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Definitions and standards for MAS practice; Statement on standards for management advisory services 1

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Statement on Standards for Management Advisory Services

December 1981

1

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

Definitions and Standards for MAS Practice

1. CPAs have historically served as business advisors and consultants, performing functions that are described as "management advisory services (MAS)." In general, management advisory services consist of advice and assistance concerning such matters as an entity's organization, personnel, planning, finances, operations, systems, controls, and other aspects of current or proposed activities. Such services are often closely related to the auditing, tax, and accounting and review services that CPAs provide.
2. A management advisory service may range from a response to an inquiry based only on the knowledge and experience of the individual practitioner consulted to one involving an extensive project. For the purpose of Statements on Standards for Management Advisory Services, all such services are categorized as either MAS consultations or MAS engagements.¹ Professional practices for each of these two forms of MAS will be different; standards for each of them will be provided in this and subsequent statements.²

1. MAS consultations were referred to as MAS "informal advice" prior to the issuance of this statement.

2. A series of Statements on Management Advisory Services was issued in the past to provide practical advice on MAS. They are not enforceable under the AICPA Rules of Conduct. Some of the material in those statements may be incorporated into future MAS standards and practice aids. Until then, practitioners may continue to consult such statements, although it should be recognized that future publications may contain guidance that differs from the views expressed in those statements.

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Purpose

3. This statement is the first in a series that will
 - a. Provide guidance to enable members to comply with rule 201 of the AICPA Rules of Conduct within the context of management advisory services.
 - b. Establish, under rule 204 of the AICPA Rules of Conduct, other standards deemed appropriate for such services.

Definitions

4. Certain terms are defined below for purposes of Statements on Standards for Management Advisory Services.

Management advisory services (MAS). The management consulting function of providing advice and technical assistance where the primary purpose is to help the client improve the use of its capabilities and resources to achieve its objectives.³ For the purpose of illustration, “helping the client improve the use of its capabilities and resources” may involve activities such as

- a. Counseling management in its analysis, planning, organizing, operating, and controlling functions.
- b. Conducting special studies,⁴ preparing recommendations, proposing plans and programs, and providing advice and technical assistance in their implementation.
- c. Reviewing and suggesting improvement of policies, procedures, systems, methods, and organization relationships.
- d. Introducing new ideas, concepts, and methods to management.

MAS engagement. 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.

3. 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 herein defined.

4. Statement on Auditing Standards 30, *Reporting on Internal Accounting Control*, provides guidance on studies made for that purpose.

MAS consultation. That form of MAS based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, and the mutual intent of the parties. It generally involves advice or information given by a practitioner in a short time frame. Usually, information is received through discussions with the client and, by mutual agreement, is accepted by the practitioner as represented. The nature of an MAS consultation and the basis for the practitioner's response are generally communicated to the client orally. The practitioner's response may be definitive when existing personal knowledge is deemed adequate; otherwise, it may be qualified, in which case limitations are stated. A qualified response often reflects cost, time, scope, or other limitations imposed by the client's specific circumstances.

MAS practitioner. Any Institute member in the practice of public accounting while engaged in the performance of an MAS service for a client, or any other individual who is carrying out MAS for a client on behalf of any Institute member.⁵

Standards for MAS Practice

5. The following general standards apply to both MAS engagements and MAS consultations. They are contained in rule 201 of the AICPA Rules of Conduct, and apply to all services performed in the practice of public accounting.⁶

Professional competence. A member shall undertake only those engagements which he or his firm can reasonably expect to complete with professional competence.

Due professional care. A member shall exercise due professional care in the performance of an engagement.

Planning and supervision. A member shall adequately plan and supervise an engagement.

Sufficient relevant data. A member shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

5. A member shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the member, would place him in violation of the rules of conduct (See *AICPA Professional Standards*, Vol. 2, ET §92.04-.05 [Commerce Clearing House]).

6. The use of the terms "MAS engagement" and "MAS consultation" to differentiate the two recognized forms of MAS is not intended to exclude MAS consultations from the meaning of the term "engagement" as it is used in rule 201.

Forecasts. A member shall not permit his name to be used in conjunction with any forecast of future transactions in a manner that may lead to the belief that the member vouches for the achievability of the forecast.

6. The following technical standards apply to MAS engagements, as defined in paragraph 4. They are established under rule 204 of the AICPA Rules of Conduct. Technical standards for MAS consultations, as defined in paragraph 4, may be established in future statements.

Role of MAS practitioner. In performing an MAS engagement, an MAS practitioner should not assume the role of management or take any positions that might impair the MAS practitioner's objectivity.⁷

Understanding with client. An oral or written understanding should be reached with the client concerning the nature, scope, and limitations of the MAS engagement to be performed.

Client benefit. Since the potential benefits to be derived by the client are a major consideration in MAS engagements, such potential benefits should be viewed objectively and the client should be notified of reservations regarding them. In offering and providing MAS engagements, results should not be explicitly or implicitly guaranteed. When estimates of quantifiable results are presented, they should be clearly identified as estimates and the support for such estimates should be disclosed.

Communication of results. Significant information pertinent to the results of an MAS engagement, together with any limitations, qualifications, or reservations needed to assist the client in making its decision, should be communicated to the client orally or in writing.

Effective Date

7. This statement is effective for MAS rendered after May 1, 1982.

^{7.} 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 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.

The statement entitled Definitions and Standards for MAS Practice 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.*

