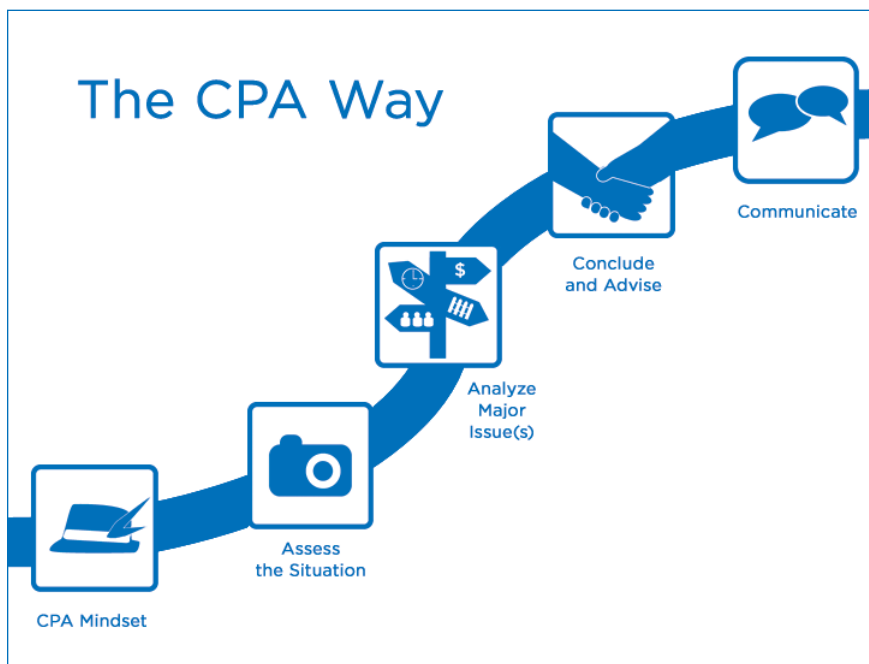


The CPA Way

3 - Assess the Situation

This document focuses on *Assessing the Situation*, the second part of **The CPA Way**, as shown in the following diagram.

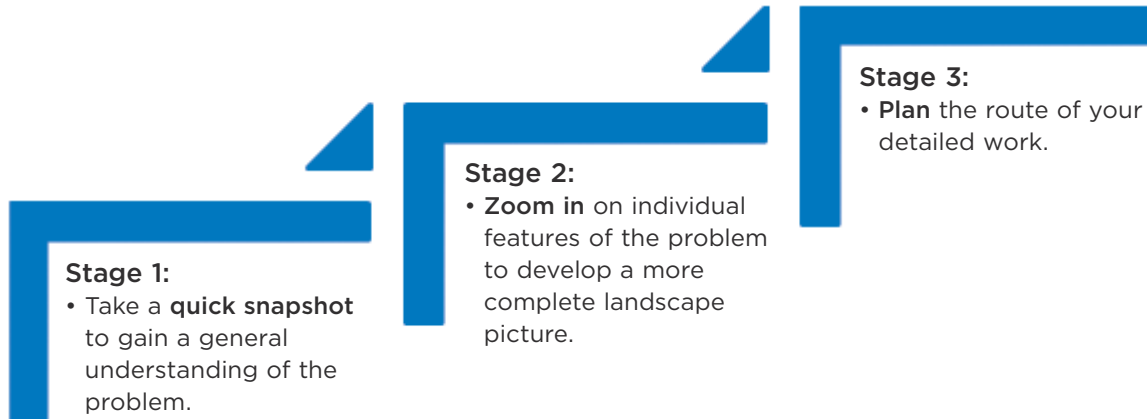


For an overview of *Assessing the Situation*, see the [video](#) that accompanies this document.



Assessing the Situation

You can think of **Assessing the Situation** as taking a picture of the landscape, with your assessment progressing through three stages:



Your overall goal for this part of The CPA Way is to ensure you understand the problem well enough to plan your work efficiently and effectively.

Main Sources of Information

In the PEP and CPA program final exam, information is gathered primarily from assignment and case material that is given to you. In work situations, information might be gathered through documents, interviews, and many other sources.

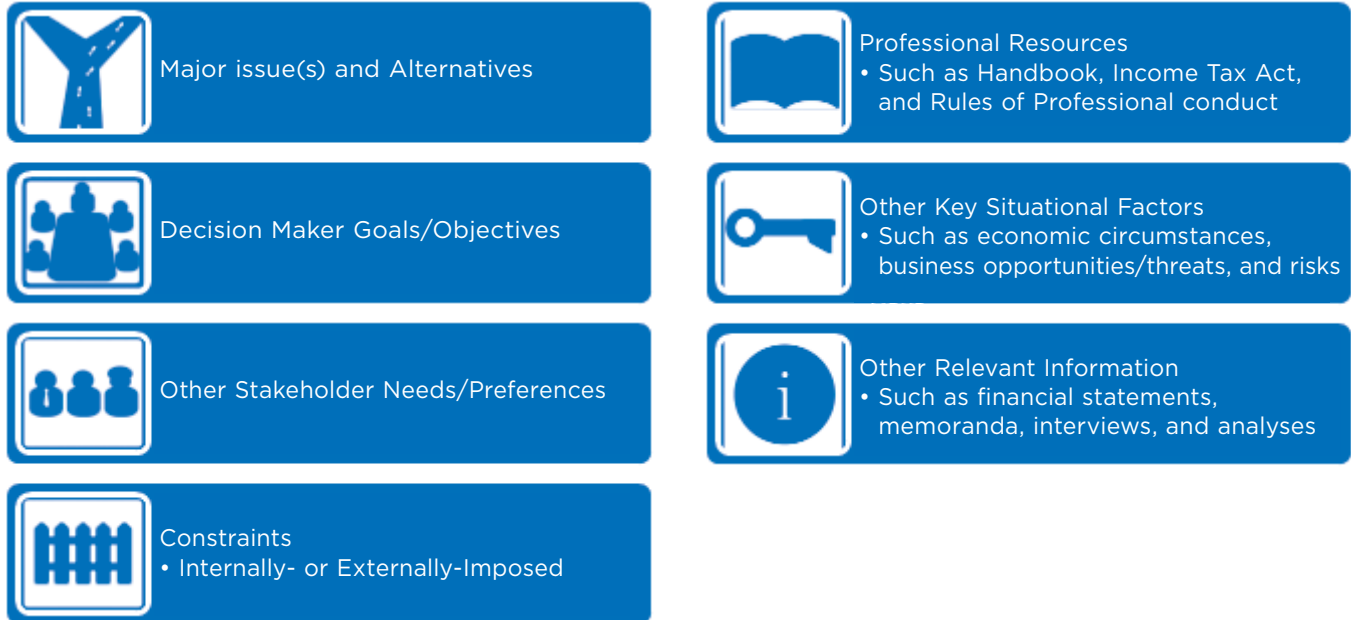
Stage 1: Taking a Quick Snapshot

Taking a quick snapshot usually means gaining a general idea of what you are being asked to do (or what you believe you need to do) and the general situation. For example, an external client or internal customer might ask you to provide a service or perform an analysis, and give you general background information. You will use this initial information to orient the work you do in the next stage.

Stage 2: Zooming in on Individual Features

You can think of the second stage as zooming in on a landscape picture and gathering the situational information needed to plan your work. You will typically focus on the following types of information:

Major Types of Situational Information



Situational Analysis Techniques

To help you gather situational information, you might apply one or more analysis techniques such as the following:

Examples of Techniques for Situational Analysis

Financial analysis using ratios, trends, benchmarks, and/or comparative analysis

Materiality assessment for an assurance engagement

Risk assessment

Internal environmental scan (e.g. mission and vision, goals/targets, constraints, stakeholders' preferences, key success factors, key risks, core competencies, strengths and weaknesses portions of a SWOT analysis, value chain analysis)

External environmental scan (e.g. opportunities and threats portions of a SWOT analysis, Porter's Five Forces (threat of new competition, threat of substitute products or services, customer/buyer power, supplier power, intensity of competitive rivalry), PESTEL (Political, Economic, Socio-cultural, Technological, Ecological/Environmental and Legislative) analysis, constraints, key success factors, key risks)

Stage 3: Planning the Route

Once you have gathered information about the situation, you are ready to create a preliminary plan of the additional work to be performed. At this point, your work plan should focus on the following areas:

- Identifying the major issues to be addressed, including:
 - Dividing larger problems into sub-problems, if appropriate
 - Identifying decision alternatives
- Choosing the sequence for addressing major issues
- Gathering additional situational information for each major issue, as needed

No absolute set of procedures will be sufficient in all situations. However, the following two tables provide suggestions that are often useful for dividing larger problems into sub-problems and for determining which issues and alternatives should be investigated further.

Examples of Methods for Dividing Larger Problems into Sub-Problems

- Identify parts of the problem:
 - That involve different techniques and/or data than other parts of the problem
 - In which the result can be used as an input to another part
- Identify major areas of concern for key stakeholders

Examples of Factors: Identifying Important Issues and Alternatives

- Role and purpose of engagement/assignment/problem
- Requirements of relevant professional standards/rules/guidelines
- Goals, needs, and preferences of relevant decision makers and/or key stakeholders
- Ability to address conflicts
- Satisfaction of constraints (established by the decision maker or others; goals/targets/limitations; capacity, resource utilization, people, skills, financial, regulations, etc.; **ethically prohibited** actions)
- Degree of risk (e.g. risk of material misstatement, critical weaknesses and threats that must be eliminated or mitigated)
- Financial impact / monetary value / materiality
- Degree of precision needed (e.g. might affect use of estimates, forecasts, or projections)
- Strategic priority / business opportunities / competitive strengths and weaknesses
- Key success factors of organization and/or industry that must be maintained or enhanced
- Potential impact (e.g. number of divisions/departments involved)
- Existing or potential breaches of professional, organizational, or personal values and ethics
- Concerns about professionalism (e.g. objectivity, confidentiality, public interest, conflicts of interest, competence, need to exercise due care, professional skepticism)

Additional Situational Information for Each Major Issue

You can think of the situational information as applying to (1) the overall problem or (2) an individual issue. Once you have performed an overall assessment of the situation and have identified the major issues to be analyzed further, you might want to go back to the beginning of this document and reconsider each stage of assessing the situation for each major issue. For example, a set of professional standards might apply to one major issue but not to another. Before performing more detailed analyses, be sure that you have a detailed picture of the landscape for each major issue.



Self-Evaluation Checklist: Assessing the Situation

Think back to a task you recently completed and consider how well you assessed the situation. What would be some criteria that you would expect to broadly apply when confronted with beginning a new 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 and Situational Analysis

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 work by attending to the following aspects of the CPA Mindset while assessing the situation:

- Performing work with due care, including:
 - Focus on decision-maker and stakeholder concerns, even if not explicitly stated
 - Alertness to new or changing circumstances
 - Careful reading and review of case/assignment materials
- Maintaining objectivity, independence in mental attitude, and professional skepticism
- Considering opportunities for cross-competency integration, including potential implications of issues found in one technical area for work in another technical area



Planning for Communication(s)

While assessing the situation, it is a good idea to anticipate the types of communication(s) you will provide decision makers. For example, will you give an oral presentation or write a memorandum? Think about the audience(s) for these communications and how you will ultimately need to format information. For example, perhaps you will need to explain spreadsheet calculation to help a non-accountant understand them. Your overall work will be more efficient if you identify these types of communication needs early and address them as you perform work, reducing the need to make later revisions.

APPENDIX 1

Self-Assessment Questions

Question #1

You are conducting an audit of financial statements. Which of the following procedures are you most likely to perform when assessing the situation?

- a. Materiality assessment
- b. Confirm accounts receivable
- c. Prepare audit report.

Question #2

You have been asked to perform an analysis to determine which types of customers are most profitable. Which of the following would you most likely perform while assessing the situation? Check all that apply.

- a. Identify the decision maker(s) and the purpose of the analysis.
- b. Identify a document on customer profitability analysis.
- c. Identify sources of information about different types of customers and the costs associated with services to different customer groups.
- d. Perform calculations to compare profitability for different types of customers.
- e. Provide a recommendation to promote one type of customer based on the profitability analysis.

Answers to Self-Assessment Questions

Question #1

- | | | |
|----|-----------|--|
| a. | Correct | The assessment of materiality helps the auditor determine which accounts, transactions, and other events require further investigation during the audit. Thus, the materiality assessment is a precursor to planning the audit and performing additional work. |
| b. | Incorrect | Confirmation of accounts receivable is done to gather substantive evidence for specific assertions. This type of audit work is most closely related to the “Analyze Major Issue(s)” part of The CPA Way. (However, some aspects of the confirmation process, such as assessing the risk of material misstatement and gathering information about the nature of accounts receivable, would typically be part of assessing the situation.) |
| c. | Incorrect | The audit report is prepared at the end of the audit and would typically be related to the “Conclude and Advise” part of The CPA Way. |

Question #2

- | | | |
|----|-----------|--|
| a. | Correct | Identifying the decision maker(s) and the purpose of the analysis is a key aspect of the situational analysis. |
| b. | Correct | Identifying relevant professional resources should be part of the situational analysis. |
| c. | Correct | Identifying relevant information about customers and costs would typically be part of the situational analysis. |
| d. | Incorrect | No, that isn't correct. Performing calculations of customer profitability is most closely related to the “Analyze Major Issue(s)” part of The CPA Way. |
| e. | Incorrect | No, that isn't correct. Providing recommendations is most closely related to the “Conclude and Advise” part of The CPA Way. |

APPENDIX 2

Self-Evaluation Checklist: Assessing the Situation

You can use this checklist to evaluate work when Assessing the Situation. For more information, see *The CPA Way (3-Assess the Situation)*.

	Yes	No	n/a
1. When appropriate, are analysis techniques used to obtain and/or assess relevant situational information?			
2. Are key aspects of the problem and context identified, such as the following? <ul style="list-style-type: none"> • Major issues and alternatives to be investigated • Decision-maker goals/objectives • Other key stakeholders and their needs/preferences • Constraints (internally- or externally-imposed) • Professional resources • Key situation factors such as economic circumstances, business opportunities/threats, and risks • Other available information such as financial statements, memoranda, interviews, and analyses 			
3. Are the most important issues and alternatives identified for further investigation?			
4. When appropriate, are larger problems divided into the most appropriate sub-problems (i.e. creating separate major issues)?			
5. Has a work sequence been established for addressing the major issues?			
6. For each major issue, has a situational analysis been performed to identify key aspects of the problem and context?			



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