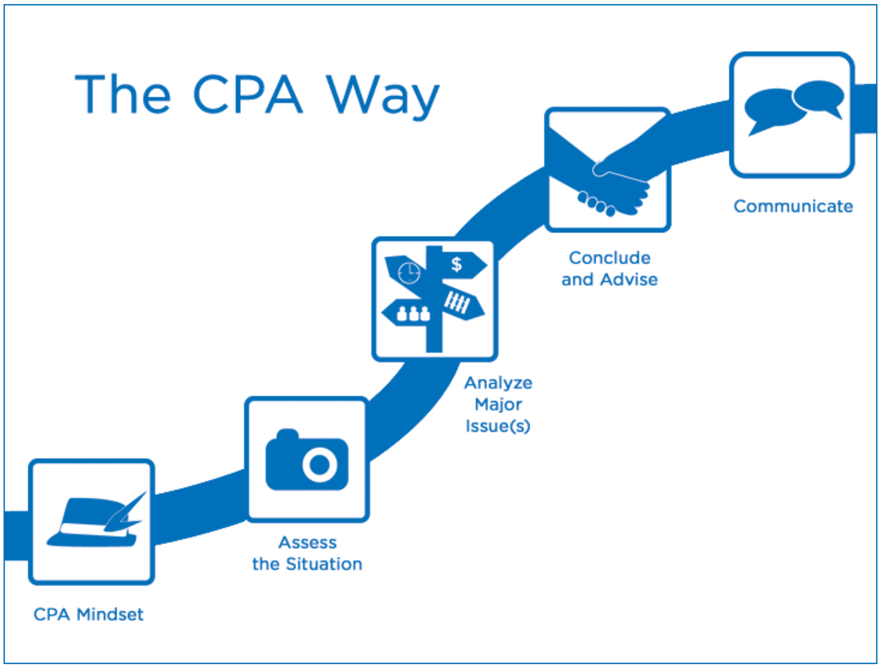
CHARTERED PROFESSIONAL ACCOUNTANTS PROFESSIONAL EDUCATION PROGRAM

The CPA Way

5 - Conclude and Advise

This document focuses on *Conclude and Advise*, the fourth part of **The CPA Way**, as shown in the following diagram.

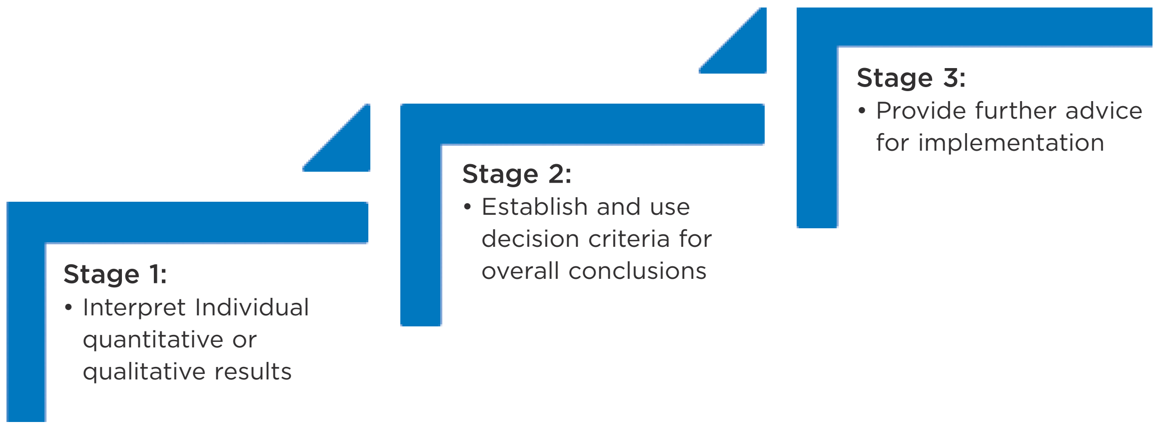


For an overview of *Conclude and Advise,* see the video that accompanies this document.

Conclude and Advise

You can think of **Conclude and Advise** as shaking the hand of your client or customer at the end of a service relationship. Your goal has been to address the **decision maker's** needs. You have thoroughly analyzed major issue(s), and you are now ready to complete your work, which means reaching conclusions and providing advice.

The process of concluding and providing advice progresses across the three stages shown in the following diagram:



Stage 1: Interpret Individual Quantitative or Qualitative Results

The first stage involves focusing on the results of an individual quantitative and/or qualitative analysis. It is probably most efficient to complete this aspect of conclusions as you perform the analysis.

You first want to demonstrate correct technical knowledge by choosing an appropriate general guideline and applying the guideline correctly to your analysis results. For example, you might have performed a net present value (NPV) analysis. In general, we assume that **decision makers** want to maximize the present value of expected future cash flows. Accordingly, a positive NPV supports a decision to invest in the project. If two positive-NPV projects are proposed, then they might be ranked based on size of NPV or based on NPV relative to initial investment. The table shown below lists several examples.

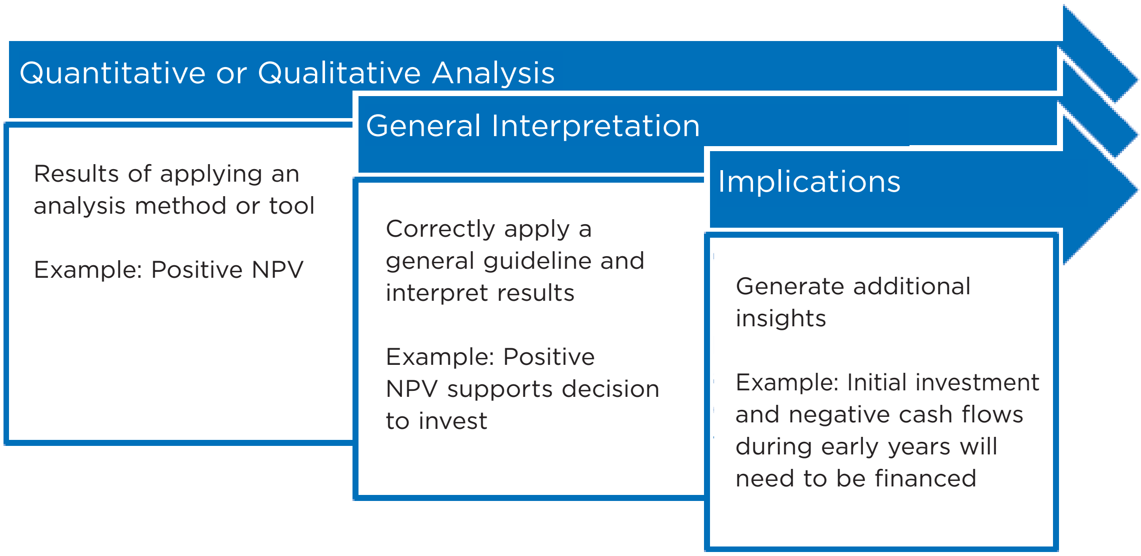
Examples of General Conclusions from Analysis Results

Quantitative or Qualitative Result	General Guideline and Conclusion
A project is expected to achieve positive NPV	*Maximize present value of expected future cash flows:* Invest in the project
Alternatives D and E are both expected to achieve positive NPV when discounted at the risk-adjusted rate of return for each project. However, the company's policy is to invest only in projects having an expected rate of return higher than 12%. Using 12% as the discount rate, Alternative D has a positive NPV and Alternative E has a negative NPV.	*Comply with Internal Constraint:* Invest in Alternative D

Examples of General Conclusions from Analysis Results	
Quantitative or Qualitative Result	**General Guideline and Conclusion**
Alternative A has higher expected incremental cash flows than Alternative B	*Maximize cash flows:* Choose Alternative A, or rank Alternative A higher than Alternative B
An account has a high risk of material misstatement	*Comply with audit standards and reduce detection risk to an acceptably low level:* Plan to use audit procedures that are more relevant and provide more reliable evidence
A revenue transaction for a public company satisfies all of the relevant criteria for revenue recognition in IAS 18.	*Comply with financial accounting standards:* Recognize the revenue
Alternative Q supports more key strategic objectives than Alternative R	*Choose the alternative with the best strategic fit:* Choose Alternative Q, or rank Alternative Q higher than Alternative R
Alternatives X and Y are both expected to achieve positive NPV, but Alternative X conflicts with a major organizational value	*Comply with organizational values:* Choose Alternative Y
Alternative G violates a CPA value, whereas Alternative H is consistent with all CPA values.	*Comply with CPA values:* Choose Alternative H

Do not stop your interpretation with only a general conclusion. As shown in the diagram below, you should also actively look for implications. For example, how might the initial investment and negative cash flows during the early years of the project be financed? Does the company already have a financing plan, or does a financing plan need to be developed? Bringing to light these types of implications raises the quality of your advice to a higher, more professional level.

Process for Interpreting Quantitative or Qualitative Results



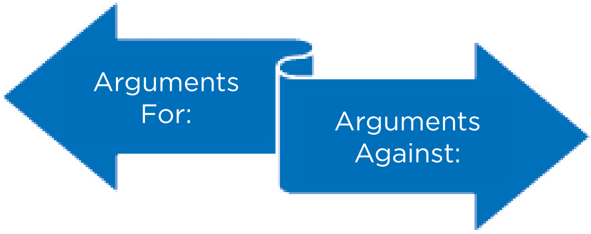
Many different types of implications are possible. The table below provides several questions that can help you generate ideas.

Examples of Questions to Generate Implications

- Are findings consistent? Consider consistency:
  - o Across different analyses;
  - o With decision-maker goals/objectives;
  - o With needs/preferences of other key stakeholder.
- Can you think of any implications beyond the immediate problem? Consider, for example:
  - o Potential risks;
  - o Issues that might become important in the future;
  - o Operational problems that need to be corrected;
  - o Relevant situational factors;
  - o Decision-maker questions/concerns.
- Do you need to seek advice from other professionals or experts?
- Have you become aware of any ethical issues that need to be addressed and/or reported to higher levels of management, legal or regulatory authorities, or others?

Stage 2: Establish and Use Decision Criteria for Overall Conclusions

Once you have interpreted and identified implications for each individual analysis method or tool, you are ready to combine the results of different quantitative and/or qualitative analyses to form overall conclusions. If you have performed a sufficiently thorough analysis, you already have a summary of key arguments for and against each **viable alternative**. Now you need to weigh these arguments.



In general, you are now in one of two situations:

1. There is one clear conclusion.
2. More than one conclusion is plausible.

Situation 1: One Viable Conclusion

Sometimes all of the major arguments point to a single acceptable conclusion. Then deciding on a course of action is straightforward.

Situation 2: More than One Viable Conclusion

For most professional problems, you will have major arguments both for and against one or more **viable alternatives**. For example, a capital project might have great strategic fit, but negative net present value. To reach a conclusion, you will need to pull back from the details of your analysis and consider the big picture. What **decision criteria** are most important in this situation? To prioritize, you should draw on the decision- maker goals and objectives from your assessment of the situation.

For the proposed capital project, which criterion is more important: strategic fit, or positive expected present value? If the company's policy is to reject all negative NPV projects, then that is probably the more important criterion, and the project should be rejected. But in some situations, strategic fit might be more important—especially if the NPV analysis did not take into account positive synergies of the proposed project with other positive NPV projects.

CPAs often need to make trade-offs among competing decision criteria, such as those shown in the following table.

Examples of Decision Criteria Trade-Offs

- Cost versus benefit
- Risk versus reward
- Financial versus non-financial
- Effectiveness versus efficiency
- One stakeholder group versus another
- One strategic goal versus another
- Relevance versus reliability
- Quality versus efficiency
- Speed versus accuracy
- Timeliness versus thoroughness
- Empowerment versus accountability
- Control versus creativity

CPA Values Might Override Other Criteria

Regardless of the decision-maker goals and objectives, CPAs also need to consider their own values before providing recommendations. For example, the CPA has a responsibility to act in accordance with the *Rules of Professional Conduct* and to enhance the profession's reputation. You need to consider whether the decision-maker's goals and objectives conflict with your own values, and place your own values at the highest priority. For more information about making ethical decisions, see *The CPA Way 7-Ethical Behaviour*.

Stage 3: Provide Further Advice for Implementation

It is not enough to reach an appropriate conclusion. You also need to think about implementation issues. **Decision makers** are likely to need advice to manage risks or address other issues that you identified during analysis. For example, successful development of a new facility requires considerable planning. Or, perhaps a sensitivity analysis revealed that project profitability is highly dependent on one or two key assumptions. You should bring this sensitivity to the attention of decision makers and offer advice for addressing the risk.

The table below provides examples of implementation considerations.

Examples of Implementation Considerations

- Limitations of recommendations (including arguments against conclusions)
- Issues to be investigated further
- Implementation sequence
- Specific action plan(s)
- Team assignments
- Timelines or other milestones
- Change management and other implementation issues to address
- Resources likely to be needed

Self-Evaluation Checklist: Conclude and Advise

Think back to a task you recently completed and consider how well you concluded and advised. What would be some criteria that you would expect to broadly apply when working on a task? You can use the checklist in Appendix 2 to reflect on work you have performed or to plan work on a new task.

CPA Mindset for Conclude and Advise

As you will recall, you can think of the **CPA Mindset** as putting on a professional hat when you begin work on a problem. You can enhance the quality of your conclusions and advice by paying special attention to the following aspects of the CPA Mindset:

- Performing work with due care, including:
  - o Focus on decision-maker and stakeholder priorities;
  - o Alertness to limitations and issues associated with conclusions.
- Maintaining an alertness to implications of findings in one technical area for conclusions and/or advice in another technical area (i.e. cross-competency integration).
- Ensuring that CPA values are not violated as you draw conclusions and provide advice.

Planning for Communication(s)

While reaching conclusions you will focus closely on decision maker(s), who might be external clients, internal customers, or yourself. If you are working for external clients or internal customers, you will need to consider how to communicate your conclusions and advice. What information will decision makers need from you to form their own well-reasoned conclusions? To what extent should decision makers be informed about risks and limitations, including arguments against your recommendations? How can you encourage decision makers to take needed action on implementation issues? As you draw conclusions, considering these types of communication questions will help you provide better advice.

APPENDIX 1

Self-Assessment Questions

Question #1

Decision makers are not necessarily explicit about their goals/objectives. Which of the following describes a **reasonable assumption** that a CPA might make about decision-maker goals/objectives? Check all that apply.

a. The CPA assumes that a business owner wants to minimize income tax payments.
b. The CPA assumes that a business owner prefers reporting lower income on the income statement.
c. The CPA assumes that managers want to increase estimated future cash flows.
d. The CPA assumes that managers prefer investing in projects having zero net present value.
e. The CPA assumes that managers want to minimize business risks.
f. The CPA assumes that managers want to make decisions that are consistent with the organization's code of conduct.

Question #2

CPAs often make trade-offs between decision criteria when recommending a course of action. Which of the following describes **reasonable trade-offs** that a CPA might make? Check all that apply.

a. When planning an audit engagement, a CPA weighs the costs and benefits of alternative audit procedures and decides to test an account using a larger number of less time-consuming but less effective audit procedures rather than a smaller number of more time-consuming but more effective audit procedures.
b. A CPA is given only four hours to prepare an analysis of relevant cash flows for a make-or-buy (i.e. outsourcing) decision and present it at a management meeting. The meeting was convened in response to an offer from an outside supplier, and a decision must be made right away. The CPA labels the analysis as 'preliminary' and when presenting the results, emphasizes that the analysis might not include all relevant cash flows.
c. A CPA is analyzing two capital budgeting proposals, A and B. Proposal A is expected to achieve a higher rate of return than Proposal B. However, the CPA decides to recommend Proposal B because this project is more closely aligned with the company's strategic plans.
d. A CPA is participating in a management meeting. The CEO has presented a proposal for a new performance management system. The CPA notices that the production manager would be held responsible for achieving standard costs, which might discourage the production manager from accommodating rush orders. The company's strategy includes meeting customer needs, often in the form of rush orders. Because the CEO has made it clear that the new performance management system will be adopted—without further discussion—the CPA decides to remain silent.

Answers to Self-Assessment Questions

Question #1		
a.	Correct	When providing advice about tax matters, we usually assume that taxpayers want to minimize their tax payments to the extent permitted by tax regulation.
b.	Incorrect	Without more information about the situation, it is not possible to make a reasonable assumption about whether a business owner would prefer higher or lower income on the income statement. Business owners often prefer higher income, such as when they are seeking new financing or wanting to estimate business value for selling their ownership interest. However, business owners might prefer lower income when estimating business value for the purpose of buying out a co-owner.
c.	Correct	When providing advice about investment or operating decisions, we usually assume that business managers want to increase estimated future cash flows.
d.	Incorrect	When providing advice about investment projects, we usually assume that the minimum acceptable NPV is zero. However, we assume that managers would prefer to invest in projects having positive rather than zero NPV.
e.	Incorrect	Without more information about the situation, it is not possible to make a reasonable assumption about the level of risk that managers are willing to tolerate. Managers might be willing to assume greater risk for a higher return. However, it is reasonable to assume that managers would prefer to reduce unnecessary risks, or to reduce risks that can be avoided with little or no reduction in expected return. Similarly, it is reasonable to assume that managers want to identify and manage risks.
f.	Correct	When providing advice to business managers, it is reasonable to assume that the managers want to comply with the organization's code of conduct. But if managers make it clear that they do not want to comply with the code of conduct, the CPA needs to consider his or her own values, which include honesty, integrity, and compliance with organizational policies.

Question #2		
a.	Correct	When planning work to be performed, whether an audit engagement or another type of service, it is reasonable for the CPA to consider the **costs and benefits** of alternative sets of procedures. It may be less costly to perform a larger number of less time-consuming but less effective audit procedures than to perform a smaller number of more time-consuming but more effective audit procedures. As long as the planned work is sufficient for the situation, then this is a reasonable trade-off for the CPA to make.
b.	Correct	When management needs information quickly, it is reasonable for a CPA to make trade-offs between **speed and accuracy**. If the CPA is satisfied that the analysis is sufficient for decision making and managers understand that the analysis might be incomplete, then presentation of results labeled as “preliminary” may be appropriate.
c.	Correct	It is reasonable for a CPA to make trade-offs between *financial and non-financial* factors or between *two strategic goals* (in this situation, between rate of return and strategic fit). However, the CPA should present this trade-off transparently, allowing managers to decide whether they agree that strategic fit is more important than rate of return.
d.	Incorrect	It might be reasonable for the CPA to remain silent during the meeting, but the CPA has an obligation to raise legitimate concerns about the new performance management system. The CPA should first seek ways to ensure that his or her understanding of the situation is accurate. Perhaps the CEO is aware that production accommodations are costing the company more than the benefit. But if further investigation does not contradict the CPA’s initial concerns, then the CPA should seek a way to effectively communicate the concerns.

APPENDIX 2

Self-Evaluation Checklist: Conclude and Advise

You can use this checklist to evaluate work when Concluding and Advising.

	Yes	No	n/a
1. Have all general findings from quantitative and qualitative analyses been identified, and implications thoroughly evaluated?			
2. If findings support more than one possible conclusion, have appropriate criteria been established and used to develop suitable conclusions?			
3. Do decision criteria adequately reflect trade-offs among decision maker goals/ priorities? Examples of trade-offs include the following: • Cost versus benefit • Risk versus reward • Financial versus nonfinancial • Effectiveness versus efficiency • One stakeholder group versus another • One strategic goal versus another • Relevance versus reliability • Quality versus efficiency • Speed versus accuracy • Timeliness versus thoroughness • Empowerment versus accountability • Control versus creativity			
4. If applicable, have limitations to recommendations been identified?			
5. If applicable, have implementation plans been developed or contemplated? Consider, in particular: • Implications of findings in one technical area for advice in another technical area • Plans to address solution limitations • Issues to be investigated further • Implementation sequence • Specific action plan(s) • Team assignments • Timelines or other milestones • Change management and other implementation issues to address • Resources likely to be needed			