

PRACTICE CONTINUATION PLANNING

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As a CPA in public practice, there are several reasons why you may one day close or wind down your practice, either planned or unplanned. A smooth and effective transition requires careful planning several years in advance. In the event of unexpected circumstances, a practice continuation plan (PCP) will help retain the value of the practice, protect clients' interests, and reduce stress on family members and employees. While not all-encompassing, the focus of this article is to help you develop a PCP and ensure that you meet your obligations under the CPA Code of Professional Conduct and CPA Ontario By-law and Regulations.

Types of work arrangements

Your PCP should cover work arrangements for scenarios that include both temporary and permanent incapacity to practise.

For temporary incapacity, you will need an assistant practitioner to help run your practice on an interim basis. This type of arrangement works where you're expected to recover and return to operating your practice soon.

For permanent incapacity, you will need a successor practitioner to take over the practice. In this case, a "successor" is defined as a member who will either purchase the practice, assist in selling the practice to another member, or wind-down the practice and cease its operations.

In both cases, the assistant or successor practitioner's role may only involve returning client information¹ to respective clients, rather than running or helping to sell the practice.

Relevant rules in the [CPA Code of Professional Conduct \(CPA Code\)](#):

- Rule 208, *Confidentiality of information*
- Rule 217, *Advertising, Solicitation and Endorsements*
- Rule 401, *Practice names*

[CPA Ontario By-law](#):

- 7.7, *Revocation of membership*
- 10.2, *Registration, renewal and continuing obligations*

CPA Ontario Regulations:

- [Regulation 14-1, Professional Liability Insurance](#)

[Chartered Professional Accountants of Ontario Act, 2017 \(CPA Act\)](#)

¹ Client information includes any information or documentation that you receive from the client or prepare for the client as part of their work product, in relation to the professional services you provide them. Client information can include financial statements, tax returns, and notice of assessments, the general ledger and other books and records.



How to develop a Practice Continuation Plan



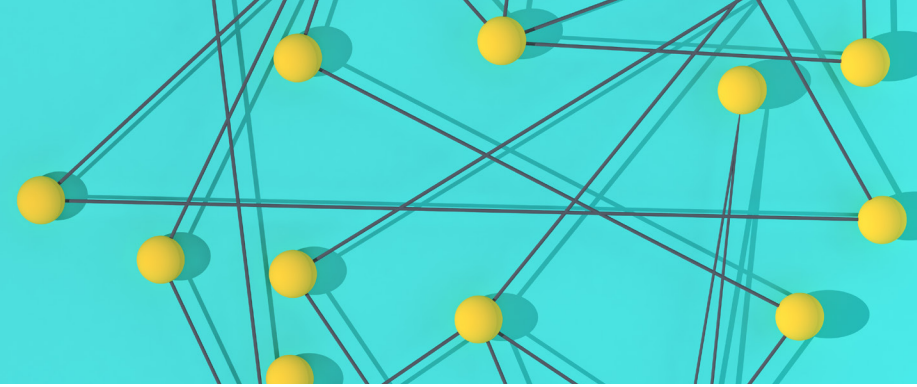
Develop a PCP that documents execution of the following steps:

**Please note that the steps and considerations in the table below are not exhaustive.*

Steps	Explanation	Additional Considerations
1. Identify an assistant practitioner and a successor practitioner.	<p>The assistant and successor should be CPAs who can step in and operate the practice with little to no notice.</p> <p>Finding the right people takes time, so do so before the need arises.</p>	<p>You may want to consider:</p> <ul style="list-style-type: none"> • a staff member who already has relationships with your clients and can facilitate a smooth transition, • a CPA in your community who has a similar approach to running a practice and serving clients, • building a relationship with a local or national firm; refer to CPA Ontario's Firm Directory to locate firms in your community, and • contacting a broker who specializes in finding buyers for public accounting practices.



Steps	Explanation	Additional Considerations
<p>2. Document information about your clients and practice.</p>	<p>Including up-to-date information will help the assistant practitioner run your practice and expedite negotiations with a potential successor (if applicable).</p>	<p>Client information may include:</p> <ul style="list-style-type: none"> • a description of the types of clients by service category (e.g., audits, reviews, compilations, tax work, consulting), • a description of specialty services, if applicable, • a list of clients (including their contact information, length of service, fees and recovery rates), • a fee schedule by service type (e.g., covering hourly rates, fixed-fee arrangements, retainers), and • a list of outstanding client commitments and any other practice commitments (this should be updated regularly). <p>Practice information may include:</p> <ul style="list-style-type: none"> • the contact information of the executor of your estate and your power of attorney, if incapacitated, • HR files for your employees, including compensation, roles and responsibilities, • employment contracts, non-competition agreements and other relevant agreements, • a capital asset listing, including leases for premises and equipment, • professional liability insurance (PLI), life insurance or other insurance policies, • the firm's financial statements and tax returns, • policy manuals, including HR, IT, record retention, data protection, engagement, quality control, etc., • results of any practice inspections by regulatory bodies, • a list of firm passwords and related security information, • a statement directing employees on when to release files to the assistant or successor practitioner, and • key advisors' contact information (e.g., lawyer, banker).



Steps	Explanation	Additional Considerations
<p>3. Prepare an agreement between you and the assistant/successor practitioner (the agreement).</p>	<p>By agreeing to the terms of your arrangement in advance, your PCP can be enacted by the assistant/successor as soon as a triggering event² occurs.</p> <p>Consider having the agreement reviewed by your legal counsel and updating or renewing the agreement as necessary.</p>	<p>The agreement would address:</p> <ul style="list-style-type: none"> • the triggering event(s) • financial arrangements, such as: <ul style="list-style-type: none"> ▪ remuneration for temporary operation of the practice (assistant), and ▪ sale price of the practice and payment schedule (successor), • confidentiality of information procedures to prevent an assistant or successor from breaching the CPA Code,³ • responsibilities of the assistant or successor, including steps to take after a triggering event (as outlined below), • a provision to protect your employees (e.g., to require that certain employees continue to be employed or receive a payout), • a non-competition agreement in the event of your recovery or due to the sale of the practice to an individual outside of the agreement, • conflicts between the executor of your estate and the assistant/successor and how they're to be resolved, and • a termination clause.
<p>4. Prepare a client notification letter.</p>	<p>Client notification letters should be drafted to cover the various triggering events contemplated in the PCP.</p> <p>Consider that timely communication may influence client retention, which will maintain the value of the practice.</p>	<p>Client notification letters would include the following:</p> <ul style="list-style-type: none"> • a description of what event(s) triggered this communication (e.g., illness, emergency, death), • a statement indicating how long the absence is expected to last, • a description of the practice continuation plans, including contact information for the assistant or successor practitioner, and • a request for the client's consent to share confidential information with the assistant/successor practitioner.

² A triggering event is any event that activates the PCP. This could be a temporary event like an illness or leave of absence, or a permanent event like death or permanent physical/mental incapacity.

³ Rule 208.1(a)



Steps following a triggering event

If a triggering event occurs, here is how to proceed:

Steps	Explanation	Additional Considerations
1A. Have someone contact the assistant practitioner.	This individual will need to notify them that you are temporarily incapacitated.	The assistant will execute the temporary work arrangement detailed in the PCP.
1B. Have someone contact the successor practitioner.	This individual must notify them that you are permanently incapacitated or have passed away.	The successor will execute the permanent work arrangement detailed in the PCP.
The remaining steps apply to successors of deceased practitioners		
2. Notify CPA Ontario.	<p>Notify CPA Ontario's Office of the Registrar (the Registrar) of the member's death.</p> <p>Notify CPA Ontario of any changes in the firm within 30 days of the event.⁴</p>	<p>A CPA's membership will automatically terminate upon their death.⁵ CPA Ontario will require documentation such as an obituary or death certificate to update the profile.</p> <p>If the name of the deceased CPA is included in the firm name and the practice will continue to operate, the CPA Code requires the successor to change the firm name.⁶ The successor can apply for an extension by writing to the Registrar.⁷</p>
3. Notify the PLI provider.	A discovery policy is required for a period of six years following the withdrawal of partner of a firm.	Contact the PLI provider to arrange for a discovery policy to be maintained for a period of six years to protect the estate from any claims for prior acts. ⁸
4. Notify any life insurance partners.	Notify the insurers that the member has passed away.	Death benefits are not paid out automatically as they require the beneficiary to file a claim with the life insurance company. The insurer will normally request paperwork and supporting evidence (e.g., a death certificate) to process the claim and payout.
5. Notify the clients.	Distribute the client notification letter as soon as possible.	<p>The successor should distribute the client notification letters. See Step 4 in the section "How to develop a Practice Continuation Plan."</p> <p>If there is no successor practitioner, depending on the circumstances, a family member, executor, administrator, estate trustee, power of attorney or custodian will be responsible for notifying your clients in a timely manner.</p>

⁴ By-law 10.2.5

⁵ By-law 7.7.2

⁶ Rule 401(a), guidance paragraph 2

⁷ Rule 401, guidance paragraph 8

⁸ Regulation 14-1, section 9 and 10

What happens if there is no Practice Continuation Plan in place?

With no PCP in place for an assistant or successor practitioner to take responsibility for your firm and client files, your practice may end up in the hands of a custodian.

Upon death, it is up to the executor, administrator of the estate or, failing that, the public trustee, to find a responsible CPA to act as a custodian of the practice. If it appears that *no one else* can take over your practice, CPA Ontario has the power under the CPA Act to apply for a custodianship of the practice.⁹ Custodianship is not an ideal outcome for your practice or estate, as CPA Ontario will place the clients' interests ahead of those of the practice and its beneficiaries. Best practice is to have a PCP in place.

If your practice is being sold or wound-up after your passing, your clients may require immediate service and may decide to engage new accountants. The CPA Code requires any member or firm who takes over an account you previously served to notify your estate's executor first.¹⁰ By having a PCP in place, your estate is in a better position to sell the practice for its full value.

Additional resources

The following resources may be helpful:

- The Practitioner's Toolkit, published by CPA Canada. This is a free resource and can be accessed via login at www.knotia.ca
- [*The Purchase and Sale of an Accounting Practice*](#) published by CPA Canada (paid resource).
- The [*Guide to Practice Management for Small- and Medium-Sized Practices, Module 8: Succession Planning*](#), issued by the Small and Medium Practices Committee of the International Federation of Accountants:
 - Appendix 8.9 Compliance Issues Checklist

As no two situations are identical, you are responsible for ensuring that your own situation complies with the [CPA Code of Professional Conduct, By-law and Regulations](#). Please note that this article is considered to be non-authoritative guidance only.

⁹ CPA Act, section 54

¹⁰ Rule 217.2, Solicitation, guidance paragraph 6

Have a question? Our Professional Advisory Services team is here to help, making first point of contact within 24 hours.

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