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MAS engagements; Statement on standards for management advisory services 2

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Statement on Standards for Management Advisory Services

November 1982

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AICPA Issued by the Management Advisory Services Executive Committee
American Institute of Certified Public Accountants

MAS Engagements

Introduction

1. Statement on Standards for Management Advisory Services (SSMAS) no. 1, *Definitions and Standards for MAS Practice*, categorizes management advisory services (MAS) as MAS engagements or MAS consultations.¹ It defines an MAS engagement as

That form of MAS in which an analytical approach and process is applied in a study or project. It typically involves more than an incidental effort devoted to some combination of activities relating to determination of client objectives, fact-finding, opportunity or problem definition, evaluation of alternatives, formulation of proposed action, communication of results, implementation, and follow-up.

2. This statement provides guidance on the application of certain of the standards set forth in SSMAS no. 1.

Nature of MAS Engagements

3. MAS engagements generally involve gathering and analyzing appropriate information concerning the client's business, operating results, financial condition, systems and procedures, or other matters needed for the development of conclusions and recommendations to assist a client to achieve its objectives.

1. Recommendations and comments prepared as a direct result of observations made while performing an audit, review, or compilation of financial statements or while providing tax services, including tax consultations, are not MAS as defined in SSMAS no. 1.

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4. Engagements performed by MAS practitioners vary widely in size, complexity, staffing and time requirements, and technical subject matter. An MAS engagement may require the joint participation of the MAS practitioner, the client, and other personnel with the skills required to achieve the engagement objectives.

5. While performing an MAS engagement, a practitioner may be asked to respond to a client inquiry on an MAS matter that is not related to the engagement. The nature of the inquiry and the response in such circumstances may fall within the definition of an MAS consultation, in which case the standards for MAS consultations would apply.

Professional Competence in MAS Engagements

6. Professional competence in performing MAS engagements includes an ability to identify and define client needs, select and supervise appropriate staff, apply an analytical approach and process appropriate to the engagement, apply knowledge of the technical subject matter under consideration, communicate recommendations effectively, and, when required, assist in implementing recommendations.

7. An MAS engagement may require more than one individual and diverse technical skills. The MAS practitioner should carefully assess the combined abilities, education, and experience of the individuals on his staff, or otherwise engaged by him, who are to participate in a specific MAS engagement. In deciding whether he or his firm can reasonably expect to complete the engagement with professional competence, the MAS practitioner may also give consideration to the skills, education, and experience of client personnel and personnel from other organizations who have assumed responsibility for tasks related to the engagement.

Planning and Supervision in MAS Engagements

8. The MAS practitioner should plan and supervise an MAS engagement in a manner that provides reasonable assurance that the work is conducted in accordance with the understanding with the client and with the professional standards set forth in Statements on Standards for Management Advisory Services and the AICPA Rules of Conduct.

9. If staff is needed, the MAS practitioner should determine that a sufficient number of persons with appropriate skills and experience are available to perform the work.

10. A plan should be developed to guide the conduct, supervision, control, and completion of the engagement. The plan should be modified, if necessary, during the course of the engagement. Engagement planning

should include consideration of the approach and tasks required to achieve the engagement objectives.

11. Throughout an MAS engagement, the MAS practitioner should exercise professional judgment concerning the level of documentation and the amount of supervision required, based on the experience of the persons involved and the complexity and duration of the assignment.

12. An MAS engagement should be directed by an individual who is competent to supervise the personnel assigned, evaluate the quality and completeness of the work performed, and accept responsibility for successful completion of the engagement.

Sufficient Relevant Data in MAS Engagements

13. The MAS practitioner should obtain sufficient relevant data to complete an MAS engagement in a manner consistent with the understanding with the client. Sufficient relevant data may be obtained by interview, observation, review of client documents, research, computation, and analysis. The nature and quantity of information that constitutes sufficient relevant data will vary with the scope and circumstances of each engagement. It normally consists of information needed to analyze the courses of action that might be considered. Sufficient relevant data include information that supports conclusions or recommendations.

14. The MAS practitioner should exercise professional judgment in determining the nature and quantity of information required to develop conclusions or recommendations that fulfill the objectives of the MAS engagement. In making this determination, the MAS practitioner should consider the objectives, nature, and scope of the engagement, the costs of data gathering versus the benefits of added data, the intended use of the engagement results, and related circumstances. The source, reliability, and completeness of the data, and any limitations thereof, should be considered in forming and reviewing conclusions and recommendations.

Role of Practitioner in MAS Engagements

15. A pervasive characteristic of the practitioner's role in an MAS engagement is that of being an objective adviser. In performing an MAS engagement, the practitioner should not assume the role of management.² Because of the various advisory services² that may be performed

2. An Institute member or his employee might at times serve in the role of management for a client. The Statements on Standards for MAS do not apply to situations in which the member or his employee serve in that role, but, under rule 101 of the AICPA Rules of Conduct and Statement on Standards for Accounting and Review Services no. 1, independence might be impaired for the purpose of an audit, review, or compilation of financial statements.

by the MAS practitioner and the singular responsibility of the client to make all management decisions, the roles and responsibilities of all parties should be clearly defined in the understanding with the client.

16. An MAS engagement should be structured to enable management to make decisions on matters requiring action by providing for review and approval of the engagement findings, conclusions, recommendations, and other results. The implementation of any course of action recommended during an MAS engagement must be authorized by management.

Understanding With Client in MAS Engagements

17. Prior to undertaking an MAS engagement, the practitioner should consider such matters as the following in reaching an appropriate understanding with the client:

- Engagement objectives
- Nature of the services to be performed
- Engagement scope, including areas of client operations to be addressed and limitations or constraints, if any
- Respective roles, responsibilities, and relationships of the MAS practitioner, the client, and other parties to the engagement
- The anticipated engagement approach, including major tasks and activities to be performed and, if appropriate, methods to be used
- The manner in which engagement status and results are to be communicated
- Work schedule
- Fee arrangements

18. The MAS practitioner should exercise professional judgment in determining the nature and extent of documentation appropriate in the circumstances. MAS engagements normally include a documented understanding with the client, which may be in the form of an accepted proposal letter, a confirmation letter, an engagement arrangement letter, a contract, or a file memorandum documenting an oral understanding.

19. Written documentation of the understanding may not be appropriate in some situations. Client confidentiality requirements or other engagement circumstances might explicitly preclude such documentation.

20. If circumstances require a significant change in the nature, scope, or limitations of the services to be performed, the MAS practitioner should modify his understanding with the client.

Client Benefit in MAS Engagements

21. Before beginning an MAS engagement, the MAS practitioner should obtain an understanding of the possible benefits, both tangible and intangible, that the client wishes to achieve.

22. The MAS practitioner should not guarantee results either explicitly or implicitly. The ultimate achievability of results will depend on the effectiveness of client management in implementing the MAS practitioner's recommendations and on client management's ability to address changes or uncertainties. The MAS practitioner should communicate to the client reservations concerning the achievability of the anticipated benefits.

23. If potential benefits are quantified, they should be described as estimates, and the support for such estimates should be disclosed. If estimated benefits or estimated costs change significantly during an engagement, the client should be informed.

Communication of Results in MAS Engagements

24. The principal findings, conclusions, recommendations, or other results of an MAS engagement, including the major facts and assumptions upon which results are based, should be communicated to the client, together with limitations, reservations, or other qualifications.

25. During lengthy or complex engagements, interim client communication is desirable. Interim communication encourages client involvement and decision-making and keeps the client informed of results and progress.

26. Final reports to a client may be written or oral depending on factors such as

- The understanding with the client.
- The degree to which the engagement results are provided to the client as the engagement progresses.
- The intended use of engagement results.
- Sensitivity or significance of material covered.
- The need for a formal record of the engagement.

27. When an MAS practitioner does not issue a written report to the client, a memorandum to the file should be considered, outlining matters such as results achieved and documentation provided to the client.

Effective Date

28. This statement is effective for MAS engagements undertaken on or after May 1, 1983.

The statement entitled MAS Engagements was adopted by an affirmative vote of fourteen of the fifteen members of the committee. Mr. Varley dissented to issuance of the statement because he believes there is no need for this standard, in view of the requirements of rule 201 of the AICPA Rules of Conduct and the absence of any evidence of significant current or potential abuses.

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Note: *Statements on Standards for Management Advisory Services are issued by the AICPA Management Advisory Services Executive Committee, the senior technical committee of the Institute designated to issue pronouncements in connection with management advisory services. Members should be aware that they may be called upon to justify departures from this statement.*

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