that could tend to make a reasonable man consider that type of engagement a threat to the objectivity and integrity of the MAS specialist is helping to choose the most likely candidate for the position to be filled.

Executive search should involve just that, the process of locating those persons who are qualified to fill the necessary position. Search services do not involve the actual placement of people in executive positions. Melvyn D. Croner

\textsuperscript{25}Ibid, p. 123.
\textsuperscript{26}Ibid, p. 156.
writes concerning search and placement:

Search services are performed by some accounting firms, many general management consulting firms and a wide variety of specialized firms. Placement services are performed by employment agencies, many professional societies, universities, and a variety of governmental agencies. Search is oriented toward the needs of the employer. Placement, on the other hand, is oriented toward the needs and objectives of the employee. 27

Providing the services of search, candidate prescreening, candidate evaluation, obtaining references and background verification, and a report to the client on each prospect considered is quite helpful to the client. The hiring of employees for the client, however, violates Rule of Conduct 101-Independence of the Ethics Rulings. As the AICPA has determined:

Independence of the member's firm would be considered impaired under Rule of Conduct 101 B1 since decisions as to employment of personnel are considered a management function. However, a member's firm may perform services consisting of recommending a position description and candidate specifications, searching for and initially screening candidates, and recommending qualified candidates to the client. Such consulting assistance would not impair independence provided client management is responsible for any ultimate hiring decision. 28

Executive recruitment can prove quite beneficial to the client contemplating expansion in another location. The MAS specialist can provide much needed assistance, but he must refrain from any of the managerial functions such as hiring. Thus, the firm will uphold its independence in the eyes of a reasonable man.

28American Institute of Certified Public Accountants, Interpretations of Management Advisory Services Practice Standards, p. 10.
Although marketing advice seems unusual to a CPA, the MAS practitioner is a specialist and expert in such fields. An example of the type of engagement that may be performed by a CPA firm may be in the area of sales forecasting. The need for sales forecasting is ever present, even if the company is not using a formal forecast. Comparison of past events and planning future quotas are a task every company undertakes consciously or not. These aid the marketing department in guaging sales to increases in expected demands or finding other areas to test for market development as the case may have determined.

With regard to independence, Arnstein writes, "While the management specialist may be brought in to establish forecasting procedures, the forecasting itself is generally performed within the company." The forecasting involves the decisions that management will make as to sales regarding the result.

In the situation where a company wants to introduce a new product, the consumer survey and market test should be performed. Upon its performance, interpretation of the results by a trained specialist is required to get actual representation of these results. A management advisor may be obtained for interpretation of a consumer group's actual attitude or the success of a market test on a larger scale. These interpretations should be in the form of an autonomous report or

29William E. Arnstein, Management Services by Accounting Firms, p. 213.
suggestions given to management to digest and make decisions upon.

Upon completion of the market testing and decisions by the client to sell the products, he may also require a study of the most conventional channels of distribution available. These types of engagements for MAS practitioners run quite a fine line between participation and independence. The decisions made from such tests, studies, and forecasts will have a great effect upon the future success of the client. For this reason, the practitioner must refine the details and alternatives, and then he should present his information, in report form, to the client for its management's final decisions.

As stated previously, in the MASBOKE report, management advisory services cover such a broad spectrum of knowledge that no one person can be considered an expert in every field. For the same reasons this discussion could in no way cover all of the fields of each of the categories determined by the AICPA. This paper has drawn upon various examples to show the fine line that must be walked by the MAS practitioner, CPA or a firm affiliated specialist, in order to protect the firm and himself against violating his independence, as governed by the Code of Professional Ethics.

Management advisory services are a fast growing area of a great number of CPA firms today. The client may take every opportunity available to utilize the vast storehouse of knowledge contained within his CPA firm. The advice given through
MAS engagements is quite constructive to the client lacking experience and technical training to perform these functions knowledgeably himself.

Recently, however, independent management consultants have been lobbying very hard against the continuance of many of the services presently being performed by MAS departments. The Senate Subcommittee on Reports, Accounting and Management issued a report in January 1977. This report, known as the "Metcalf Report," stated:

The best policy in this area—and the policy which is presently followed by most accounting firms—is to require that independent auditors of publicly owned corporations perform only services directly related to accounting. Nonaccounting management services such as executive recruitment, marketing analysis, plant layout, product analysis, and actuarial services are incompatible with the public responsibilities of independent auditors, and should be discontinued.30

Unanimously approved by all subcommittee members, the report does not call for immediate congressional action. Nevertheless, it does indicate that new legislation may be necessary if the profession is slow to implement the subcommittee's recommended changes.

Even with the issuance of this report, though, there has not yet been a hint of evidence provided to the effect that the auditor is actually compromising his independence. It appears that independent consulting firms are becoming wary of increasing competition, rather than actually being concerned

that the CPA is violating his professional ethics. Being involved in MAS for the client only helps the firm to gain more knowledge of a client's operations.

But if it turns out that the profession has to compromise on something, Washington observers say that accountants are more likely to sacrifice something connected with consulting, such as giving up executive search, rather than submit to government regulation of auditing...31

Management advisory services represents to the AICPA and Congress what the vast reaches of outerspace represent to NASA, a large expense, the last frontier, that is a challenge but not impossible to conquer. The task at hand for the governing bodies of the accounting profession is one of determining who is going to have control of setting the standards and limitations of MAS.

Management advisory services have become a vital part of public accounting practice. To take them away would not only hurt those firms participating, but it would probably injure the clients of those firms even more. The practitioner who knows his client's operations so well, having been banned from practicing MAS, would cause the client much additional time and expense in obtaining another management consultant.

At this point in time it is best to allow the CPA to continue his practice of MAS. As stated earlier, no one has yet proved that such service has actually interfered with the accountant's objectivity or integrity. Public opinion, that of a reasonable man, is the greatest indicator of the auditor's independence, and, as of yet, only those competing for a share

31 "Should CPAs be Management Consultants?" Business Week, April 18, 1977, p. 73.
of the market have indicated any real dissatisfaction with
the CPA's performance. The accountant must be ever mindful,
however, of his commitment to ethical practices within the
profession. He must refrain from extending MAS into the mana-
gerial decision making function of his client. Here he has
violated his independence and can no longer remain objective
toward the client's management. As long as these services
are performed only to the extent of providing expert techni-
cal and analytical advice, they are an integral third area of
the public accounting profession and should be continued to
be provided to clients that are in dire need of such aid.
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