

1993

Developing a consulting services control and management program; Consulting services practice aid, 93-5

American Institute of Certified Public Accountants. Management Consulting Services Division

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AICPA

Practice Administration

**CONSULTING SERVICES
PRACTICE AID 93-5**

***Developing a Consulting
Services Control and
Management Program***

Management Consulting Services Division

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

NOTICE TO READERS

This practice aid is designed as educational and reference material for Institute members and others who provide *consulting services* as defined in the Statement on Standards for Consulting Services (SSCS) issued by the AICPA. It does not establish standards or preferred practices.

Consulting Services Practice Aids continue the series of MAS Practice Aids. The change in the numbering system of these series reflects the change of the division name from Management Advisory Services (MAS) to Management Consulting Services (MCS), rather than the discontinuing of any publications in a series.

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PREFACE

This practice administration aid is one in a series that addresses the administrative and operational aspects of providing consulting services to clients within the environment of a CPA practice. These documents will have value to those practitioners who manage or oversee the operations of a consulting practice. These documents will also be useful to anyone providing these services as a CPA, whether a sole practitioner or a partner or staff person in a single- or multiple-office CPA firm.

The information provided in this series may not be directly applicable in every circumstance because the nature, organization, and operation of consulting services practices vary considerably. Professional judgment should be used to apply the appropriate concepts or practices described in these documents to match the administrative requirements of a specific consulting services practice.

These practice aids do not establish binding standards or preferred practices. However, consulting services are subject to the binding Statement on Standards for Consulting Services (SSCS), and consulting services practice administration as discussed in these documents will include quality control matters as well as practice management matters.

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**4/100 DEVELOPING A CONSULTING SERVICES CONTROL AND
MANAGEMENT PROGRAM**

4/105 SCOPE OF THIS PRACTICE AID

.01 The purpose of this document is to assist CPA firms in developing or revising a program to control and manage the performance of consulting services.¹ Such a program is not required by professional standards, but it can provide a firm with increased assurance that its consulting services will be administered in keeping with firm policies and professional standards.

.02 This practice aid will probably be most useful to firms that have or plan to have a separate practice function for consulting services. Other firms and sole practitioners may find it helpful in considering procedures, documented or informal, relating to these services.

.03 Some firms have found that the effective and uniform administration of consulting services can be enhanced by establishing policies and procedures documenting the firm's considered judgments on how a specific service is to be performed. Such policies and procedures may include controls that allow firm management to evaluate the conduct of service-in-process to help maintain the high quality of the firm's consulting services.

.04 There is a limited amount of professional literature describing activities and controls applicable to specific kinds of consulting services. In fact, the range of potential consulting services is so wide that it is doubtful the professional or a firm would ever address every type in great detail. However, a firm's control and management program for consulting services, as described in this document, could cover the major activities involved in virtually all types of consulting services.

.05 Control and management programs for consulting services vary, depending on the firm's size, the degree of operating autonomy allowed its personnel, the nature and organization of the firm's consulting services practice, and appropriate cost-benefit relationships. A firm developing a control and management program for consulting services might want to consider the matters addressed in this practice aid from two points of view.

- a. What specific guidance concerning the consulting services process does the firm wish to provide to its practitioners?

¹ Consulting services are defined in the Statement on Standards for Consulting Services No. 1, *Consulting Services: Definitions and Standards* (New York; AICPA, 1991).

- b. What documentation, if any, does the firm want to require of its practitioners to show that they have complied with the firm's guidance?

Terminology of This Practice Aid

.06 The following terms are used in this practice aid as indicated:

.07 *Consulting services.* Professional services that employ the practitioner's technical skills, education, observations, experiences, and knowledge of the consulting process.²

.08 *Consulting services practitioner.* Any AICPA member holding out as a CPA while engaged in the performance of a consulting service for a client, or any other individual who is carrying out a consulting service for a client on behalf of any Institute member or member's firm holding out as a CPA.³

.09 *Consulting services director.* The individual who is responsible for the direct supervision of the consulting services, regardless of title.

.10 *Consulting services administration.* That part of consulting services practice administration involving the application of supervision and control procedures in carrying out a specific consulting service for a client.

.11 *Consulting services practice administration.* All of the policies and procedures adopted by a CPA firm to accomplish its consulting services practice goals, including those related to activities such as staff recruitment, professional education, and practice development. (Only consulting services practice administration is addressed in this document.)

.12 *Control program for consulting services.* The development and use of various policies, procedures, forms, reports, and manuals intended to assist a consulting services director in controlling the performance of a specific consulting service.

.13 *Consulting service activities.* The major consulting service functions, such as those discussed in this practice aid.

.14 *Consulting service tasks.* Subsets of consulting service activities that are deemed significant enough to warrant separate discussion in this practice aid.

Definitions of Consulting Services

.15 Consulting services may include one or more of the following:

² The consulting services described in this practice aid are defined in the Statement on Standards for Consulting Services No. 1, *Consulting Services: Definitions and Standards*.

³ *Ibid.*

- a. *Consultations*, in which the practitioner's function is to provide counsel in a short time frame, based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, client representations, and the mutual intent of the parties. Examples of consultations are reviewing and commenting on a client-prepared business plan and suggesting computer software for further client investigation.
- b. *Advisory services*, in which the practitioner's function is to develop findings, conclusions, and recommendations for client consideration and decision making. Examples of advisory services are an operational review and improvement study, analysis of an accounting system, assistance with strategic planning, and definition of requirements for an information system.
- c. *Implementation services*, in which the practitioner's function is to put an action plan into effect. Client personnel and resources may be pooled with the practitioner's to accomplish the implementation objectives. The practitioner is responsible to the client for the conduct and management of engagement activities. Examples of implementation services are providing computer system installation and support, executing steps to improve productivity, and assisting with the merger or organizations.
- d. *Transaction services*, in which the practitioner's function is to provide services related to a specific client transaction, generally with a third party. Examples of transaction services are insolvency services, valuation services, preparation of information for obtaining financing, analysis of a potential merger or acquisition, and litigation services.
- e. *Staff and other support services*, in which the practitioner's function is to provide appropriate staff and possibly other support to perform tasks specified by the client. The staff provided will be directed by the client as circumstances require. Examples of staff and other support services are data processing facilities management, computer programming, bankruptcy trusteeship, and controllership activities.
- f. *Product services*, in which the practitioner's function is to provide the client with a product and associated professional services in support of the installation, use, or maintenance of the product. Examples of product services are the sale and delivery of packaged training programs, the sale and implementation of computer software, and the sale and installation of systems development methodologies.

Structure of This Practice Aid

.16 This document discusses the concepts of control over performing each type of consulting services. The services are discussed either individually or in groups, depending on the services involved. Since consultations are generally completed in a short time, this consulting service is discussed separately. Engagements involving advisory, implementation, and transaction services are generally lengthy in duration and have similar performance characteristics. These services are therefore discussed together with suggested policies and procedures. Staff and support services are sufficiently different to warrant a separate discussion as are product services.

.17 Some consulting services activities or tasks may be performed in more than one phase or simultaneously with other activities or tasks. In addition, not every activity or task mentioned is performed in the specific consulting services consultation or engagement.

.18 When providing consulting services, practitioners use, among other tools, their technical skills, exposure to a diversity of business environments, and education. No matter what type of consulting services are provided, the structure and conduct of the service will vary extensively accordingly to the functions performed, the objectives of the service, the nature of the client, and other factors. Nevertheless, certain matters common to all types of consulting services need to be controlled and administered to enhance the professional nature of consulting services.

4/110 CONSULTATIONS

.01 Consultations generally involve the provision of a rapid response to a client inquiry that requires little or no research. This section discusses the role of the practitioner in performing consultations and the need for a clear understanding between the practitioner and the client of the nature of the consultation, the associated limitations, and the expected results.

.02 Consultations may constitute a significant portion of a practitioner's services to a client. Implicit and explicit understandings between the practitioner and the client form the basis of client reliance on the professional advice that is given. A consultation generally is based on the practitioner's existing personal knowledge of the technical matters in question and those aspects of the client's financial, business, and, perhaps, personal affairs to which the inquiry applies. Depending on the inquiry, the practitioner's response may be immediate or may be made after reference to client file information and technical source materials, discussions with colleagues, or consideration of the advantages, disadvantages, and financial consequences of available alternatives.

.03 Consultations may occur concurrently with the performance of other professional services, such as audit, review, or compilation of financial statements or tax services. Consultations also may be the only type of service provided to a client. They may entail advice concerning a single matter or continuing consultations on a wide variety of matters. Consultations may occur casually in telephone conversations, take place in nonbusiness settings, or transpire during periodic meetings at the clients's or practitioner's offices, or may entail specific written inquiries or responses.

.04 Examples of consultations include advice in the form of explicit recommendations, guidance on a suggested course of action or method of inquiry, limited analysis of options or the advantages and disadvantages of alternative actions, and fact-finding in the form of limited technical research on a specific matter.

The Practitioner's Role in Consultations

.05 In the conduct of a consultation, the consulting services practitioner usually functions as a general business adviser presenting recommendations to a client faced with decisions to

make. The circumstances under which the service is provided require the practitioner to recognize and seek to minimize the possibility that the client erroneously concludes that the practitioner has—

- Assumed responsibility for making the required decisions.
- Guaranteed, through recommendations, the benefits the client seeks.
- Based the advice on full consideration of all relevant information.

Client Understanding and the Communication of Results in Consultations

.06 In consulting services consultations, the client inquiry, the understanding between parties, and the practitioner's response often occur in the same conversation. In such an environment, the practitioner, the client, or both may presume that the other has a knowledge and understanding of pertinent matters that actually were not communicated. The consulting services practitioner needs to recognize this possibility of misunderstanding and take reasonable steps to prevent it by giving attention to such matters as—

- The specific or general nature of advice sought.
- The impact of the advice on finances and operations.
- The limitations, lack of certainty, or incompleteness of the information.
- The complexity of the inquiry, the advice, or the conditions or qualifications that might be attached to the practitioner's response.

.07 The nature and form of communication with a client in a consulting services consultation is a matter of professional judgment. In many cases, especially in connection with the practitioner's general advisory role, circumstances will dictate that the understanding with the client and the practitioner's response be oral. In some cases the circumstances of a consulting services consultation justifies written communication to the client. For example, the practitioner may wish to communicate the importance of specific actions the client may have to take as a result of the consultation. If the communication to the client is not in writing, the practitioner considers the need for a file memo to have a record of the conversation and the advice given to the client.

Client Satisfaction

.08 As with other consulting services, the practitioner needs to consider the effectiveness of consultations. The practitioner can gauge client satisfaction through the amount of billings to a client, a reduction in write-offs, the number of times this service is provided to a client each year, and, of course, feedback from the client.

.09 Unless practitioners keep records of all consultations, they may not be able to assess whether the value of the service corresponds to the billing. Another way to gauge the effectiveness of the consultation is to track the number of additional calls received on other business matters from the same client.

4/115 **ADVISORY, IMPLEMENTATION, AND TRANSACTION SERVICES**

.01 Consulting services also involve advisory, implementation, or transaction services that are generally lengthy in duration and require extensive skills and knowledge to plan and perform. Furthermore, engagements involving these services usually require more structured methodologies than do other consulting services. There are several factors a practitioner needs to consider in accepting, planning, and performing engagements to provide these services. In discussing the administrative aspects of these services, this section focuses on the five phases of the typical engagement:

- Preengagement considerations
- Engagement planning
- Engagement management and execution
- Engagement conclusion
- Engagement follow-on

Each of these phases consists of a series of activities and tasks that generally occur sequentially. In addition, each might encompass activities, tasks, and considerations unique to a specific service or to a certain type of service. This practice aid, however, focuses on the activities and tasks that are common to engagements involving these services.

Nature of Advisory, Implementation, and Transaction Services

.02 **Advisory Services.** Advisory services usually involve detailed studies to develop findings, conclusions, and recommendations for client consideration and decision making. They often require a significant understanding of the business operations and unique aspects of the client's industry. Some services require specialized technical knowledge of areas that go beyond the scope of accounting, such as compensation and benefits planning, systems design, marketing, and engineering.

.03 Advisory services may follow a consultation and precede implementation services. Client personnel may be assigned to the project team. They can bring considerable knowledge to the project's activities and can play a critical role in the acceptance and implementation of final recommendations. The consulting process associated with advisory services typically involves determination of client objectives, fact-finding, definition of the problems or

opportunities, evaluation of alternatives, formulation of proposed action, implementation, communication of results, and follow-up. Except for the steps of implementation and follow-up, the process just described often gives the engagement its structure.

.04 Advisory services generally conclude with a written report that may include the project's objectives, the approach taken to perform the project, the data acquired, conclusions and recommendations, and a plan for implementing recommendations.⁴

.05 Implementation Services. Implementation services are primarily concerned with getting things done — putting into operation a plan or recommendations the client has accepted. These services can include implementing operational audit recommendations, an incentive compensation system, a new organizational structure, or an improved computer system. The success of the implementation services may relate directly to the quality and completeness of any preceding advisory services. In some cases, the practitioner may be engaged to perform an implementation service without having provided advisory services.

.06 Implementation services engagements may be quite complex and are generally administered with a detailed action plan that lists steps to be performed and specifies the person responsible for each step, the budgeted time, and the deadline. In a large engagement, a majority of the project team may come from the client's ranks. The practitioner usually manages the implementation engagement but occasionally may provide only functional and technical expertise. In an implementation services engagement of smaller scope, however, the project team may consist of the practitioner alone. Although implementation services focus on action rather than reports of findings and recommendations, it is useful to end the engagement by advising the client of its completion and summarizing its accomplishments in writing in a completion notification letter.

.07 Transaction Services. Transaction services relate to a specific client transaction and generally involve a third party. Examples of these services include insolvency services, business valuations, preparation of information to obtain financing (excluding development of historical or prospective financial statements), analysis of a potential merger or acquisition, and litigation services.

.08 Transaction services do not focus on improving the economy, efficiency, or effectiveness of an organization. Instead, they are concerned with a current or probable transaction, although the practitioner's functions may include other consulting services. Written reports may include the practitioner's own findings and conclusions, which are not an attestation to someone else's assertions.

⁴ For a government organization, the practitioner may have to meet certain advisory standards such as included in the Government Accounting Office's publication *Government Auditing Standards*.

Preengagement Considerations

.09 Preengagement activities play an important role in establishing an understanding between the client and practitioner and in enabling the practitioner to become familiar with the client's environment. In developing a consulting services engagement control program, a firm should consider establishing policies and procedures that deal with the period prior to engagement acceptance, starting as early as the initial contact.

.10 The nature of an initial contact with a client or potential client will vary considerably. It may involve the receipt of a formal and detailed communication containing extensive background information, such as a request for proposal (RFP) issued by a governmental body, or it may be in the form of a comment from a client or potential client about a business problem or specific consulting work to be done. The practitioner's response will depend on the circumstances of the initial contact. Certain activities, however, are common to the preengagement phase of many consulting services engagements.

.11 This section discusses the activities of the CPA firm during the preengagement period. These activities fall into the following categories with subordinate tasks:

.12 *Definition of the Engagement*

- Initial assignment of responsibility
- Review of background
- Preliminary survey
- Determination of the engagement's nature, scope, and objectives

.13 *Decision to Pursue the Engagement*

- Acceptance of the client
- Initial understanding of client benefits
- Determination of the ability to complete the engagement

.14 An illustrative control form for the entire engagement acquisition process, from initial contact through proposal, is provided in exhibit 4-1 in appendix 4.

.15 **Definition of the Engagement.** Engagement definition usually involves determining the preliminary response to a request for assistance. The request may sometimes include problem statements that are unclear or not specific. The effort to determine an appropriate response sets the direction for the engagement. Engagement definition is equally important when the practitioner is recommending a consulting services engagement to the client. A misperception or misunderstanding of what the consulting services practitioner is being engaged to accomplish will have a negative effect on the engagement. A firm's consulting services engagement control

program can help guide practitioners in obtaining a better understanding of the client's needs and the work to be done.

.16 A client may define an engagement when requesting a practitioner's assistance. However, the practitioner's judgment and experience may indicate that the client's perceptions of the problem or suggested method of pursuing the solution may not lead to the desired results. A control program can help ensure that a practitioner sufficiently evaluates the situation rather than proceeding solely in accordance with the client's definition. To ensure adequate evaluations, the control program needs to include policies and procedures to guide the practitioner in performing pertinent reviews and research prior to developing an engagement proposal or plan.

.17 General key tasks within the engagement definition activity provide control opportunities. These tasks are initial assignment of responsibility, review of background, preliminary survey, and determination of the engagement's nature, scope, and objectives.

.18 *Initial assignment of responsibility.* Consulting services engagement development entails control and coordination by an individual who can make decisions about accepting consulting engagements. Identifying the individual to be responsible for proposal development and planning can provide control over subsequent preengagement client contacts and the engagement definition activity (for example, background review, survey, and determination of the scope and objectives).

.19 In many cases the individual assigned to proposal development and planning may also be responsible for subsequent activities in the consulting services engagement cycle, such as making the decision to pursue the engagement and planning and conducting the engagement. In other cases, different individuals may be assigned subsequent engagement responsibilities. For example, a person with certain technical skills may be required for quality assurance.

.20 *Review of background.* A review of available pertinent background material is useful before undertaking a consulting services engagement. If the prospective engagement is for a current or former audit, tax, or consulting services client, discussions with personnel familiar with the client, as well as reviews of past management letters, previous engagement work papers, annual reports, and other available material, are frequently of value. Researching publicly available information about the client and the client's industry is sometimes helpful in understanding the client's operations and problems and in establishing a better rapport with the client. Such reference materials will also be helpful to other individuals who become involved in later phases of the engagement.

.21 *Preliminary survey.* A preliminary survey of the client's situation is often a good way to develop the engagement definition. Such a survey may vary in complexity. It may even be phase 1 of an engagement, with the engagement definition for subsequent phases to be developed after the survey is completed.

.22 A prospective client, in many cases, may have already diagnosed the problem or may have an understanding of the engagement's objectives and the anticipated work the consulting services practitioner will perform. However, the client's diagnosis may be based on incomplete

data or an incomplete analysis of the situation, or it may lack objectivity. Therefore, a practitioner's review of available data and an analysis of the situation can be useful.

.23 The results of a survey often enable a consulting services practitioner to suggest alternative courses of action. These may change the client's initial conception of the anticipated work or even the engagement's objectives.

.24 Deciding whether to perform a preliminary survey usually involves considering —

- The client's ability to correctly define the problem or the work required and reviewing the bases of the client's conclusions.
- The complexity of the problem.
- The potential risk involved in undertaking the engagement without a survey.
- The survey's cost in light of the potential scope of the engagement.
- The practitioner's experience with the client and the client's industry.

.25 A preliminary survey involves performing work necessary to define the engagement. It may include —

- Developing a survey plan to independently evaluate client operations.
- Contacting appropriate client personnel to secure needed information.
- Resolving any issues that affect the development of the engagement definition.

.26 *Determination of the engagement's nature, scope, and objectives.* An initial view of the engagement's nature, scope, and objectives may be obtained through discussions with client personnel, a request for proposal, or a preliminary survey. However, analysis of the information gathered sometimes produces alternatives to the client's suggestions that may be more appropriate or more feasible under the circumstances. The practitioner and the client need to reach an early understanding on the nature, scope, and objectives and to agree on a method for handling any later changes in the initial understanding.

.27 **Decision to Pursue the Engagement.** One of the most critical control points in the consulting services engagement process is reaching a decision about whether to pursue the prospective engagement. Appropriate engagement control procedures can play an important part in helping a firm avoid an undesirable or inappropriate engagement and in limiting the possibility of inadvertently declining an acceptable one.

.28 The decision to pursue an engagement will depend on the answers to such questions as the following:

- Can the client benefit from the engagement?
- Will the firm's role in the engagement be an appropriate one?
- Is the nature of the required work acceptable to the firm and consistent with professional standards?
- Is the firm competent to perform the required work?
- Can the required work be performed at a cost acceptable to the client?
- Can the work be completed within a time frame acceptable to both the practitioner and the client?
- Is the client likely to accept and implement appropriate recommendations?
- Is there any other reason the firm would not want to undertake this engagement?

.29 Within the decision-making process there are several tasks that can help to answer these questions. These tasks also present opportunities to establish engagement controls. As previously outlined, the tasks are acceptance of the client, initial understanding of client benefits, and determination of the ability to complete the engagement.

.30 *Acceptance of the client.* A firm carefully considers whether accepting an engagement might result in an undesirable association. Although a firm does not vouch for the integrity or reliability of a client, it considers whether the reputation of a client's management could reflect on the reliability of representations made by that management and on the firm's own reputation. The firm's relationship with others, such as competitors or major suppliers to the potential client, may be considered. A firm would also be concerned with the prospective client's ability to pay for the services rendered. Therefore, a firm's consulting services engagement control program can communicate to its practitioners how prospective clients are to be reviewed in terms of reputation, relationship to other clients, and financial condition. Such a review might involve the following steps:

- Request information from appropriate third parties that may have a bearing on the prospective client and its management.
- Obtain and review available financial information to determine that the prospective client has the ability to pay for the engagement.
- Consider how the prospective client's competence may affect the success of the engagement.
- Consider any circumstances that make the prospective engagement one that presents unusual risk or questions of propriety.

.31 The firm's objectivity and independence⁵ are also considerations in the decision. The firm might wish to establish the practice of communicating information about prospective consulting services engagements to appropriate personnel so that any potential conflicts can be discovered before an engagement is accepted. A consulting services Engagement Notice is provided in exhibit 4-2 in the appendix.

.32 *Initial understanding of client benefits.* Typically a consulting services engagement occurs only if a prospective client believes it will benefit from engaging the CPA firm to do certain work. However, benefits are often difficult to quantify and may be intangible. Therefore, the skill with which a practitioner identifies potential benefits and engagement costs, and communicates them to the prospective client, may determine whether there will be a consulting services engagement for the firm.

.33 The expected benefits also become the key criteria against which the client will measure the success of the consulting services engagement. Any reservations the practitioner has about expected benefits should be communicated to the client to ensure that an understanding about benefits will be reached.⁶ A firm's engagement control program may direct its consulting services practitioners to —

- Weigh, if possible, the expected benefits against estimated engagement costs.
- Consider the prospective client's willingness to accept recommendations and its ability to implement them.
- Communicate to the prospective client any reservations concerning the ability to achieve expected benefits.

.34 *Determination of the ability to complete the engagement.* A practitioner determines the nature, scope, and objectives of a potential consulting services engagement before deciding to pursue it. Matters to be considered would include personnel, equipment, and time requirements as well as engagement constraints, such as a deadline for the completion of the work. For example, the firm may find it appropriate to direct its practitioners to —

- Identify the tasks that should be accomplished to successfully complete the engagement.
- Conduct a skills inventory by matching the industry, experience, technical, and personnel requirements of the potential engagement with firm personnel.

⁵ See SSCS No. 1, *Consulting Services: Definitions and Standards* (New York: AICPA, 1991), paragraph 7 and footnote 2.

⁶ See the sections concerning client benefits in SSMAS No. 1, paragraph 6, and SSMAS No. 2, *MAS Engagements* (New York: AICPA, 1982), paragraphs 21-23.

- Determine if required resources will be available at the required time and in the required numbers.
- Identify the tasks to be performed by the client and its ability to complete them.
- Identify those parts the client must complete and assess their ability to complete them.
- Determine if additional resources needed can be obtained from outside the firm.

.35 Summary. The eventual success of a consulting services engagement, as well as the initial goal of securing the engagement, often depends on activities performed by the consulting services practitioner before an agreement to perform the engagement has been reached with the client. The activities discussed in "Definition of the Engagement" and "Decision to Pursue the Engagement" are important in the consulting services engagement process. Most firms have devoted less attention to controls over these activities than to controls over planning, execution, and conclusion activities. Establishing an appropriate consulting services engagement control program can help assure a firm that the consulting services engagement its practitioners undertake will be completed with professional competence and will prove to be beneficial to the client and the firm.

Engagement Planning

.36 When a decision to pursue an engagement is reached, emphasis shifts from the nature of the engagement to a plan and arrangements for effectively and efficiently completing the engagement. This section deals with converting information gathered in the preengagement phase into a specific plan and arrangements for conducting the engagement. Arrangements often include the overall schedule, assignment of responsibilities to firm and client personnel, fees, and use of client facilities.

.37 In reaching the decision to pursue an engagement, the firm usually should have developed—

- An adequate understanding of the client's business environment.
- An understanding of the engagement's nature and scope.
- A tentative approach to attaining the engagement objectives.
- An assessment of the firm's ability to complete the engagement successfully.

.38 At this point the nature and extent of available project information may vary considerably and may not yet be sufficient to provide the consulting services engagement director with a clear understanding of the detailed engagement work steps, staff, and schedule. If this is the case, the consulting services engagement director can conduct further research and analysis that would enable the firm to reach an understanding with the client.

.39 Elements that are generally considered in the planning process include:

- Engagement approach
- Estimates of time and effort
- Anticipated needs for firm supervision and staff functions
- Determination of project control points
- Expected frequency and form of reporting
- General responsibilities of client management and client personnel assignments
- Tentative arrangements for client decision making and liaison
- Fee estimates
- Use of outside specialists
- Provisions for changing the engagement plan

.40 The planning process goes on throughout a consulting services engagement because plan revision may occur as more facts become known or in response to changing circumstances or changes in the engagement definition. The level of planning detail and documentation will vary with the size, complexity, personnel, and circumstances of the engagement.

.41 The following engagement activities and tasks will be discussed in this section:

.42 *Developing an Initial Engagement Plan*

.43 *Reaching an Understanding With the Client*

- Choosing the form of communication
- Reviewing the information to be communicated

.44 *Preparing a Detailed Engagement Work Program*

- Developing the program
- Reviewing the program
- Communicating information that differs substantively from the initial understanding

.45 **Developing an Initial Engagement Plan.** Initial engagement plan development is a key activity in the process of planning and conducting a consulting services engagement. It is often done when there is no assurance that the firm will be engaged. When conducted in an

appropriate and timely manner, initial engagement planning can enhance the possibility that the firm will be engaged, and it can also benefit the later conduct of secured engagements. A detailed engagement work program generally builds upon a foundation supplied by an initial engagement plan.

.46 An initial engagement plan is a translation of the engagement definition into steps required to meet the objectives of the proposed project. Generally, an engagement plan covers gathering and analyzing data; developing, testing, and evaluating courses of action; presenting findings and recommendations; and, when appropriate, assisting in implementation. However, implementation assistance may be a separate engagement.

.47 If there is a high degree of certainty about securing an engagement, a detailed engagement work program might be prepared as part of the initial engagement plan. The preparation of a detailed work program is discussed later in this section, but its content is often considered in the initial engagement planning process.

.48 A firm may wish to establish control policies and procedures for initial engagement plan development to help ensure that planning is conducted, supervised, and documented according to firm policies. For example, the firm may want to specify (a) that an initial engagement plan be sufficiently detailed to achieve an understanding with the client and (b) that the intended consulting services engagement director should, to the extent possible, participate in its preparation. Exhibits 4-3 and 4-4 in the appendix provide illustrative forms for initial engagement planning.

.49 The firm may also wish to establish a procedure to ensure that an initial engagement plan is reviewed, whenever possible, by appropriate firm personnel who have performed similar services for other clients. For example, a firm might develop an engagement index, report library, or other similar sources that would provide the names of personnel involved in prior engagements of a similar type or for the same industry or client.

.50 Reaching an Understanding With the Client. Agreeing on arrangements and communicating with the client about the engagement plan are part of the process of reaching an understanding. Each engagement is a contract, either expressed or implied, in which a firm agrees to perform certain services for a client and to accept certain responsibilities. If this agreement is formalized in writing, there is less chance of a misunderstanding between the firm and the client.

.51 The benefit of consulting services engagement controls relating to the understanding with the client will vary according to the size, type, and risk of a specific consulting services engagement. However, a firm might want to establish policies and procedures to help ensure that arrangements are appropriate to the consulting services engagement and are documented and communicated to the client according to firm practices.

.52 *Choosing the form of communication.* Clients can be informed of significant matters related to a consulting services engagement through a proposal letter, a confirmation letter, an engagement letter, a contract, or an oral understanding, which might be documented in a file

memorandum. The following communication methods might be addressed in a consulting services engagement control program.

- *Proposal letter*, which is an offer of services. When accepted, it becomes a contractual agreement. The proposal letter generally covers engagement objectives, potential benefits, other elements of the proposed engagement plan, and arrangements that the client should know about in order to make an informed decision concerning acceptance of the proposal. If subsequent events require alteration of the initial letter, amendments can be made provided written confirmation is obtained.
- *Confirmation letter*, which is a brief and concise statement of an agreement previously reached with a client. It might reflect changes to a proposal letter or outline a discussion of significant engagement matters.
- *Engagement letter*, which is a contractual agreement used primarily when the client has already agreed that the firm will undertake the project. The letter documents the understanding, including objectives, benefits, plans, and arrangements, in about the same level of detail as might appear in a proposal letter.
- *Contract*, which is a legal document generally prepared by the client, often incorporating a proposal letter or an engagement letter prepared by the firm.
- *Oral understanding*, which is an understanding of a consulting services engagement that may be reached when the client views a written proposal or engagement letter as unnecessary or undesirable. In such cases, however, it may still be desirable to document the understanding in a memo to the file for the benefit of other firm personnel who may become involved in the engagement, and to consider sending a copy of the memo to the client.

.53 *Reviewing the information to be communicated.* Proposal letters, engagement letters, and other key communication documents to the client can significantly affect the success of a consulting services engagement. Factual or computational errors, ambiguities, inconsistencies, incompleteness, and poor language, all create the potential for misunderstanding. In addition, they might result in the firm's not being engaged at all. Therefore, depending upon the complexity and amount of information to be communicated, letters might need to be reviewed from technical, editorial, policy, and legal perspectives. A firm may wish to establish policies and procedures to ensure that all letters are reviewed (a) by an appropriate person other than the drafter before being submitted to the client, and (b) by administrative or technical personnel or legal counsel in certain circumstances.

.54 An oral understanding of engagement plans is difficult to review if a written initial engagement plan or work program is not prepared. When engagement circumstances or the client's desires dictate that an oral understanding not be confirmed in a letter, a firm may wish to exercise control by requiring that a memo to the file be prepared and reviewed or that an additional firm representative attend the oral presentation.

.55 **Preparing a Detailed Engagement Work Program.** A detailed engagement work program is a result of the planning process. Preparation of the detailed engagement work

program entails formalizing and elaborating on the approach to the project developed during the preengagement and initial engagement planning activities.

.56 Detailed engagement work programs are useful because they —

- Provide a means for arranging, distributing, and assigning responsibility for various segments of an engagement.
- Provide a means of control for determining whether all segments of the engagement have been completed.
- Provide the framework for reporting progress and meeting deliverable dates on an engagement.
- Facilitate the establishment of time and efficiency controls over engagement personnel.
- Assist with engagement review.

.57 As indicated earlier in this section, a detailed engagement work program may be prepared before a proposal or engagement letter is submitted to the client when the firm has a high degree of certainty that an engagement will be secured. However, initial engagement planning usually involves consideration of most of the factors examined in developing the detailed engagement work program; this is generally necessary in order to estimate the fee and prepare the proposal or engagement letter. Details or documentation useful in executing the engagement, however, may not be developed until after the engagement is secured, at which time a detailed engagement work program may be prepared for the first time.

.58 In many cases, elements of the detailed work program will have been developed in varying degrees prior to formalization of the program, and refinement or revision of the program will continue throughout the engagement. The degree of detail in an engagement work program may vary considerably, based on the circumstances of the specific engagement, firm policy, and professional judgment.

.59 A detailed engagement work program can serve as a master plan for the engagement and the framework for controlling its progress. It can be a planning tool that actually documents how the engagement will be carried out, organizes the engagement into scheduled sequences, and indicates the various tasks necessary to achieve the intermediate goals as well as to obtain the final product. It might allocate the engagement time by task and assign specific tasks to particular staff members. However, not every engagement may entail development of such a program.

.60 Excerpts from a very detailed engagement work program, including a Gantt chart used to display the task/time/responsibility relationship, are provided in exhibits 4-5 and 4-6 in the appendix. An illustrative work program form is provided in exhibit 4-7.

.61 A firm may wish to establish policies and procedures concerning the development of detailed engagement work programs. This can help ensure effective planning prior to the

performance of every consulting services engagement that is expected to exceed a certain number of work days or meets other specific criteria.

.62 Preparing a detailed engagement work program includes three major tasks: developing the program, reviewing the program, and communicating information that differs substantively from the initial understanding

.63 *Developing the program.* The detailed engagement work program, which can take many forms, could include—

- A statement of the engagement's objectives, scope, and approach (or a copy of the proposal, engagement letter, or file memo, which includes this information).
- A breakdown of what is to be studied and the various activities and tasks to be performed, including data to be gathered, client contacts, supervision, output, and so forth.
- Staffing requirements, including assignments and responsibilities of personnel; schedules and allocations of time to perform specific tasks, including starting and completion dates.
- Client participation in various engagement activities and tasks and client engagement responsibilities, if any, to be integrated into the schedule.

.64 To provide guidance, a firm may also wish to develop standard forms and sample engagement programs for various types of engagements.

.65 One of the key reasons for developing a detailed consulting services engagement work program is its usefulness as a control tool for staff assignments and supervision. As indicated earlier, the decision to pursue an engagement and the initial planning for it are often based on certain expectations concerning the availability of appropriately skilled personnel. In some cases a proposal letter may even include the names, backgrounds, and skills of the specific individuals who may be assigned to the engagement.

.66 Notwithstanding all of the above, actual staff assignments cannot be made until the firm is ready to begin the engagement. Although a proposal letter may earmark specific individuals, either the prospective client's delay in responding to the proposal or staff turnover could make those individuals unavailable when the engagement begins or when an individual's assignment in the engagement is to be performed. Every effort is normally made to utilize personnel in accordance with prior plans, but it is not always possible.

.67 The success of a consulting services engagement can often be directly related to the qualifications of the individuals performing and supervising the engagement tasks, including report preparation. Therefore, staff selection tries to match the specific engagement requirements with appropriate personnel, drawing on internal firm resources when possible but calling on appropriate external sources when necessary. The inability to meet personnel requirements could result in a firm's withdrawing from an engagement.

.68 Care is exercised by firms in the selection of staff and supervisory personnel. One procedure that could help simplify the selection process would be establishing a skills inventory of personnel. An individual responsible for staffing an engagement could then more easily determine who has the required skills or experience. The skills inventory might include such categories as technical skills (for example, minicomputer installation), industry knowledge (for example, banking), and functional knowledge (for example, marketing). Names of personnel would be listed under each category. When making assignments, the staff selector could then consider the education, previous experience, and previous engagements of each listed individual.

.69 A detailed consulting services engagement work program would help match skills and abilities to the engagement requirements and work schedule. The program would then provide a control during the engagement to help ensure that the designated tasks are completed by the assigned people at the scheduled times.

.70 *Reviewing the program.* Generally a detailed engagement work program is developed by the engagement director. In many instances, the individual assigned this responsibility would have been involved in the preengagement client contacts and any preliminary survey. A firm may wish to establish policies and procedures specifying when persons responsible for the development of detailed consulting services engagement work programs should have the draft programs reviewed by someone with appropriate technical, industrial, and client knowledge.

.71 There may be others in the firm with equal or greater applicable experience who could be consulted in the preparation of the detailed engagement work program. Additionally, there may be others in the firm who have provided different services for the client—consulting services, audit, or tax—and whose knowledge of the client's personnel and operations could be valuable in preparing the engagement work program. These sources can often be helpful in improving the conduct of the engagement. If they are contacted during the initial engagement planning, information they provide can generally be reviewed again during preparation of the detailed engagement work program.

.72 *Communicating information that differs substantively from the initial understanding.* The development of a detailed engagement work program for a consulting services engagement may, in itself, result in potential changes to the objectives, scope, approach, staffing, timing, or fees agreed upon in the initial understanding. Careful development of the detailed engagement work program may establish the advisability of making such changes in order to increase the likelihood of a successful engagement. If the changes relate to information already communicated to the client, it is appropriate to discuss the changes with the client before proceeding. At this point, a contractual relationship already exists with the client, and such changes are, in effect, amendments to the contract.

.73 A consulting services engagement control program could include procedures to help assure a firm that if the actual work planned and conducted deviates significantly from the initial understanding reached with the client, such changes will be communicated to the client and records of any agreements that change the initial understanding will be maintained. Such changes may also occur during the engagement execution phase.

.74 *Summary.* Engagement planning and documentation of that planning will vary considerably depending on the size, complexity, and nature of a specific consulting services

engagement. For example, a major engagement and program development plan in response to a government request for proposal (RFP) may require weeks of planning work, including a detailed engagement work program, in order to prepare a lengthy and highly detailed proposal document. There are also many consulting services engagements that might not fall under a firm's definition of a significant engagement and would therefore require little in the way of planning documentation, although planning would, of course, be done as required to successfully complete the engagement.

.75 Professional judgment is exercised in determining the proper amount of planning and documentation for each engagement. Professional judgment, however, can be guided by policies and procedures established by a firm as part of an engagement control program.

Engagement Management and Execution

.76 The preceding sections, "Preengagement Considerations" and "Engagement Planning," included discussions of consulting services engagement activities that might be performed even when a potential engagement is not secured and there is no agreement for the firm to perform any work. This section discusses the activities that take place once there is an agreement and the firm is committed to performing certain work.

.77 A review of engagement activities discussed in the preceding sections can contribute to a better understanding of the significance of the material in this section. Relevant activities and considerations include the following:

- Reviewing client operations, analyzing any prior work, and collecting preliminary data
- Defining the engagement's scope, nature, and objectives
- Assigning an engagement director
- Developing an initial engagement plan
- Reaching an understanding with the client about engagement plans and arrangements
- Developing a detailed engagement work program, if appropriate
- Assigning staff

.78 The following key activities and tasks relating to management and execution of a consulting services engagement are discussed in this section.

.79 *Engagement Management*

- Providing for engagement supervision and review
- Managing project personnel

- Monitoring client satisfaction and understanding, including perception of benefits
- Maintaining the engagement plan and monitoring progress

.80 *Engagement Execution*

- Information gathering
- Information analysis

.81 **Engagement Management.** *Engagement management involves the effective use of the project team so that the conduct of the engagement meets requirements relating to scope, objectives, schedule, and work program and conforms to firm policies. The four tasks within the engagement management activity are considered separately.*

.82 *Providing for engagement supervision and review.* A consulting services engagement control program can help ensure adequate fulfillment of assigned supervisory and review responsibilities. Supervisory responsibilities related to the day-to-day conduct of the engagement generally include the assignment and execution of all planned activities and tasks. Review responsibilities involve after-the-fact consideration of what has been done. An engagement director fulfills both responsibilities by supervising current engagement activities and reviewing prior engagement activities in an effort to complete the engagement satisfactorily.

.83 Although supervisory responsibilities are carried out by the engagement director and others on the team, a firm may decide it is desirable, whenever possible, to augment the engagement director's review with one or more reviews performed by individuals not on the project team. Table 4-1 lists some engagement aspects generally subject to periodic review and suggests potential reviewers. The engagement aspects and the list of potential reviewers are intended as illustrations only. One or more individuals may review engagement aspects, as appropriate to the circumstances. Professional judgment should play an important part in tailoring review requirements to a specific engagement.

.84 A firm's consulting services engagement control program could —

- Identify engagement aspects that the firm thinks should be reviewed.
- Identify potential reviewers.
- Provide guidance and procedures for arranging reviews.

.85 A firm may also wish to establish a postengagement review process which is beyond the scope of this practice aid which deals only with controls that can be exercised during an engagement.

Table 4-1
Engagement Review Aspects and Potential Reviewers

Engagement Aspects to Consider for Review

- Assignment and conduct of tasks
- Preparation of reports and other deliverables
- Progress in meeting engagement objectives and plans
- Consistency of key findings, conclusions, and recommendations as well as special technical issues
- Sensitivity of recommendations to client environment, needs, and understanding
- Meeting the firm's engagement control goals

Potential Reviewers⁷

- Engagement director
- Client partner—the individual responsible for overall services to the client
- Other designated general reviewers
- Appropriately qualified technical reviewers other than those assigned to the engagement; internal or external not including client personnel
- Client-designated contacts
- Client-designated steering committee

.86 A firm's consulting services engagement control program could provide guidance on how to carry out the firm's review policy. Decisions might include such factors as what (material), who (reviewer), how much (extent), when (timing), and why (benefits). Additional factors are the degree of responsibility assigned to a reviewer and the use of reviews as part of

⁷ One or more of the potential reviewers may review any of the listed aspects, or one individual may review a number of the aspects, depending upon circumstances and reviewer resources.

a staff development program. Circumstances that might influence the choice of review alternatives in a specific engagement include—

- Experience and expertise of the project team members.
- Financial or other operation implications for the client.
- Complexity of the technical issues under review.

.87 Although firm resources are most frequently drawn on for such reviews, there are situations in which outside technical expertise can be used to advantage. Sources for such expertise would include other CPA firms, management consulting firms, universities, and other individuals or organizations with recognized technical proficiency in the given subject area. Client personnel also often play significant review roles in consulting services engagements.

.88 *Managing project personnel.* A firm may wish to establish separate policies and procedures related to the effective use of consulting services project personnel. The administrative procedures for managing personnel will vary with the circumstances of the engagement, including such factors as number of people involved, degree of client contract and relationships, and each person's length of assignment to the project and level of experience.

.89 The location and duration of the engagement may also affect personnel and their performance. A consulting services engagement control program may provide engagement directors with guidance concerning appropriate and timely action if the attitudes or activities of engagement personnel should begin to have an adverse effect on an engagement.

.90 **Monitoring Client Satisfaction and Understanding, Including Perception of Benefits.** A firm may wish to establish policies and procedures to ensure that the engagement director monitors those engagement-related attitudes and activities of the client that may affect the success of the engagement. These client attitudes and activities include:

- Understanding of the engagement's objectives and deliverables.
- Recognition of and reaction to actual or perceived changes in the engagement's scope
- Reaction to the project's progress and perceived benefits
- Interaction with project personnel
- Changes in organization
- Changes in operations (possibly resulting from early implementation of recommendations)

.91 Since such information will help both the firm and the client to monitor the engagement's potential results, the control program could include a requirement for the client partner to communicate periodically with the client concerning project progress and problems

encountered. The practice of interim billing for completed segments of an engagement will also provide an effective means of gauging a client's attitude toward the engagement's progress.

.92 Maintaining the Engagement Plan and Monitoring Progress. A firm may wish to establish procedures to help ensure that an engagement is progressing in accordance with plans or with the detailed engagement work program, if there is one. A work program can be a key aspect of engagement control. A detailed program, with specific steps and schedules, can make it easier to determine whether the engagement is proceeding as planned and whether the findings or results are consistent with the understanding established with the client.

.93 Consideration should be given to maintaining documents that record hours expended by each project team member for each engagement task, in order to facilitate review of the use of resources and to help identify deviations from the engagement scope or work program. When significant changes in scope occur, it would be appropriate to review them with the client and to have the work program subsequently reflect them. The work program and time control documents may be combined as illustrated in the engagement time control form provided in exhibit 4-8 in the appendix.

.94 Engagement Execution. Consulting services engagement execution involves two major tasks—information gathering and information analysis, which includes developing recommendations. A consulting services engagement control program can include procedures to help ensure that information gathering and information analysis are performed in keeping with client-firm understanding and the firm's policies. An engagement control form which includes a checklist for use during the engagement process is provided in exhibit 4-9 in the appendix.

.95 Information gathering. A clear definition of the engagement is important so that sufficient relevant data can be identified and collected. Information gathering involves—

- Determining the nature and extent of information to be collected.
- Locating the sources of the needed information.
- Recording the information and documenting the process.

Each of these three aspects of the information-gathering task may be considered separately during the development of consulting services engagement control policies and procedures.

.96 The nature or extent of the information may complicate the gathering process. For example, the practitioner deals not only with numerical data, but also with subjective information, such as impressions drawn from interviews and representations about future events.

.97 The sources of information will affect the information-gathering process in several ways. Consulting services engagement control policies or procedures could provide guidance about reliance on data supplied by the client or by other sources.

.98 Administrative control over the information-gathering task involves the firm's policies concerning documenting facts, recording observations, and retaining pertinent information and

materials gathered during a consulting services engagement. The firm could prepare guidelines that would assist in communicating those policies.

.99 *Information analysis.* Converting information and judgments based on the consulting services practitioner's prior experience and knowledge into conclusions and recommendations can often be difficult. It is a process in which the effective practitioner consolidates a considerable amount of information, avoids marginal or peripheral issues, understands underlying relationships and trends, knows when to apply appropriate analytical techniques, and gauges when and how to present the key issues and recommendations to stimulate client action.

.100 Analysis is a logical, systematic process that includes the following tasks:

- Classifying the information gathered
- Determining causal relationships
- Identifying key variables
- Discovering problems or opportunities
- Developing and evaluating various courses of action
- Recommending a course of action

.101 Consulting services engagements usually entail the use of an analytic process that begins with information gathering and concludes with the presentation or implementation of the recommendations. Careful analysis can provide a more logical basis for conclusions and recommendations than intuitive judgments, consensus techniques or negotiated courses of action, although the analytic process may also draw on these other approaches to problem solving.

.102 A major advantage of the analytic process is that it can be reviewed by others to determine if there are flaws in the reasoning that led to the conclusions or recommendations. This would not be possible with an intuitive approach, although the conclusions reached may be quite correct. A firm may wish to establish the use of forms and procedures to help ensure that an analytic process is used in reaching conclusions and recommendations.

.103 *Summary.* Controlling the conduct of a consulting services engagement is clearly an important factor in achieving a successful result. It is during the management and execution phase that the engagement director will have the greatest control responsibilities and greatest opportunities to achieve the engagement objectives. Providing guidance through consulting services engagement control policies, procedures, and forms can help ensure a firm that consulting service director will follow the firm's preferred approach.

.104 Instituting timely reviews of the progress and findings of consulting services engagements can provide a firm with a major control instrument. However, the conduct of consulting services engagements may not follow a uniform progression of activities and tasks. Establishing standard review procedures for every engagement might, therefore, be less effective than, for example, (a) establishing a requirement that a consulting services engagement

work program include provisions for appropriate reviews and (b) providing guidance on what may be appropriate under different sets of circumstances.

.105 As with all professional engagements, the management of consulting services engagements will include certain aspects of personnel management. Consulting services engagements may involve factors not common to other professional engagements in kind or degree, and appropriate guidance may be desirable.

.106 Client communication throughout a consulting services engagement can be, in itself, an important control technique. A firm's control program would consider client communication carefully rather than assume that engagements, by their very nature, will entail sufficient communication.

.107 The two major engagement execution tasks, information gathering and information analysis, constitute the bulk of the work in many consulting services engagements. Controls can help ensure a firm that the engagement stays on course and that its conduct complies with firm policies and professional standards.

Engagement Conclusion

.108 Each activity in a consulting services engagement is a step toward achieving the objectives and thus concluding the engagement. This section provides a framework for consulting services engagement control in the communication of results to the client. Such communication typically includes recommendations (with alternatives) and suggestions for, or assistance in, implementing them. In this phase of the consulting services engagement process, a review of recommendations and documentation may precede the communication of results, and an assessment of client acceptance may follow it.

.109 This section also discusses how a firm can obtain reasonable assurance that relevant engagement control policies and procedures were followed properly during the engagement.

.110 The following activities and tasks are part of the consulting services engagement conclusion:

.111 *Final Review of Engagement Results*

- Consultative review with the client
- Technical review
- Consulting services director's review
- Objective general review

.112 *Communication of Engagement Results*

.113 *Engagement Follow-on*

- Assessing client acceptance of engagement results
- Confirming project completion

.114 Final Review of Engagement Results. In the final review of engagement results, the firm is assuring completion of relevant tasks, reviewing findings and conclusions, and selecting and documenting results. In this phase of the engagement, the firm is about to take a position on the work it has undertaken for the client. All the consulting services engagement controls employed before were intended to enable the firm to complete its engagement responsibility effectively and efficiently. This phase provides a final control opportunity.

.115 Reviews are an effective tool for engagement control. Appropriate policies covering a final review of results before the engagement is concluded may be included in a consulting services engagement control program. Such policies could help ensure that the engagement findings, recommendations, and report, if written, reflect the firm's quality standards and policies. The firm might, for example, specify that consulting services engagement results are not to be communicated to the client as the final product until they have undergone a review in keeping with the nature, scope, and complexity of the engagement.

.116 A number of possible tasks within the final review of consulting services engagement results include consultative review with the client, technical review, consulting service director's review, and objective general review. While these are considered separately, it should be recognized that in some circumstances the consulting service director and client personnel may be the only parties involved in accomplishing these reviews (for example, when the consulting services practitioner is a sole practitioner).

.117 *Consultative review with the client.* The quality of engagement results can be enhanced through consultative reviews with client personnel. A firm might wish to require a practitioner involved in a consulting services engagement to provide opportunities during both the engagement's execution and its conclusion for a review of findings, conclusions, and recommendations with the client. This requirement could be achieved, for example, by including provisions for appropriate reviews in the engagement work program, including an engagement conclusion review.

.118 Reviewing tentative engagement results with appropriate client personnel will generally create a more receptive environment for client acceptance of final results. It will also provide opportunities to verify facts and secure initial reactions to conclusions and recommendations. In the process, practitioners may gather additional information that results in changes or further study.

.119 *Technical review.* A technical review by an individual or individuals not involved in the engagement could enhance the final review process. The reviewing individual with the requisite technical expertise could be someone on the firm's staff or from outside the firm, as available and appropriate. The purpose of such a technical review would be to provide additional confirmation of technical results before they are communicated to the client.

.120 *Consulting services director's review.* The consulting services director determines that all relevant tasks have been completed and that the engagement results are in accord with the

objectives and scope agreed on throughout the engagement. The review might include a determination that—

- Alternative courses of action have been included, if appropriate, and sufficient information has been provided and verified to facilitate the client's decision-making process.
- The technical concepts involved are compatible with the client's environment and capabilities.
- The technical concepts have been explained in sufficient detail and clarity to facilitate understanding by the client and others who may review the report.
- Training requirements, if any, for client personnel have been considered.
- Implementation requirements, if any, have been considered.

.121 Objective general review. A firm may wish to establish policies and procedures to assure itself that diligence and appropriate attention were applied during the conduct of a consulting services engagement. Some firms have an appropriate person not involved in the engagement conduct a review that includes the substantive issues of the engagement as well as the tasks that were performed, thus providing an objective evaluation of the engagement process and its results. Such an individual would not need to be technically qualified in the subject matter of the engagement but would be able to judge whether (a) the analytical methods employed were relevant, (b) the results appear appropriate to the engagement understanding, (c) there is adequate evidential support for the conclusions reached, and (d) the engagement objectives were met.

.122 If a firm believes such a review is useful, it generally can be performed by the client partner. If there is no client partner, or if that individual was involved in developing the engagement results, another appropriate person within or outside the firm could do the review.

.123 Communication of Engagement Results. Communication of engagement results will not always be limited to, or primarily involve, a report. Some consulting services engagements are designed to include assistance in the implementation of systems or selected courses of action, but in other cases implementation may be a separate engagement. In either case, the work itself and the changes made may be the engagement results.

.124 A firm may wish to establish policies and procedures to help ensure appropriate communication of engagement results to the client. For example, for written communications there might be a policy requiring that the final consulting services engagement report be reviewed and approved prior to release to the client. For oral communications, the firm might wish to perform a review procedure before the client is advised that the engagement has been completed. Such a procedure might, for example, involve the preparation of a memo to the file, summarizing the work done and the final oral report, if any. This memo and appropriate engagement documents might then be reviewed before sending a letter formally advising the client that the engagement is concluded.

.125 Engagement Follow-on. The closing process considers all aspects of the engagement, but primary consideration is given to the substantive results of the engagement and the administrative process followed. Aside from fee billing and file-closure procedures not discussed here, there are two questions a firm may wish to address when closing the engagement:

- a. Has the work achieved the objectives of the engagement?
- b. Has the completion of the engagement been communicated to and accepted by the client?

.126 Within the engagement-closing process, there are two tasks, assessing client acceptance of engagement results and confirming project completion, that might be considered separately in a control program.

.127 *Assessing client acceptance of engagement results.* Assessing results involves a candid review of how the engagement affected the client. A firm might wish to establish an evaluation procedure that, for example, would consider the client's views on whether the recommendations—

- Are specific enough to allow client understanding of the intent as well as the nature of the proposed action.
- Are practical for the client's situation.
- Have an acceptable cost-benefit relationship.

One procedure to assess client acceptance of engagement results is to schedule a follow-up visit with the client after a sufficient amount of time has passed.

.128 *Confirming project completion.* The engagement-closing process provides an additional opportunity to review results with client representatives and to discuss any unresolved matters or suggested changes with them. To confirm that the client views the work as completed, a firm might have a procedure requiring the use of an engagement-closure letter.

.129 *Summary.* The conclusion of a consulting services engagement generally includes reporting findings and recommendations to the client. The report is often written, but it may be oral or may take the form of implemented changes. A final review of findings and recommendations can be conducted before the client is presented with the results. A number of review procedures may be incorporated into such a review.

.130 Some final consulting services engagement control procedures a firm may wish to consider involve follow-up visits to a client after results are communicated and sending an engagement-closure letter.

4/120 STAFF AND OTHER SUPPORT SERVICES

.01 Providing staff and other support services offers valuable assistance to clients and gives the practitioner an opportunity to expand business and use of staff and facilities. This section provides some ideas and procedures to consider in efficiently controlling and managing the unique aspects of engagements involving staff and other support services. The tasks involved in such engagements may include direct assistance with data processing, computer programming, bankruptcy trusteeship, or controllership.

.02 Earlier sections of this manual provide guidance for control of consulting services engagements in general. This section will assist the practitioner in applying that guidance to engagements involving the provision of staff or other support services.

Preengagement Considerations

.03 Staff or other support services are similar to implementation services in that they are primarily concerned with getting things done—putting into operation a task defined by the client. Because the client has already defined the task and tentatively assigned the practitioner's role in accomplishing the task, the practitioner's primary preengagement considerations lie in assessing task feasibility and judging whether the practitioner, or a member of the practitioner's staff, has the appropriate expertise to perform the task.

Engagement Planning

.04 When a preliminary decision has been made to provide staff or other support services to the client for a particular task, the practitioner needs to develop a specific plan and arrangements for conducting the engagement. Some key steps in the planning process include the following:

- With the client's assistance, obtain a clear definition of the task to be performed, including standards for success, due dates or other progress benchmarks, and areas of responsibility.
- Determine the individuals in the client's office and in the CPA firm who will supervise the staff. Consider confirming in writing the roles of the client and the firm in supervising the staff and the extent of the client's responsibility in the engagement.
- Estimate the amount of time involved in engagement performance including planning, supervision, and review, and calculate related costs and reach an agreement with the client on pricing, billing arrangements, and so forth.

.05 Engagement planning will be most effective if the plans are put in writing. The written documents may include a client arrangement letter, a performance review sheet, and a calendar of key dates or performance milestones. In the arrangement letter, the assignment of client staff responsibilities should be clearly stated along with the responsibility of supervisory staff functions.

Engagement Management and Execution

.06 To ensure that the agreed-upon work is being successfully accomplished—that things are getting done—regular communication between the practitioner and the client and between the practitioner and the CPA firm staff is critical. Such communication will be primarily oral and will concern progress, problems, findings to date, and performance expectations.

.07 The practitioner should be prepared to bear the burden of ensuring regular and continuous communication with the client. Contact with the client at least once a week, combined with flexibility in the engagement approach, will generally serve to increase the likelihood of a task's success.

Engagement Conclusion

.08 Engagements involving the provision of staff or other support services will generally conclude upon the completion of the assigned task, the expiration of a predetermined time period, the attaining of budgeted costs, or upon a determination by the client that the practitioner's assistance is no longer needed. Upon an engagement's conclusion, the practitioner should conduct an exit interview with the client. The exit interview is an important step in closing the engagement because it allows the client to review the practitioner's performance and discuss the need for potential additional services. It also provides an opportunity for the practitioner to obtain feedback on the performance of staff, if applicable.

4/125 PRODUCT SERVICES

.01 The provision of product services is a unique consulting service when compared with such activities as consultations, advisory services, and implementation services. Product services differ from other consulting services. Product services occur when the practitioner provides a product and associated professional services in support of its installation, use, or maintenance. A firm may develop or market products to help promote its professional services. Examples of such products include a packaged training program and, most commonly, accounting software. Products provide an opportunity to offer cost-effective services to a client when a unique response to its needs is unnecessary. The practitioner's aim is to provide successful implementation and support of the product.

.02 Although there are a number of unique characteristics associated with the delivery of product services, it is still important that the consulting practitioner be knowledgeable of the use and the general guidance for engagement control that is provided in this section for the following phases of an engagement involving advisory, implementation, and transaction services:

- Preengagement considerations
- Engagement planning

- Engagement management and execution
- Engagement conclusion

.03 In addition to the general administrative requirements for managing and controlling a product services engagement, certain special considerations must be given to a product sale and associated consulting services, depending on the nature of the product being delivered to the client. These unique considerations are discussed in the following pages.

Preengagement Considerations

.04 For the purpose of this practice aid, it is assumed that the feasibility of the product's meeting the client's needs was determined during the provision of another consulting service, most likely an advisory service. It is further assumed that the client and practitioner have agreed that the particular product can be delivered, implemented, or executed in accordance with the client's business requirements. It is strongly recommended that the client and practitioner reach a formal agreement that covers at least the following matters associated with the sale and delivery of the product:

- Description of the product that will be delivered
- Specification of materials, documents, and services that will be provided
- Rights of and limitations on the use of the product and associated deliverable materials by the client
- Ownership of the product and associated materials
- Warranties by the practitioner regarding the product and support, and any limitations on such warranties
- Support by the practitioner of the product after initial delivery and implementation or execution
- Maintenance responsibilities by the practitioner of the product, including enhancements
- Time period for which the agreement is in effect
- Termination arrangements by either party
- Nondisclosure obligations of the client regarding the product
- Payment amount and terms

.05 Obviously, each agreement must be tailored to the particular characteristics of the product and thus the contents of an agreement on software will likely be different from an

agreement on educational programs. The practitioner should obtain legal advice on the construction of these agreements.

Engagement Planning

.06 The general engagement planning guidance presented elsewhere in this section should be sufficient to meet the planning considerations for product services.

Engagement Management and Execution

.07 In addition to the guidance provided elsewhere in this section, it is essential that the client and practitioner have a clear understanding of the following:

- All of the particular components or elements of the product, the form and time of its delivery, and the items or facilities to be provided by the client
- The implementation services that are associated with the product, the location and schedule for provision of these services, and the responsibilities of the client to work with the practitioner to obtain the intended benefit from the delivery of such services in support of the product

Engagement Conclusion

.08 The general guidance on engagement conclusion provided elsewhere in this section applies to the conclusion of product services engagements. It should be emphasized, however, that it is critical for there to be a clear understanding between the client and the practitioner as to when the initial delivery of the product and associated services has been completed, and as to the ongoing product support and service provision requirements under the terms of the product sale agreement.

APPENDIX 4

ILLUSTRATIVE ENGAGEMENT FORMS AND LETTERS

Exhibit 4-1

Consulting Engagement Acquisition Control Form	
Prospective Client Data	
Name _____	
Address _____	
(street)	

(city) (state) (zip code)	
Nature of business _____	

<input type="checkbox"/> New Client <input type="checkbox"/> Current or previous client for: <input type="checkbox"/> Audit <input type="checkbox"/> Review <input type="checkbox"/> Compilation <input type="checkbox"/> Tax <input type="checkbox"/> Consulting services (nature of work) _____ <input type="checkbox"/> Other (describe) _____	
Partner(s) for above _____	

Initial Contact Data	
Contact's name _____	
Contact's position _____	
Contact partner or staff member _____	
Date of contact _____ Location _____	
Brief description of contact _____	

Acquisition partner _____ Date assigned _____	
Principal contact if different _____ Date assigned _____	
Initial Assessment	
Nature and scope of potential consulting engagement _____	

Evaluation of engagement probability _____ %	
Proposal deadline date _____	

(continued)

Consulting Engagement Acquisition Control Form (Continued)

Consulting Engagement Acquisition Control Checklist*

	<u>Enter check or N/A</u>
1. Partner(s) advised and potential engagement discussed if for a current client.	<input type="checkbox"/>
2. Background of prospective consulting services reviewed, including any firm files and reports.	<input type="checkbox"/>
3. Industry data for prospective client researched.	<input type="checkbox"/>
4. Preliminary survey performed if required.	<input type="checkbox"/>
5. Engagement scope and objectives determined.	<input type="checkbox"/>
6. Engagement file initiated.	<input type="checkbox"/>
7. Preliminary findings reviewed with client partner or equivalent if for current client.	<input type="checkbox"/>
8. Acceptability determined if for new client.	<input type="checkbox"/>
9. Engagement benefits anticipated by prospective client evaluated, and limitations communicated.	<input type="checkbox"/>
10. Firm competence to perform engagement evaluated and validated.	<input type="checkbox"/>
11. Preliminary engagement plan developed.	<input type="checkbox"/>
12. Oral proposal (if any) communicated to client.	<input type="checkbox"/>
13. Oral proposal documented in file.	<input type="checkbox"/>
14. Written proposal (if any) cleared with appropriate partner(s) and counsel and delivered to client.	<input type="checkbox"/>

Date checklist completed _____

Signature _____

Date of oral or written proposal to prospective client _____

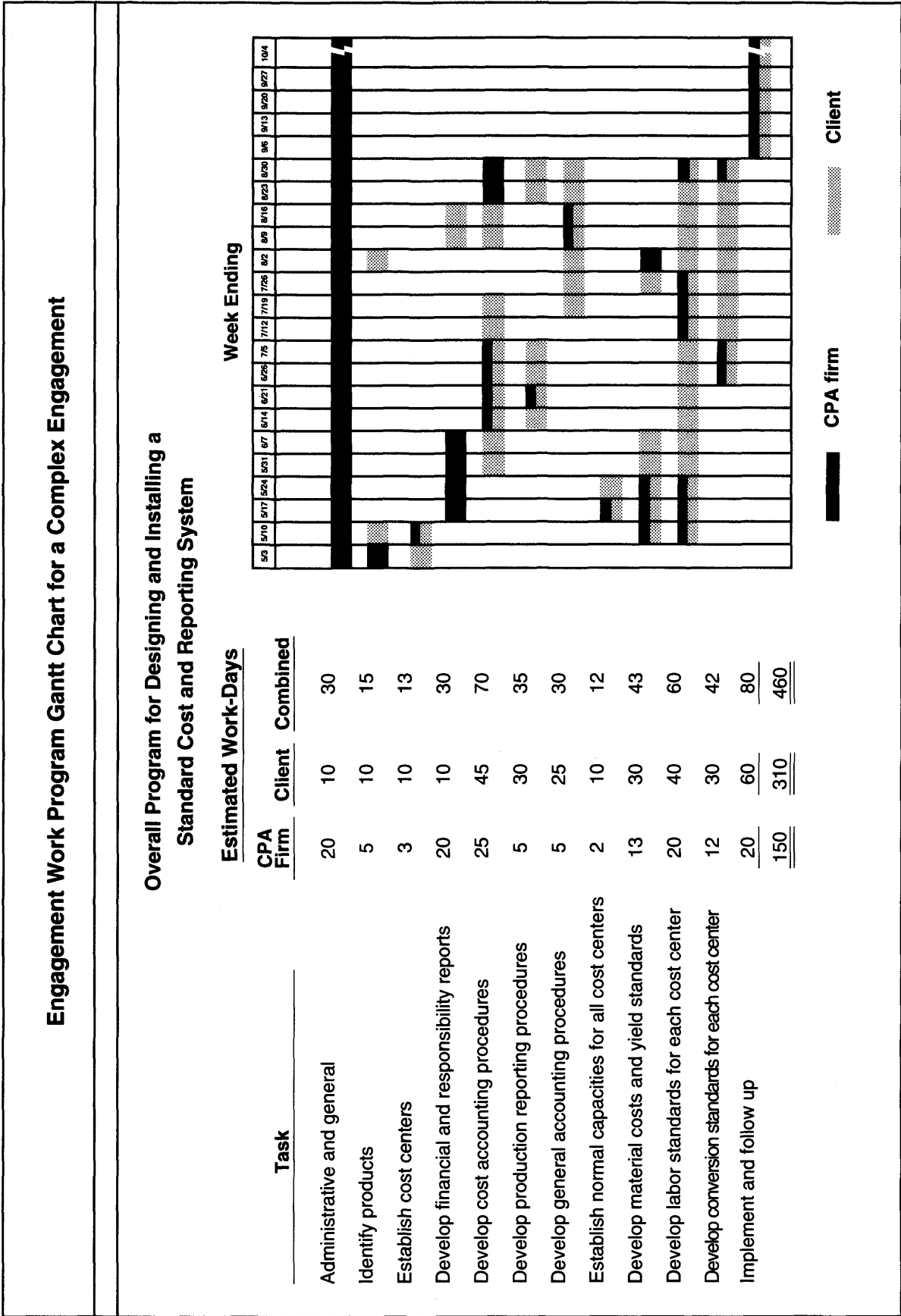
* Note: Support documents, if any, are attached.

Consulting Services Engagement Notice		
Office	Anticipated billing	Engagement no.
Date		
Client		
Address <i>(street)</i>		
<i>(city)</i>	<i>(state)</i>	<i>(zip code)</i>
Contact with client	Title	
Nature of assignment	Starting date	
	Anticipated completion date	
Location of assignment		
Staffing		
Engagement partner	Audit personnel	
_____ Manager	_____	
_____ Staff	_____	
_____	_____	
_____	_____	

	Client partner	
Comments		
Copies to:		
		_____ Signature

Initial Engagement Planning Form									
Client _____					Number _____				
	Task Description	Estimated Time (Days <input type="checkbox"/> Hours <input 2"="" style="width: 10%; text-align: center;" type="checkbox/>)</th> <th rowspan="/> TOTALS							
		Range	Client Partner	Engagement Partner	Manager	Staff	Staff	Staff	Staff
1		From							
		To							
2		From							
		To							
3		From							
		To							
4		From							
		To							
5		From							
		To							
6		From							
		To							
7		From							
		To							
8		From							
		To							
Prepared by _____ Date _____		ESTIMATE TOTALS	From						
Approved by _____ Date _____			To						

Estimated Fee Computation					
	Rate	Time Range		Fee Range	
		From	To	From	To
Client Partner				\$	\$
Engagement Partner					
Manager					
Staff					
Staff					
Staff					
Staff					
	FEE ESTIMATE TOTALS			\$	\$
	Other Charges				
	Report & Production				
	Travel				
	Contingency				
	TOTALS			\$	\$
<p>Notes _____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>Prepared by _____ Date _____ Approved by _____ Date _____</p> <p>Reviewed by _____ Date _____ Reviewed by _____ Date _____</p>					



Engagement Work Program—Segment Detail of a Complex Engagement

Task	Responsibility of	Workdays			Start Date	End Date	Comments
		Estimated		Actual			
		CPA Firm	Client				
Develop cost accounting procedures:							
1. Determine the basic requirements for developing flowcharts by taking into account—							
a. Requirements for management reports.							
b. Reporting cycle (frequency of preparation).							
c. Data processing requirements.							
2. For each cost center, perform the following work:							
a. Using the cost center specification sheets, list the information required for reporting actual cost and calculate standard earnings and variances and the timing for developing the information requirements.							
b. Determine the most practical method of obtaining the necessary information. Coordinate the cost information requirements with the plant production reporting requirements.							
3. Revise the standard cost work sheets and production orders to accommodate the new accounting and management reporting information requirements.							
4. Prepare flowcharts in rough form. Indicate paperwork volume and timing where applicable.							
5. Establish personnel and processing requirements based on projected work loads.							
6. Review flowcharts and personnel requirements to determine that—							
a. They have been prepared on a consistent basis.							
b. They fulfill information requirements for both content and frequency.							
c. They provide the necessary paperwork requirements.							
7. Review the procedures used in accounting for rejected and returned goods, and incorporate them into the cost accounting system.							
8. Establish the policies for reporting labor and expenses, and design reporting and distribution procedures.							
9. Developing procedures for establishing accountability of incoming raw materials and returned goods.							
10. Determine the procedures to be used in accounting for service cost centers (e.g., Repair and Maintenance Cost Center).							
11. Prepare written procedures and have them typed.							
12. Review them with local branch personnel and division and corporate management, and obtain their approval.							
13. Train cost accounting personnel in all phases of the new system.							

**Consulting Services Engagement Planning, Management,
and Execution Control Form**

Engagement Data

Client _____

Address _____

(street)

(city)

(state)

(zip code)

Nature of business _____

Engagement objectives _____

Time Frame

Starting date _____

Anticipated completion date _____

Firm Personnel

Partner _____

Manager _____

Staff _____

Client Involvement

Client reporting and administration contact(s) _____

Phone no. _____

Client personnel assigned to project staff and their project duties _____

Reviewers

General reviewer _____

Technical or special reviewer _____

Engagement Planning Memorandum

Client: _____
Engagement Date: _____

Instructions:

This memorandum should be completed by the practitioner in charge of the engagement and reviewed by the engagement executive and partner, before engagement personnel begin fieldwork.

I. *Engagement Administration*

A. Presentation of engagement letter

B. Use of client assistance or paraprofessional

C. Planning for proper work space and equipment

D. Assignment of staff personnel

(continued)

Engagement Planning Memorandum (Continued)

E. Use of specialists

F. Use of software

G. Budget

H. Other special considerations

Consulting Services Engagement Control Checklist*	Enter check or N/A
Activity/Task	
A. Planning	
1. Engagement work program developed.	<input type="checkbox"/>
2. Appropriate staff assigned.	<input type="checkbox"/>
3. Hour estimates and target dates checked for reasonableness.	<input type="checkbox"/>
4. Work program reviewed by appropriate parties (firm and client).	<input type="checkbox"/>
5. Deviations (if any) from initial understanding approved by client.	<input type="checkbox"/>
Signature of reviewer _____	
Date _____	
B. Management and Execution	
1. Engagement work program revised to reflect any changes in understanding.	<input type="checkbox"/>
2. Hour estimates and target dates monitored periodically against progress.	<input type="checkbox"/>
3. Engagement progress reviewed periodically with client partner.	<input type="checkbox"/>
4. Engagement progress reviewed periodically with client.	<input type="checkbox"/>
Signature of reviewer _____	
Date _____	
C. Engagement Conclusion	
1. Completion of tasks in work program verified.	<input type="checkbox"/>
2. Engagement file checked for appropriate documentation.	<input type="checkbox"/>
3. Tentative findings, conclusions, and recommendations reviewed informally with appropriate parties (firm and client).	<input type="checkbox"/>
4. Final technical review conducted.	<input type="checkbox"/>
5. Final objective general review conducted.	<input type="checkbox"/>
6. Results communicated to client.	<input type="checkbox"/>
7. Follow-up visit scheduled.	<input type="checkbox"/>
8. Follow-up visit conducted.	<input type="checkbox"/>
9. Engagement file closed.	<input type="checkbox"/>
Signature of reviewer _____	
Date _____	
* Support documents, when appropriate, should be in the engagement file.	

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Thank you for your assistance.

1. How familiar were you with this subject before you read this practice aid?

0 1 2 3 4 5
Unfamiliar Somewhat familiar My area of expertise

2. How useful is the practice aid to your practice?

0 1 2 3 4 5
Not useful at all Extremely useful

3. Is there additional information that you think should have been included or information that should be modified in this practice aid? Yes _____ No _____

If yes, please explain _____

4. Do you think that an advanced level practice aid on this subject should be available?

Yes _____ No _____

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6. How did you learn about the availability of this practice aid?

Received it as a member benefit _____

Other (please explain) _____

Additional comments and suggestions _____

Name and address (optional) _____

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