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SPECIAL REPORT:

The 5 W's of Monitoring

Monitoring: The Five W's

A Clearline Consulting Special Report

Introduction

In this special report we explore the various requirements for monitoring and the benefits that can be obtained by a public practice firm via the monitoring process.

After reading our report, you will:

- Understand what monitoring is.
- Be able to articulate the two types of monitoring.
- Learn why monitoring is important and what benefits it can create for your firm.
- Understand when monitoring should be performed and what to do with the results.
- Know where to go for help when it comes to monitoring.

What is Monitoring?

Monitoring is the process by which a firm assesses whether or not engagements are being conducted and documented in accordance with professional standards, alongside a firm's policies and procedural requirements. The monitoring requirements, which are included in the Canadian Standard on Quality Control 1 (CSQC 1), are applicable to assurance firms. However, increasingly non-assurance firms are implementing a monitoring process to realize the same benefits as assurance firms.

There are two types of monitoring required by CSQC 1: ongoing monitoring and cyclical completed file monitoring. We will explore both types of monitoring in the following pages.

The 5 Ws of Monitoring

- What is monitoring?
- Why is it important?
- When should it be performed?
- Who should do it?
- Where should you apply the results?



Ongoing Monitoring

Ongoing monitoring involves the regular review of key items for compliance with standards and firm policies. This could include the following activities:

- Ensure all staff have completed their annual confirmation of compliance with the firm's policies and procedures including the independence requirements.
- Review professional development records to ensure CPA staff are compliant with CPD requirements.
- Focus training in areas that mutually benefit employees and the firm.
- Consider new standards and changes to the CPA Code of Conduct and the ramifications to the firm such as the need to amend and update the firm's quality control manual, checklists and templates.
- Inspect a sample of client acceptance and/or continuance determinations for compliance with the CPA Code of Professional Conduct and firm policies.
- Review a sample of issued client correspondence for compliance with the firm's templates.

Cyclical Completed File Monitoring

Cyclical monitoring involves the post-issuance review of a sample of each assurance partner's engagement files for compliance with professional standards and the firm's policies. Typically, this would include a review of financial statements for compliance with the applicable financial reporting framework (i.e. Accounting Standards for Private Enterprises); the engagement report issued for compliance with the applicable reporting requirements (i.e. audit or review standards); compliance with the CSQC 1, the CPA Code of Professional Conduct and the firm's policies and procedures as documented in its quality control manual and the engagement file documentation for compliance with the applicable assurance standards and the firm policies and procedures.

The Benefits of Frequent Cyclical Monitoring

Performing cyclical completed file monitoring on an annual basis means firms receive more timely feedback on engagement compliance from which they can better address documentation deficiencies and identify training needs.



Monitoring as a Training Tool

By combining the monitoring process with professional development training via a debrief session, your firm can make the most of its investment in monitoring and better address areas for improvement while obtaining valuable CPD hours.



Why is Monitoring Important to a Firm's Practice?

Other than being a requirement under CSQC 1, the monitoring process is a vital part of a public practice firm's system of quality control. When conducted properly monitoring should include these benefits:

- Help the firm's leadership gain a better understanding of the firm's strengths and weaknesses.
- Detect and reduce the occurrence of errors and omissions in client correspondence, financial statements and reports issued by the firm.
- Identify and act on regular feedback to improve engagement file documentation.
- Take note of areas within a file where processes were overly time consuming, then identify opportunities to improve inefficiencies.
- Provide additional opportunities to monitor staff performance and address deficiencies in staff knowledge and training.
- Utilize the opportunity to train senior staff and obtain verifiable CPD hours if they are involved in the monitoring process.
- Improve a firm's performance on practice inspections when paired with a properly executed plan of action.

Top 5 Benefits of Monitoring

1. Detect and reduce errors in work.
2. Improve engagement efficiencies and reduce future work.
3. Better evaluate staff performance.
4. Provide training and PD to senior staff.
5. Improve firm performance on practice inspections.

When Should Monitoring Be Performed?

Ongoing Monitoring

The requirement for ongoing monitoring is that it occurs at least annually. However, the more frequent the process is performed the better as it helps you address issues within the firm. For a sole practitioner, or a small firm, with a limited amount of assurance work, performing ongoing monitoring on an annual basis makes sense; for larger firms, more frequent checks throughout the year leads to more timely feedback. Ultimately, a firm's size, the nature of the work it performs, and the resources available influence how often ongoing monitoring transpires.

Cyclical Completed File Monitoring

The baseline or minimum requirement for cyclical monitoring proposed by the standards and guidance from the profession is once every three years. This mimics the three-year practice inspection cycle. Some firms make the mistake of performing cyclical monitoring right before their practice inspection to comply with the standards requirement, but this derives far less value from the process because there is no time to implement a plan of action to address deficiencies. It is a far better strategy to conduct cyclical monitoring at least a year in advance of scheduled practice inspection.

Recommended Timing for Cyclical Monitoring

Performing cyclical monitoring every three years can be overwhelming depending on how many engagements need to be reviewed and how many improvement areas are identified in the process.

We've found there is little benefit in identifying more areas for improvement than the firm can address over the next year. As a result, many firms are conducting cyclical completed file monitoring more regularly and implementing it annually in order to get more timely feedback on firm performance.

Here is an example of a successful firm's cyclical monitoring action plan over three years. The first step of each year is to conduct completed file monitoring on:

- **Year 1 - Audits.** That would coincide with the development of an action plan for improvement of audit documentation and a related professional development plan.
- **Year 2 - Review engagements.** That would coincide with the development of an action plan for improvement of review documentation and a related professional development plan.
- **Year 3 - Compilation, tax preparation and compliance specified procedures.** Plus, any other relevant engagements that would coincide with the development of an action plan for improvement of these engagements and a related professional development plan.

In the above scenario, year number three would coincide with the firm's provincial practice inspection. The cycle would repeat every three years with adjustments being made as necessary for any changes in the firm, its client base and developments in professional standards.

An alternate three-year plan that we have observed is where half the firm's partners are reviewed in year one and the remaining half in year two with no monitoring conducted in the third year when the firm's practice inspection will be completed. Another version could be focused on different accounting standards in each year (i.e. ASPE in year one, ASNPO in year two, etc.).



Who Should Perform Monitoring?

The firm should appoint one partner to be responsible for the monitoring process. This partner can either conduct the monitoring themselves or delegate and oversee the process. The standards require that the individual(s) actually performing the monitoring have sufficient experience and authority and be independent of the files being reviewed (i.e. they were not part of the engagement team and did not act as EQCR).

Note: It is the independence criteria that is the most problematic because sole practitioners cannot perform their own monitoring. Similarly, in a partnership it is typically the case that the best partner for the role also conducts the most assurance work and cannot monitor their own files. As a result, the monitoring process is often delegated to others.

Staff can perform monitoring if the firm has senior staff members who have the necessary experience and authority. Larger firms may have these resources, but for smaller firms this is generally not the case. Moreso, there are drawbacks to conducting monitoring with internal resources. For example, internal employees are accustomed to how the firm performs its engagements and prepares documentation. This means they are less likely to spot deficiencies and identify areas for improvement or where work can be reduced to improve engagement recovery rates.

Monitoring can also be delegated to someone outside the firm. This approach usually provides superior feedback, which is the prime objective of the monitoring process, since an external individual is not biased towards the way a firm conducts its engagements, prepares documents, and delivers correspondence to clients. As a result, an external monitor is typically best suited to identify deficiencies and areas for improvement.

External Monitoring

A qualified external monitor does not have a bias towards the way the firm performs its engagements. This makes external monitors particularly suited to identify areas for improvement within the firm's processes, policies, file documentation and client correspondence.



Where Should Firms Apply the Results of Monitoring?

The monitoring process results, plus the plan of action must be documented and communicated to the firm's partners and other appropriate individuals at least annually. When a firm conducts monitoring it should correlate to how often this type of communication is made.

The simplest way to communicate the results is to circulate the final documents to relevant individuals within the firm. However, this act alone will unlikely yield the desired effect of performance improvement. An internal debrief session is an effective way to communicate the findings by involving engagement staff, managers and partners. During the session, deficiencies and areas for improvement can be discussed, plus any changes to the firm policies or plan of action over the next year. Additionally, this type of session qualifies as verifiable CPD hours for all who attend as long as attendance is noted.

How Can Clearline Consulting Help?

Clearline Consulting provides external monitoring services to sole practitioners and small to medium-sized public practice firms. Our approach to monitoring is not just a tick in the box, but rather a comprehensive and value-added approach. We do the following:

- Perform ongoing monitoring of the firm's compliance with professional standards and its own policies and procedures.
- Conduct cyclical completed file monitoring of audits, reviews, compilations and other client engagements.
- Develop and oversee cyclical monitoring in person by a firm's senior staff, so they benefit from being involved in the process (for firms with sufficient senior staff resources).
- Review engagement WIP and identify ways to improve processes and reduce redundant steps and unnecessary work to gain efficiencies.
- Assist in the identification of root causes and development of an action plan to address deficiencies and areas for improvement.
- Facilitate a debrief session for the firm to communicate the results of monitoring and the firm's plan of action.
- Deliver in-house official CPA accounting and assurance professional development courses tailored to the firm's needs.

About Clearline Consulting

Clearline Consulting provides practitioners and their staff with the tools, training and advice they need to succeed and build thriving accounting firms. From compliance, file monitoring and audit planning to professional development courses, staff training and customized consulting solutions, our team exists to serve the needs of small to mid-sized public practice firms. Our collaborative, integrated approach means clients have access to and support from knowledgeable people who are in front of the ever-changing standards environment.

For more information about our services and how we can tailor them to meet your needs, please call us directly at 778-375-3101.

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Bridget is a director at Clearline Consulting and also a CPA professional development instructor and consultant to CPABC and CPA Canada. She has over 15 years of experience in public practice with a mid-size firm in Vancouver and as a professional standards advisor with CPABC. Bridget applies her experience to empowering CPA firms and practitioners with technical competencies, professional development, regulatory compliance, and practice management matters.

Tom Gillespie, CPA, CA – Director



Tom has over ten years of dedicated accounting and assurance experience having worked with several public practice firms and as the associate director of practice review with CPABC. Tom provides file monitoring, training, audit/assurance planning and on-going consulting services to CPA firms and practitioners, easing their workload and facilitating their success. In addition to his role at Clearline Consulting, Tom instructs professional development courses with CPABC and also serves as a consultant and advisor to CPABC and CPA Canada.