

CERIFI CPE NETWORK

ACCOUNTING & AUDITING REPORT

AUGUST 2025

VOLUME 38, ISSUE 07

EXECUTIVE SUMMARY	1	PART 2. AUDITING	21
EXPERT ANALYSIS AND COMMENTARY	3	Fundamentals of Audit Documentation.....	21
PART 1. ACCOUNTING	3	SUPPLEMENTAL MATERIALS.....	44
Did You Know? Making Sense of Recent Standards: Measurement and Disclosure of Credit Losses.....	3	Fundamentals of Audit Documentation.....	44
SUPPLEMENTAL MATERIALS	10	GROUP STUDY MATERIALS	51
Did You Know? Making Sense of Recent Standards: Measurement and Disclosure of Credit Losses.....	10	A. Discussion Questions.....	51
GROUP STUDY MATERIALS	17	B. Suggested Answers to Discussion Questions ...	52
A. Discussion Questions	17	GLOSSARY	55
B. Suggested Answers to Discussion Questions...	18	CPE QUIZZER	57

EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent Standards: Measurement and Disclosure of Credit Losses 3

Susan Longo, CPA, explores the Financial Accounting Standards Board's issuance of ASU 2016-13, which marked a significant shift in the measurement and disclosure of credit losses, transitioning from an incurred loss model to the current expected credit loss (CECL) framework. This session unpacks the complexities of the standard through a practical lens, focusing on its impact on both financial institutions and small businesses. Unlike previous practices that relied on subjective judgment or historical averages, CECL demands a forward-looking, data-driven approach that incorporates historical experience, current conditions, and reasonable, supportable forecasts. The content emphasizes how this shift affects the evaluation of loans, debt securities, and trade receivables—including those held by entities unaccustomed to segmenting financial assets or conducting rigorous environmental analyses. Through clear explanations, illustrative journal entries, and detailed examples—including vintage loss assessments, aging schedules, and valuation adjustments—learners are guided in applying the new rules. The standard's broad scope and strict disclosure requirements further stress the need for consistent, transparent methodologies across portfolio segments. By grounding credit loss recognition in predictive analytics rather than retrospective guesswork, ASU 2016-13 establishes a new era of accountability and accuracy in financial reporting. *[Running time: 45:11]*

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify the requirements in recent authoritative standards.
- Pose and answer FAQs related to recent standards.
- Explain recent changes in accounting rules to staff professionals and client personnel.

PART 2. AUDITING

Fundamentals of Audit Documentation 21

Christopher K. Martin leads this session on audit documentation, which is the backbone of every effective and defensible audit. This session provides a comprehensive guide to mastering the principles under AU-C 230, unpacking the essential purpose, content, and quality standards for documentation that supports audit conclusions and compliance with GAAS. The material emphasizes the "reperformability" standard—ensuring that an experienced auditor with no prior connection to the engagement can clearly understand what work was done, why it was done, and what conclusions were reached. Through detailed breakdowns and engaging examples, learners will explore proper documentation techniques, common misconceptions, practical applications, and effective use of tools like tick marks, cross-referencing, and self-review practices. The session also highlights key areas where firms often fall short, such as overreliance on prior-year workpapers, excessive or insufficient documentation, and lack of clarity in significant findings. Participants will learn how thoughtful, concise, and timely documentation can reduce peer review deficiencies, support audit quality, and facilitate future engagements. With practical tips, audit file walkthroughs, and real-world insights, this session equips auditors at all levels to create documentation that not only complies with standards but enhances audit effectiveness, efficiency, and professional credibility. *[Running time: 1:31:54]*

Learning Objectives: Upon completion of this segment, the user should be able to:

- Explain the requirements of AU-C 230, *Audit Documentation*.
- Explain why the AICPA is focused on improving audit documentation.
- Describe quality documentation.
- list ways to meet the audit "reperformability" standard.

ABOUT THE SPEAKERS

Susan Longo, CPA, provides financial reporting services to industry and CPA practices throughout the United States and Canada. Having been recognized as an outstanding instructor by the AICPA and numerous state CPA societies, she has authored, edited, and instructed courses in accounting; auditing; nonprofits; and governmental entities for leading providers in the field of continuing professional education. In addition, she has served as director of development for the AICPA and as accounting department/MBA chair for two universities. Her practice expertise is in compliance auditing for nonprofit organizations, governmental entities, employee benefit plans, HUD, financial institutions, broker-dealers, CIRAs, and contractors. After graduating from the University of Michigan, she joined a national accounting firm, where she received extensive auditing experience with: governmental agencies; Fortune 500 companies; and in business consulting.

Chris K Martin, CPA, is a self-employed CPA who offers financial management, accounting, and education practitioner/consultant services to clients throughout the US and internationally in Bermuda and India. He has 30+ years in the accounting and accounting education professions, having worked with CeriFi CPEdge since 2003. His public accounting career included such positions as senior manager at Andersen and as CFO for an SEC-registered communications company based in Atlanta.

Be sure to include the completed sheet when you request certificates for this event.

Title of Course (Enter full title)	
Date of Class (MM/DD/YYYY)	
Time (Enter time of class)	
Location (Enter location of class)	
Learning Objectives (Refer to executive summary)	
Program Description (Refer to executive summary)	
Instructional delivery method	Group Live
Recommended CPE credit	3.0 Credits
Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	<ul style="list-style-type: none">• Basic Accounting and Auditing professional experience• Basic Tax professional experience• Basic Governmental professional experience
Advance preparation	None required
Course registration and, where applicable, attendance requirements ⁽¹⁾	

(1) Insert instructions for your students to register for the class and any other attendance requirements (e.g., bring your laptop, be prepared to work in groups, you will be required to sign in and sign out of the session, etc.)

© 2025 CeriFi, LLC. All rights reserved. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a *Committee of the American Bar Association* and *Committee of Publishers and Association*

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent Standards: Measurement and Disclosure of Credit Losses

Welcome, everyone, to our first session on the A and A portion of this month's program. In this session, we'll break down the new credit loss standard, ASU 2016-13, and explain how it changes the way we measure and disclose credit losses. You'll learn how the shift from the incurred loss model to the current expected credit loss model impacts everything from trade receivables to debt securities. We'll use clear examples and simple illustrations to help you understand what's required and how to apply it. Now let's join our expert, Susan Longo, who will lead us as we explore today's accounting topic, Making Sense of Measurement and Disclosure of Credit Losses.

Ms. Longo

Hello, I'm Susan Longo and we're going to talk about the standard that the FASB issued in 2016, about the measurement and disclosure of credit losses. This standard significantly changed the rules for what is included in a credit loss evaluation.

It is a standard that wasn't particularly earth shattering to the financial institution world because they had been doing that for some, some time. It does, however, significantly affect our small businesses that were not, number one, data driven. They were tempted to be more, you know, a rule of thumb, or thumb in the air about what should be an allowance against receivables, but that also, for the small businesses, the recognition that there is, there's not the consistency that they tend to want to display and that the practitioner tends to think actually occurs. So, consequently having to have a multi-year view of, of allowances is a, is a very different kind of operation, and, and technically in terms of the measurement, but also in terms of, of the disclosures of it. So, we're going to talk about that standard at some length.

So, let's talk about credit losses as is now defined. The standard we're talking about is ASU 2016 and -13. It was effective in the period of 2023, so we have about, you know, a few years of experience behind it. It was, however, effective as of 1/1/23, and therein did lie the, the problem in that a lot of people who only think about things in terms of annual financial statements really had not made the modification to their accounting systems early enough to track the change. There was a, a requirement to do a modified retrospective with a cumulative adjustment to retained earnings from the beginning for everything that is, is presented.

So, what's actually happened? Maybe we'll take a step back and ask, "Well, why did they do this?" The answer is all because of Topic 606, which is the Revenue Standard. So, what the Revenue Standard said was at the transaction date, not at the end of the month, the quarter or a couple of months after year-end when the auditor sits down and has a conversation with Karen, but at the transaction date you are required to determine collectability.

Now, that's very different because it takes away that, "Well, I have subsequent cash collections," because you don't have subsequent cash collections at the date of the transaction. You may have a pattern that gives you a clue as to what those might be, but you don't have them.

It also says you look at this at the transaction date based upon a, a, a sort of a, a multi looksee, which does not allow you to, once again, say, "Well, I've had the client for 30 years and they've never had a, you know." Well, then we look at 1992, 2008 and, and 2019, and we know that's not a good analysis.

So, what has happened is we have moved from an incurred loss model. That's the one that said we're going to have the conversation with Karen and, "Where is this receivable and that receivable and that receivable, and do we have an allowance sufficient to address that to now a current expected loss model?"

It requires that a recognition of the full amount of expected losses. So, the new guidance applies to loans, debt securities, trade receivables, net investments and leases, off balance sheet exposures, standby letters of credit, lines of credit, reinsurance receivables and anything else not excluded.

So, the answer is what's not -- what is excluded? Well, pledges for a nonprofit, for a not-for-profit, and loans in an employee benefit plan. Those are the two things that are excluded. Everything else falls under this. So, the, the important thing is the exclusion of the not-for-profit and the employee benefit plan. Those are the things that you, you encounter most frequently.

So, if we looked at the guidance, what's unique about the guidance? Well, an asset is measured at amortized cost, and now it's net of the amount expected to be collected. Is that any different than what was done prior to that point? We have the accounts receivable measured at amortized cost net of the allowance; not any different.

Now, what is unique is we have to make sure that we have a collective view when we have assets of similar characteristics. So, therefore, it does require small entities who are not used to doing this to actually group similar assets. So, whether you want to call it grouping or segmenting, whatever, it does, it does require that to happen.

Now, we also have a change in terminology. It's now "an allowance for credit losses," and the reason is because it includes more than just the allowance related to receivables. So, that valuation account is now called an "allowance for credit losses."

So, please, no more an allowance for uncollectable, an allowance for bad debts, those sorts of things. It's got to be an allowance for credit losses. It is deducted from the advertised cost. Is that different? No. The income statement includes the credit losses. Is that different? No. So, so far nothing different.

Now, here's what is different, and that is the measurement rule. The measurement rule requires that you use historical experience, current conditions and a reasonable forecast. You can't just say, "Well, this is what the pattern is for the last three years." And so, we, we often saw that on workpapers.

The allowance for doubtful accounts, \$30,000 in that, in each of the last three years. Analytics shows it's consistent, no further procedures deemed necessary, but historical experience doesn't hold true whenever there is some market disruption, whether it be economic, industry or whatever. So, therefore you have got to look at the current conditions. And for most entities, current conditions means, "Is somebody paying?" And they're asking here that you are more environmentally sensitive, that is, you're actually monitoring what's happening to all of these transactions.

And then what will happen. because the collection period extends for some time, is a knowledge of what's the disruption that could occur. It's a reasonable forecast period. It doesn't have to go out 20- or 30-years, but it's something more than one month.

So, we want to take a look at the specific rules for receivables, the specific rules for available-for-sale securities, make sure that we have a foundation of what's actually happening, and then what we're going to do is look at a whole bunch of, of illustrations.

So, for available-for-sale securities, the credit loss is in an allowance account, whereas right prior to this standard being issued, you actually reduced the amortized cost. So, debt securities, bonds, notes when there is a, a loss was actually recorded right in the investment account, and now we use an allowance account. The allowance account is limited to the difference between fair value and amortized cost, and the changes in the allowance is a credit-loss expense. Now, again we don't have a bad-debt expense, we have a credit-loss expense.

The allowance for purchased available for sales securities with a more than insignificant amount of credit deterioration, PDCS is treated like any other available-for-sales security; however, the initial allowance gets added to the purchase price. It's only the subsequent changes that wind up with a credit-loss expense.

So, just to make sure everybody understands this, because what we find is that people are still doing pretty much what they've always done, which is they get a broker-dealer statement, they take a look at cost, they took it take a look at fair value and on an aggregate basis they make an adjustment in the books, and the adjustment aggregated is one that doesn't reflect the requirements of the new standard. Sometimes it's a net that goes into other comprehensive income. Rarely do we say an allowance that's disclosed properly that shows the decline in value of the available-for-sale security.

So, here's an example. We have a five-year \$10,000 bond with a 5% coupon. It is an available-for-sale debt security. The amortized cost basis is \$10,000, and we expect to collect less than the contractual cash flows for years three and four. Only \$250 of interest would be collected and only \$9,000 of principal and no interest in the next year.

Now, we know that the fair value is \$6,000, which implies a yield or discount rate of 16% based upon the new estimated cash flows. We don't intend to sell the security, and it's not more likely than not that the entity would be required to liquidate it for some operating need. So, what do we have to look at? But to look at the fact that we initially thought that the cash flows would be \$12,500, the principal plus the interest and we would discount that at 5%.

Now, we know that the revised cash flows are only \$10,250 discounted at 5%, it's only \$8,550. And we also know that the fair value is only \$6,000. So, we have to find a way to get from that \$10,000 original to that \$6,000 fair value amount. Now, the difference in the gross cash flows between \$12,500 and \$10,250 is \$1,750. That discounted at 5% turns the calculation is \$1,450. That is the credit loss, and other comprehensive income is charged for everything else that is market-risk related.

So, the journal entry is literally credit-loss expense and allowance for credit losses of \$1,450, other comprehensive income and that portion can reduce the investment. The balance sheet would show a net carrying amount of the \$6,000. The allowance is presented parenthetically on the face of the balance sheet.

The disclosure would require aggregation by the category of investment, aggregation by fair value, all the unrealized losses of roll-forward schedule, and you must include in your accounting policy how you recognize the write-offs.

For available-for-sale in an unrealized loss position without an allowance account, then there's quantitative information that is aggregated by category, and most importantly, a support why no allowance is sitting there.

So, the rule is, you need an allowance account. The fact of the matter is there are some that don't have the allowance account, so we need support for why there isn't an allowance. It is not any longer a conversation with Karen. It is the cause of the impairments, the severity of the impairments and performance indicators that would say we don't need an allowance. It is all data-driven. It is not subjective evaluation, and it is not professional judgment. It is all data-driven.

So, then we want to take a look at receivables, and some examples for receivables, because, quite frankly, this is probably the area with the biggest change, and the area where most frequently our small business entities have to struggle with a new way of developing an allowance account.

So, first of all, everybody needs to recognize that a receivable doesn't go bad immediately. There are some well-defined indicators. Initially, the receivable may be paying right on schedule, and there's nothing on the horizon that indicates that that will not continue for the next 12 months. However, there are others where the payments are perhaps less than required each time or they may be skipping certain payments, but we know that at this point the probability that 100% of the amounts will not be collected. So, what we need to be able to do is to determine the lifetime expected loss.

Now, the nonperforming is, we're just not getting payments at all, and we've suspended everything and we're in negotiations and they want to extend and all that sort of thing, and again, the issue is what's the lifetime potential?

Generally, one of the market indicators is an understanding of what's happening to a credit rating. And when we talk about historical experience, current conditions and a reasonable forecast, it really is the credit rating and the measurements of those credit ratings, that's the data that most of your small clients don't have.

Interestingly enough, they monitor their own credit ratings, and they have all these wonderful little apps that they use, and the ones that have the little sliding scale that says, you know, if you want to buy this and he's paid this much down and that and, and they, they see how that changes, and then they're totally, if you don't, don't play around with certain apps because it will actually ruin your credit rating. So, you got it, you, you need to recognize that, that on a personal basis, this concept of using credit ratings to understand the probability of collection is very visible in all the apps that they use, and this standard is doing nothing more than leveraging that whole concept into an accounting standard.

So, the guidance expands the data that has to be used in the evaluation of a credit loss. Now, there are multiple methods that are illustrated in the standard as they really focus on five, but there are multiple methods, and there is nothing in the standard that specifies you will use this method only. The inputs that are used are the important thing, and they will need to change because there has to be data-driven.

So, whether you use trend analysis and multi-year comparisons or any other methodology, you've got to have support for how you, that the entity is creating the allowance. So, the initial measurement can be discounted cash flow, a loss rate method, a roll-rate method, a probability-of-default method or an aging schedule, and a lot of your clients use an aging schedule.

So, here you see a pretty simplistic methodology that's perfectly acceptable. You're not required to use the discounted cash flow method because it's the first one listed, and you're not required to, to reconcile whatever you use to a discounted cash flow. Is it the preferred method? Absolutely. Do you have to use it? Absolutely not. If you use a discounted cash flow, you must use the financial assets effective interest rate. That is the, you know, that is the only basic rule. So, it should measure expected credit losses even if the loss is remote.

So, here's a big shift as well, because before this idea of an incurred loss, we ignored anything except that was probable and estimable, and now we don't do that. We measure all expected losses, but we also make sure that we adjust for current conditions and a reasonable forecast.

In subsequent periods the allowance account can be adjusted. You can adjust based upon experience or change in the market. That can be adjusted. You're not stuck with the number. You do need to create financial assets in the pool with similar risk characteristics.

You do need to realize that we have two rules. Rule #1, nothing is 100% collectible. Nothing is 100% collectible. There will be no statement in the financial statement that says, "Based upon management's evaluation, no allowance for doubtful accounts deemed necessary." There will always be an allowance for credit losses, always, and we're going to point that out in an example in just a minute. And the other is, nothing is 100% uncollectible.

So, your client that says, "Well, we don't expect to get any money, but don't worry about it because the allowance is large enough and we've covered that loss 100%." If the potential for loss is determined to be 100%, it will require a write-off.

Now, if you collect money, you know how to record that, but you don't keep anything in the books and records for which there is 100% allowance. Nothing is 100% uncollectible, it gets written off.

Nothing is 100% collectible, there is always an allowance account.

So, we can look at risk and recognize that a portfolio has various risks. It is important as well that you recognize for our smaller clients, they probably don't want to look at all of these credit quality factors. So, for some, they may just start with the first one. Some third-party credit score or credit rating may be enough, but for others, they may have much more sophisticated statistics available on historical loss patterns and the ability to create trends and forecasts.

It is required that you do an environmental analysis, which is how we get our forecast. The forecast, again, is not a subjective sort of seat-of-the-pants. It is all data-driven. So, what do we know about the borrower's financial condition, the ability to pay, the remaining payment terms, the time to maturity, the nature and volume of those assets, the volume and severity of any past due, etcetera. It is in fact looking at an understanding where they sit now and what it's going to take for them to pay the remaining amounts due.

So, again, credit-quality indicators, these are things that if you are the recipient of, you're not the issuer of the debt, but that you are the holder of that debt, that are used all the time to determine in fact what your interest rate is. I mean, three people can walk into the bank wanting to borrow the same \$100,000 and they all could come back out with \$100,000. Not one of them will have the same terms, and it's all based upon credit quality indicators, consumer credit risk scores, credit rating scores. Sometimes companies and financial institutions have their own risk grades, debt-to-value, all of those metrics work.

Disclosures are both quantitative and qualitative. It is done by class of receivable and by major security type. So, the first is what credit quality indicators are being used, and you organize by credit quality indicator, and you indicate the date and range of dates when the information was last updated.

The disclosures are the credit-quality information, a roll-forward of the losses, past due status, non-accrual status, that's when you're in that nonperforming PCDS are the purchased assets with credit deterioration. These are both receivables and securities, collateral dependent assets and off-balance exposures.

The allowance for credit losses is done for each portfolio segment, in other words, each pool of assets. How was the estimate developed? The methodology to estimate the risk characteristics, the factors that influence the current estimate, any changes to the accounting policy, any changes to the amount of write-offs. So, it's a description of what's happening in that allowance account.

Now, the accounting policy, the basis for the accounting, the method used in determining the lower of advertised cluster fair value, the classification and method of accounting for certain of these securities and the method for recognizing interest income.

Major categories of loans and receivables, the allowance by loan segment and the loans that serve as collateral for borrowing, and it would look something that looks like this. So, what we have is looking at residential mortgages, for instance, and understanding the potential loan losses over a period of years. And so, each of these is a category in that, and this is, you know, for a financial institution, which is obviously the easiest one to illustrate but doesn't necessarily mean that that's the pattern that you would use.

So, for instance, if you were an auto dealer, this applies to an auto dealer, and the auto dealer that is financing and the, the categories can be as simple as what was a direct financing, what -- versus what was a lease finance financing, and that those two categories would be segregated for an auto dealer. And there's ability to segment, being within those two categories, but as a minimum, those would be two categories. As just another example, this is a financial institution. It is not, the disclosure is not limited, not limited to financial institutions.

And then what's being illustrated is, what they have done is they have, it is a risk rating that is being used, and so therefore, they have the ability to show where the losses are, based upon particular risk rating scores.

So, the illustration is to show you that if you have to segment by category, and then within that display what you are, use or disclose what you are using for your credit quality factor. And, and for some this is going to be fairly simple because you're going to use a standard-aging schedule. What you have to do then is to categorize your receivables and apply it to the aging schedule. And then this is the ageing analysis used, and we show, again, the various categories of, of receivables and, and an aggregate of what the credit losses turn out to be.

So, let's look at how this actually occurs, and, and have an appreciation for what is significantly different from what we've had before. So, the first example would have a, a note receivable, par is \$1,000,000, contract rate of 10%, advertised cost of \$980,000 with an effective interest rate of 10.64%. We are at December of X0, the, the note matures at December of X4. So, what's going to happen?

Here are the contractual cash flows. Year 1, 2, 3 and 4, \$100,000 in, in each of the first three years, \$100,000 plus the \$1,000,000 repayment. So, the total cash flows are a \$1.4. Here are the expected cash flows, \$95K, \$95K, \$95K and a \$1,060,000 for a \$1,345,000. Present value at 10.64%, \$941,000. Amortized cost basis for \$980,000, a credit loss allowance of almost \$39,000. So, contractual cash flows, expected cash flows over the entire life of the note discounted, compared to amortized cost. The difference is the allowance.

Now, the next one is one that people should spend considerable amount of time on because what, what you'll see here is a major shift of, of perception and thought and actual measurement from what we have been doing for years and years. So, here we have, a wholesaler payment terms are net 30. The loss experience 2% on current, 9% on 1 to 30, 20% on 31 to 60, 50% on 61 to 90, and 90% on more than 90. That is the loss-rate experience, which would mean that we then had historical experience.

Now, we have to look at current condition and a reasonable forecast, and that is we expect deterioration in the reasonable, foreseeable future, and to do this, what they've done is adjust the rates by 10% across all categories. That adjustment would have to be justified.

It would be hard to assume that it would be all categories, and it would be hard to assume that, that we could have some sort of flat rate. So, you would have to actually justify it and justify it by some sort of data. Again, they have tried to take out of this process that subjective evaluation and professional judgement and ground this in data.

So, here's what we have in terms of an aging schedule. Current and each of the categories yielding \$970,000 worth of receivables, and then we apply the evaluation. Be sure you note that the current category has a projected loss rate applied to it. 99.99999% of the cases of an aging schedule prior to the implementation of that standard would have said that amount is zero. It's current. And remember the rule, nothing is 100% collectible, and we do not have subsequent cash collections to argue the point because we're doing this at the transaction day.

Now, notice what's happening. They have done a, that, that projected loss rate, it includes that 10% adjustment. So, applying that for each of the categories would give us an allowance of \$89,870. So, important to recognize that the projected loss rate, the current expected credit loss rate applies to all categories.

Now, this would apply, you know, to that, that customer base. This would get revised, of course, if what we had was different categories of customers and, and/or segments of pooled assets, and then we would be doing this multiple times for each of the segments. The estimated loss is \$89,870 and that's what will be reported.

Now, here's another one. We have a bank. It's financing new and used farm equipment. They approximate the same amount of loans each year. The four-year amortizing loans that originated are secured by collateral with a consistent range of loan-to-collateral value ratios. 90-days past due they repossess. They track based upon the year of origination, and here is what they have in the way of a track record. The year of origination and the loss experience in the years following origination.

And so, this is data that they have collected that allows them to say, you know, one year out \$50, year 2, \$120, year 3, \$140, year 4, \$30 total of \$340. And that was the 2001 receivable. 2002 has it pretty much the same. 2003 a little bit less. 2004 we're up above, and now we begin to see, you know, a, a particular pattern.

And what we have is, as well, is that we can divide this in that the transactions of one through -- year 1 through 5 are completed transactions because they're only four year, year, it's only a four-year debt. So, we've already, we already have true experience because we're done collecting on those. In 6, 7, 8, 9, we want to use that experience to create the same kind of pattern and create our expected losses. So, it becomes a, a data-driven analysis that says what, what's happened and can I apply that experience to my current outstanding receivable.

So, they use the historical loss information and most of the losses occur in years 2 and 3 of the loans. There's an oversupply of used equipment in the resale market; therefore, a downward pressure on the collateral value. There's also some severe weather that has affected crops and that trend intends to continue.

So, what we're doing here by looking at the resale market for collateral and the weather for the crop, that's how we're creating our reasonable forecast. So, that's how the adjustment to historical loss for current conditions and the reasonable forecast is made.

So, that is a quick review of what is required under the Credit Loss Standard, which does significantly change the whole focus of both measurement and disclosure.

SUPPLEMENTAL MATERIALS

Did You Know? Making Sense of Recent Standards: Measurement and Disclosure of Credit Losses



Did You Know? Making Sense of Recent Standards –
Measurement and Disclosure of Credit Losses

Presented by: Susan C. Longo, CPA, MBA

1

CERIF/ CPEdge

Copyright 2024 CeriFi, LLC All Rights Reserved

This course, or parts thereof, may not be reproduced in another document or manuscript in any form without the permission of the publisher.

This material is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a
Committee of the American Bar Association and a Committee of Publishers and Associations

The content in this webinar is copyright protected.

If your certificate of attendance has been issued by anyone other than CeriFi, LLC, this material has been obtained in violation of copyright law.

2

Did You Know? Making Sense of Recent Standards – Measurement and Disclosure of Credit Losses

CERIF/ CPEdge

Susan C. Longo, CPA, MBA

Susan C. Longo, CPA, provides financial reporting services to industry and CPA practices throughout the United States and Canada.

She has authored, edited, and instructed courses in accounting, auditing, nonprofits, and governmental entities for PPC and other leading providers in the continuing professional education field. She has also been recognized as an "Outstanding Instructor" by the AICPA and numerous state CPA societies.

She served as director of development for the AICPA and as accounting department/MBA chair for two universities. She has practice expertise in compliance auditing for nonprofit organizations, governmental entities, employee benefit plans, HUD, financial institutions, broker-dealers, CIRAs, and contractors.

After graduating from the University of Michigan, she joined a national accounting firm, where she received extensive auditing experience with governmental agencies, Fortune 500 companies, and in business consulting.

3

Did You Know? Making Sense of Recent Standards – Measurement and Disclosure of Credit Losses

CERIF/ CPEdge

Learning Objectives

Upon completion of this on-demand webinar, you should be able to—

- Identify the requirements in recent authoritative standards
 - Pose and answer FAQs related to recent standards
 - Explain recent changes in accounting rules to staff professionals and client personnel
- 4
- Did You Know? Making Sense of Recent Standards – Measurement and Disclosure of Credit Losses
- CERIF/ CPEdge

Measurement of Credit Losses

5

Did You Know? Making Sense of Recent Standards – Measurement and Disclosure of Credit Losses

CERIF/ CPEdge

ASU 2016-13

Measurement of Credit Losses on Financial Instruments (Topic 326)

Effective Date	
Public Entity	Nonpublic Entity
Interim and annual reporting periods ending on or after December 15, 2019.	Annual periods beginning on or after December 15, 2022, and interim periods within that year.

Early adoption is permitted after December 15, 2018
Modified retrospective

6

Did You Know? Making Sense of Recent Standards – Measurement and Disclosure of Credit Losses

CERIF/ CPEdge

ASU 2016-13: Transition Rules

- Modified-retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective
- A prospective transition approach required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update.
- Amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to improvements in cash flows expected to be collected should continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption should be recorded in earnings when received.
- Financial assets for which the guidance in Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*, has previously been applied should prospectively apply the guidance in this Update for PCD assets. A prospective transition approach should be used for PCD assets where upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses.
- The same rules apply to beneficial interests previously applied Subtopic 310-30 or have a significant difference between contractual cash flows and expected cash flows.



7 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

7

Scope

- The **new guidance** applies to loans, debt securities (including redeemable preferred shares, CMOs, and CDOs), trade receivables, net investments in leases, off-balance-sheet credit exposures such as loan commitments and standby letters of credit, lines of credit, reinsurance receivables, and any other financial assets not specifically excluded that carry the contractual right to receive cash.
 - Loan and debt securities held in a investment portfolio: historical or amortized cost
 - Loans held for sale: lower of amortized cost or fair value
 - Loans or debt securities, available for sale: FVOCI
 - Does not apply to financial assets accounted for at FVNI
- **Expanded scope** applies to:
 - Purchased financial assets with credit deterioration (PCD assets)
 - Financial assets subject to prepayment
 - Standby commitments to purchase
 - Loans and trade receivables not held for sale
 - Non-mortgage loans held for sale
 - Loans not previously held for sale
 - Amortization of discount or premium on notes
 - Premium allocated to loans purchased in a credit card portfolio
 - Hedged portfolio of loans
 - Interest income



9 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

9

Assets Measured at Amortized Cost

- Under the new guidance, a financial asset (or a pool of financial assets) measured at amortized cost basis will be presented at the **net amount expected to be collected**.
 - Collective basis for financial assets with similar characteristics; otherwise, individual basis
- An allowance for credit losses (i.e., a valuation account) will be **deducted from the amortized cost** basis of a financial asset so that the net carrying value represents the amount expected to be collected.
- The income statement will reflect the **measurement of credit losses** for newly recognized financial assets, as well as the expected increases or decreases in expected credit losses on existing financial assets that have taken place during the period.



11 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

11

Available for Sale Securities



13 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

13

Overview

- Replaces existing “incurred loss” model for recognizing credit losses
 - Incurred loss model = losses are not recorded until it is probable that a loss has been incurred
- New model requires to recognition of the full amount of expected credit losses
- The **current expected credit loss model (or CECL)** will apply to all entities holding financial assets and net investments in leases that are not accounted for at fair value, with changes in **fair value recognized through net income (FVNI)**



8 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

8

Assets Measured at Amortized Cost

- Under the new guidance, a financial asset (or a pool of financial assets) measured at amortized cost basis will be presented at the **net amount expected to be collected**.
 - Collective basis for financial assets with similar characteristics; otherwise, individual basis
- An allowance for credit losses (i.e., a valuation account) will be **deducted from the amortized cost** basis of a financial asset so that the net carrying value represents the amount expected to be collected.
- The income statement will reflect the **measurement of credit losses** for newly recognized financial assets, as well as the expected increases or decreases in expected credit losses on existing financial assets that have taken place during the period.



10 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

10

Assets Measured at Amortized Cost

- The measurement of expected credit losses will be based on relevant information about past events, including **historical experience, current conditions, and reasonable and supportable forecasts** affecting the collectability of the reported amount.
- Judgment will be required in determining the relevant information and estimation methods to be applied that are appropriate in an entity's particular circumstances.



12 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

12

Available-for-Sale Debt Securities

- Credit losses relating to available-for-sale debt securities will be recorded through an **allowance for credit losses** (i.e., a contra account), rather than, as is currently the case, as a direct reduction of the security's amortized cost.
- The allowance account is limited to the amount by which fair value is below amortized cost (i.e., because the classification as available for sale is premised on an investment strategy that recognizes that an entity could limit its credit loss exposure by selling a security, if the total fair value loss was less than the credit loss).
- Changes in the allowance will be recorded as **credit loss expense** or as reversal of credit loss expense.



14 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

14

Available-for-Sale Debt Securities

- The allowance for credit losses for purchased available-for-sale securities with a more-than-insignificant amount of credit deterioration since origination will be determined in a manner similar to that for other available-for-sale debt securities.
- However, the **initial allowance for credit losses will be added to the purchase price** instead of reported as a credit loss expense.
- Only **subsequent changes in the allowance for credit losses** will be recorded in credit loss expense.
- Interest income will be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition.



15 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Example 1

Allowance for Credit Losses on Available for Sale Debt Securities

Assume Entity E purchases a five-year, \$10,000 par bond with a 5% coupon (a market rate at the time of purchase) on 1 January 20X0. The bond is accounted for under ASC 320 and is classified as an AFS debt security. As of 31 December 20X0, the amortized cost basis of the AFS debt security is \$10,000 and Entity E expects to collect less than the contractual cash flows for the years 20X3 and 20X4. Entity E estimates that only \$250 of interest will be collected in 20X4 and only \$9,000 of the principal balance and no interest will be collected in 20X5.

As of 31 December 20X0, the fair value of the debt security is \$6,000, which implies an effective yield or discount rate of approximately 16% based on the new estimate of cash flows expected to be collected. Also, assume that Entity E does not intend to sell the debt security and it is not more likely than not Entity E will be required to sell the debt security before recovery of its amortized cost basis.



16 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Example 1

Allowance for Credit Losses on Available for Sale Debt Securities

	Original Cash Flows	Revised Cash Flows	Decrease in Cash Flows
Total gross cash flows	\$12,500	\$10,250	\$1,750
PV discounted at 5%	\$10,000	\$8,550	\$1,450
Fair value		\$6,000	
Initial carrying amount		\$10,000	
Impairment recognized: Allowance for credit losses	(1,450)	(4,000)	
In OCI for other factors	(2,550)		
Fair value		\$6,000	



17 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Example 1

Allowance for Credit Losses on Available for Sale Debt Securities

Journal entries, excluding interest and taxes

Credit loss expense	1,450	1,450
Allowance for credit losses		
Other comprehensive income	2,250	2,250
Investment in AFS debt security		

At 31 December, Company A's balance sheet would reflect the net \$6,000 carrying value (i.e., the fair value) of the investment. The allowance of \$1,450 would be presented parenthetically on the face of the balance sheet.

The \$1,450 credit loss would be recognized in income and the noncredit impairment of \$2,550 would be separately recognized in OCI, net of income taxes. In a change from today's OTTI model, assuming all interest is accrued and collected and assuming Entity E concludes that a write-off is not necessary, the amortized cost basis remains at \$10,000 (i.e., under today's OTTI model, the amortized cost basis would have been reduced by the recognized credit loss).



18 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Disclosures: Available for Sale Debt Securities in Unrealized Loss Positions

- As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment: aggregated fair value of investments with unrealized losses; the aggregated amount of unrealized losses
- Tabular rollforward schedule
- Accounting policy for recognizing write-offs



19 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Disclosures: Available for Sale Debt Securities in Unrealized Loss Positions without an Allowance for Credit Losses

- As of each date for which a **statement of financial position** is presented, quantitative information, aggregated by category of investment:
 - aggregated fair value of investments with unrealized losses;
 - the aggregated amount of unrealized losses
- Sufficient information to **support why no allowance for credit losses is necessary**
 - Nature of the investments
 - Cause of the impairments
 - The number of positions that are in an unrealized loss position
 - The severity of the impairments
 - Performance indicators, debt to collateral value ratios, third-party guarantees, current levels subordination, credit ratings, volatility of the security's fair value, interest rate changes since purchase



20 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Receivables



21 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Three Stage Impairment Model

Definitions	Stage 1	Stage 2	Stage 3
Referred as	Performing	Under performing	Non-performing
Credit quality	Not deteriorated significantly since its initial recognition	Deteriorated significantly since its initial recognition	Objective evidence of impairment
Credit risk	Low	Moderate to high	Very high
Recognize	12 month expected credit loss	Lifetime expected credit loss	Lifetime expected credit loss
Expected credit loss: Probability of default Exposure of default Loss give default Discount rate	Represents financial asset's life-time expected credit loss that are expected to arise from default events that are possible within 12 months	Expected credit loss that results from all possible default events over the expected life of an instrument.	
Interest	On gross basis	On gross basis	On net basis (gross carrying value minus loss allowance)
Low credit rating at reporting date	Assumed that risk has not increased significantly, hence apply 12 month expected credit loss		



22 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Measuring Expected Credit Losses

- The new guidance expands the data that must be considered in developing expected credit loss estimates to include forecasted information.
- The new guidance does not specify a method for measuring expected credit losses, and, thus, an entity will be able to apply methods that reasonably reflect its expectations of credit loss estimates.
- While existing methods could, in many cases, continue to be applied under the new rules, **the inputs used to record the allowance for credit losses will need to change to reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts.**



23 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

23

Initial Estimate of Credit Losses

- An entity's estimate of expected credit losses should include a measure of the expected risk of credit loss even if that risk is remote, regardless of the method applied to estimate credit losses.
- However, an entity is not required to measure expected credit losses on a financial asset (or group of financial assets) in which historical credit loss information **adjusted for current conditions and reasonable and supportable forecasts** results in an expectation that nonpayment of the amortized cost basis is zero. An entity should not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the financial asset(s) but, instead, also should consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral.



25 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

25

Risk Characteristics: Credit Quality Factors

- Internal or external (third-party) credit score or credit ratings
- Risk ratings or classification
- Financial asset type
- Collateral type
- Size
- Effective interest rate
- Term
- Geographical location
- Industry of the borrower
- Vintage
- Historical or expected credit loss patterns
- Reasonable and supportable forecast periods.



27 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

27

Credit Quality Indicators

- Consumer credit risk scores
- Credit-rating-agency ratings
- An entity's internal credit risk grades
- Debt-to-value ratios
- Collateral
- Collection experience
- Other internal metrics.



29 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

29

Initial Estimate of Expected Credit Losses

- The allowance for credit losses may be determined using various methods. For example, an entity may use **discounted cash flow methods, loss rate methods, roll-rate methods, probability-of-default methods, or methods that utilize an aging schedule.** An entity is not required to utilize a discounted cash flow method to estimate expected credit losses. Similarly, an entity is not required to reconcile the estimation technique it uses with a discounted cash flow method.
- If an entity estimates expected credit losses using methods that project future principal and interest cash flows (that is, a discounted cash flow method), the entity shall discount expected cash flows at the financial asset's effective interest rate. When a discounted cash flow method is applied, the allowance for credit losses shall reflect the difference between the amortized cost basis and the present value of the expected cash flows.
- If an entity estimates expected credit losses using a method other than a discounted cash flow method, the allowance for credit losses should reflect the entity's **expected credit losses of the amortized cost basis of the financial asset(s) over the contractual term of the financial asset(s) as of the reporting date.**



24 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

24

Subsequent Measurement

- In subsequent periods**
 - Adjustments of the allowance account should be reported in net income as a credit loss expense or as a reversal of the expense
 - Evaluate whether a financial assets in a pool continue to exhibit similar risk characteristics
 - Full or partial write-offs should be deducted from the allowance in the period deemed uncollectible
 - Recoveries of financial assets, including trade receivables, previously written off should be recorded as received



26 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

26

Risk Characteristics: Environmental Factors

- The borrower's financial condition, credit rating, credit score, asset quality, or business prospects
- The borrower's ability to make scheduled interest or principal payments
- The remaining payment terms of the financial asset(s)
- The remaining time to maturity and the timing and extent of prepayments on the financial asset(s)
- The nature and volume of the entity's financial asset(s)
- The volume and severity of past due financial asset(s) and the volume and severity of adversely classified or rated financial asset(s)
- The value of underlying collateral on financial assets in which the collateral-dependent practical expedient has not been utilized
- The entity's lending policies and procedures, including changes in lending strategies, underwriting standards, collection, writeoff, and recovery practices, as well as knowledge of the borrower's operations or the borrower's standing in the community
- The quality of the entity's credit review system
- The experience, ability, and depth of the entity's management, lending staff, and other relevant staff
- The environmental factors of a borrower and the areas in which the entity's credit is concentrated, such regulatory and legal exposure, general market conditions, economic and business conditions



28 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

28

Disclosures

- Quantitative and qualitative information by class of financing receivable and major security type about the credit quality of financial assets:
 - A description of the credit quality indicator(s)
 - The amortized cost basis, by credit quality indicator
 - For each credit quality indicator, the date or range of dates in which the information was last updated for that credit quality indicator.



30 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

30

- Credit quality information
- Rollforward of the allowance for credit losses
- Past-due status
- Nonaccrual status
- Purchased financial assets with credit deterioration
- Collateral-dependent financial assets
- Off-balance-sheet credit exposures

 CERIF CP Edge

31. Did You Know? Making Sense of Recent Standards • Measurement and Disclosure of Credit Losses

Accounting Policy: Loans and Trade Receivables

- The basis for accounting for loans and trade receivables
- The method used in determining the lower of amortized cost basis or fair value of nonmortgage loans held for sale (that is, aggregate or individual asset basis)
- The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment
- The method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs.

 CERIF/
CPEdge

33. Did You Know? Making Sense of Recent Standards • Measurement and Disclosure of Credit Losses

- Allowance for credit losses: for each portfolio segment

- A description of how expected loss estimates are developed
- A description of the entity's accounting policies and methodology to estimate the allowance for credit losses, as well as a discussion of the factors that influenced management's current estimate of expected credit losses, including:
 1. Past events
 2. Current conditions
 3. Reasonable and supportable forecasts about the future.
- A discussion of risk characteristics relevant to each portfolio segment
- A discussion of the changes in the factors that influenced management's current estimate of expected credit losses and the reasons for those changes
- Identification of changes to the entity's accounting policies, changes to the methodology from the prior period, its rationale for those changes, and the quantitative effect of those changes
- Reasons for significant changes in the amount of writeoffs, if applicable
- A discussion of the reversion method applied for periods beyond the reasonable and supportable forecast period
- The amount of any significant purchases of financial assets during each reporting period
- The amount of any significant sales of financial assets or reclassifications of held for sale during each reporting period.

 CERIF/
CPEdge

32 Did You Know? Making Sense of Recent Standards • Measurement and Disclosure of Credit Losses

Additional Disclosures: Loans and Trade Receivables

- Major categories of loans and trade receivables
- Allowance for credit losses, by loan portfolio segment, and any unearned income, unamortized premiums and discounts, and net unamortized deferred fees and costs.
- Required disclosures of carrying amount of loans, trade receivables, securities, and financial instruments that serve as collateral for borrowing include the fair value of the collateral, and any associated liabilities.

 CERIF/
CPEdge

34. Did You Know? Making Sense of Recent Standards • Measurement and Disclosure of Credit Losses

As of December 31, 2016	Palm Lakes Amortized Cost Basis By Composition Year					Remaining Maturities	
	2016	2015	2014	2013	2012	Price	Total
Fixed income							
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0	0	0	0
Fixed income	0	0	0	0	0	0	0
1-2 internal grade	0	0	0	0	0	0	0
3 internal grade	0	0	0	0	0	0	0
4 internal grade	0	0	0	0	0	0	0
5 internal grade	0	0	0	0	0	0	0
Total nonexcess mortgage loans	0	0	0	0	0	0	0
Government securities	0	0	0	0	0	0	0
Corporate securities	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0
Other securities	0	0	0	0			

 CERISE/
CPEdge

25. Did You Know? Making Sense of Deposit Standards - Measurement and Disclosure of Credit Losses

Age Analysis of Paid-Contract Assets							
As of December 31, 2016, and 2015							
Paid Fee							
	0-30 Day	30-60 Day	Greater Than 60 Days	Total	Current	Total	Amortized Cost 90 Day and Recurring
225K							
Commercial	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000
Commercial fee income							
Commercial fee expense-contribution	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Commercial fee expense-rental	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer							
Consumer-rental car	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer-rental	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer-rental car	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Residential							
Residential-income	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Residential-consumers	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Total	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000
Finance assets	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000
225K							
Commercial							
Commercial fee income	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000
Commercial fee expense-contribution	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Commercial fee expense-rental	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer							
Consumer-rental car	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer-rental	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Consumer-rental car	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Residential							
Residential-income	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Residential-consumers	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
Total	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000
Finance assets	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
	\$10,000	\$10,000	\$10,000	\$30,000	\$10,000	\$10,000	\$10,000

CERI/CP
Edge

36. Did You Know? Malindi Faces of Desert Standards: Measurement and Disclosure of Credit Lines

Estimating Credit Losses on Notes Receivable

Assume that at December 31, 20X0, Company A originates a note receivable with the following characteristics:

Par value (or unpaid principal balance) of \$1 million

Contractual interest rate of 10%

Amortized cost of \$980,000

Effective interest rate of 10.64%

The note matures on 31 December 20X4 with the contractual cash flows presented below in the first column. Company A uses the concepts in ASU 2016-13 to estimate the cash flows it expects to receive, which are shown in the table below.

 CERIF CP Edge

28 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Implementation Guidance: Receivables

 CERIF/CPEDGE

37 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

Example 1

Estimating Credit Losses on Notes Receivable

	Contractual Cash Flows	Expected Cash Flows
31 December 20X1	\$ 100,000	\$ 95,000
31 December 20X2	100,000	95,000
31 December 20X3	100,000	95,000
31 December 20X4	<u>1,100,000</u>	<u>1,060,000</u>
Total gross cash flows	<u>\$1,400,000</u>	<u>\$1,345,000</u>
PV of cash flows @ 10.64%		\$ 941,010
Amortized cost basis		<u>980,000</u>
Difference		\$ <u>38,990</u>
Recognize an allowance for credit losses of \$38,990		

39 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 2

Estimating Credit Losses on Trade Receivables

- Client Company, Inc. is a wholesaler of automotive supplies whose main credit customers are retail auto parts stores in the region.
- Under Client Company's payment terms, receivables are due net in 30 days (i.e., there is no discount for early payment).
- Assume that Client Company's loss experience on trade accounts receivable, which has been steady over the years, is as follows:
 - 2% on accounts that are current;
 - 9% on accounts that are 1–30 days past due;
 - 20% on accounts that are 31–60 days past due;
 - 50% on accounts that are 61–90 days past due; and
 - 90% on accounts that are more than 90 days past due.

40 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 2

Estimating Credit Losses on Trade Receivables

- Further assume that, based on Client Company's reasonable and supportable forecasts, economic conditions in the region are expected to deteriorate somewhat in the foreseeable future.
- Accordingly, Client Company has adjusted its historical loss rates by a factor of 10% across all categories of aged receivables.

42 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 2

Estimating Credit Losses on Trade Receivables

- Finally, assume that, at the reporting date, Client Company's aging schedule appears as follows:

Current	\$600,000
1–30 days past due	230,000
31–60 days past due	90,000
61–90 days past due	35,000
Over 90 days past due	<u>15,000</u>
Total	<u>\$970,000</u>

42 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 2

Estimating Credit Losses on Trade Receivables

Using a combination of Client Company's historical loss experience and its evaluation of short-term economic prospects for the region in which it operates, estimated credit loss on accounts receivable at the reporting date would be calculated as follows:

Past-Due Status	Amortized Cost Basis	Projected Loss Rate	Estimated Credit Loss
Current	\$600,000	2.2%	\$13,200
1–30 days past due	230,000	9.9%	22,770
31–60 days past due	90,000	22.0%	19,800
61–90 days past due	35,000	55.0%	19,250
Over 90 days past due	<u>15,000</u>	99.0%	<u>14,850</u>
Total	<u>\$970,000</u>		<u>\$89,870</u>

43 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 2

Estimating Credit Losses on Trade Receivables

- The estimated credit loss on accounts receivable as of the reporting date is \$89,870.
- Note that the projected loss rates are computed as the historical rates increased by a factor of 10% to give effect to Client Company's reasonable and supportable forecasts of short-term economic conditions.

44 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 3

Estimating Expected Credit Losses on a Vintage-Year Basis

- Bank C is a lending institution that provides financing to consumers purchasing new or used farm equipment throughout the local area. Bank C originates approximately the same amount of loans each year. The four-year amortizing loans it originates are secured by collateral that provides a relatively consistent range of loan-to-collateral-value ratios at origination. If a borrower becomes 90 days past due, Bank C repossesses the underlying farm equipment collateral for sale at auction.
- Bank C tracks those loans on the basis of the calendar year of origination. The following pattern of credit loss information has been developed based on the amount of amortized cost basis in each vintage that was written off as a result of credit losses.

45 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 3

Estimating Expected Credit Losses on a Vintage-Year Basis

Year of Origination	Loss Experience in Years Following Origination					
	Year 1	Year 2	Year 3	Year 4	Total	Expected
20X1	\$50	\$120	\$140	\$30	\$340	
20X2	\$40	\$120	\$140	\$40	\$340	
20X3	\$40	\$110	\$150	\$30	\$330	
20X4	\$60	\$110	\$150	\$40	\$360	
20X5	\$50	\$130	\$170	\$50	\$400	
20X6	\$70	\$150	\$180	\$60	\$460	\$ 60
20X7	\$80	\$140	\$190	\$70	\$480	\$260
20X8	\$70	\$150	\$200	\$80	\$500	\$430
20X9	\$70	\$160	\$200	\$80	\$510	\$510

46 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses



Example 3

Estimating Expected Credit Losses on a Vintage-Year Basis

In estimating expected credit losses on the remaining outstanding loans at December 31, 20X9, Bank C considers its historical loss information. It notes that the majority of losses historically emerge in Year 2 and Year 3 of the loans. It notes that historical loss experience has worsened since 20X3 and that loss experience for loans originated in 20X6 has already equaled the loss experience for loans originated in 20X5 despite the fact that the 20X6 loans will be outstanding for one additional year as compared with those originated in 20X5. In considering current conditions and reasonable and supportable forecasts, Bank C notes that there is an oversupply of used farm equipment in the resale market that is expected to continue, thereby putting downward pressure on the resulting collateral value of equipment. It also notes that severe weather in recent years has increased the cost of crop insurance and that this trend is expected to continue. On the basis of those factors, Bank C determines adjustments to historical loss information for current conditions and reasonable and supportable forecasts. The remaining expected losses reflect those adjustments, and Bank C arrives at expected losses of \$60, \$260, \$430, and \$510 for loans originated in 20X6, 20X7, 20X8, and 20X9, respectively. Therefore, the allowance for credit losses for the reporting period date would be \$1,260.



47 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

47

Instructor Contact Information

- Susan C. Longo, CPA, MBA
- slongo@makingauditorsproficient.com

Available for audit efficiency assessments, engagement reengineering, and quality control services. Contact me for more details.



49 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

49

Learning Objectives

You should now be able to—

- Identify the requirements in recent authoritative standards
- Pose and answer FAQs related to recent standards
- Explain recent changes in accounting rules to staff professionals and client personnel



48 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

48

Thank you



50 Did You Know? Making Sense of Recent Standards - Measurement and Disclosure of Credit Losses

50

Proceed to the next page for discussion questions.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Under the current expected credit loss (CECL) model, how should the allowance for credit losses on available-for-sale debt securities be recognized?
2. Which of the following best explains why historical loss data alone is insufficient under CECL?
3. Why is it incorrect under CECL to assume a current receivable has zero risk of loss?

B. Suggested Answers to Discussion Questions

1. Under the current expected credit loss (CECL) model, how should the allowance for credit losses on available-for-sale debt securities be recognized?

As an allowance account limited to the amount by which fair value is below amortized cost

Under ASU 2016-13, the CECL model introduces a significant change in how entities recognize credit losses on **available-for-sale (AFS) debt securities**. Instead of writing down the security's **amortized cost basis**, credit losses are now recorded through an **allowance for credit losses**, which is a contra-asset account. This allowance approach enables the **reversibility** of credit losses if conditions improve in the future.

However, **the amount of the allowance is limited** — it cannot exceed the **difference between the amortized cost and fair value** of the security. This limitation is crucial because an AFS debt security is assumed to be sellable; hence, the investor can limit their credit risk exposure by selling the asset. Therefore, credit losses are only recognized to the extent the **decline in fair value is attributable to credit risk**, not general market conditions.

When determining this allowance, entities must consider:

- **Historical loss experience** on similar securities,
- **Current conditions** (e.g., borrower's financial condition, delinquency status),
- **Reasonable and supportable forecasts** (e.g., projected defaults or downgrades).

In addition:

- Non-credit-related fair value changes (e.g., due to changes in interest rates) are recorded through **other comprehensive income (OCI)**.
- The **journal entry** typically involves debiting credit loss expense and crediting the allowance for credit losses.
- The **AFS debt security's amortized cost is not directly reduced**, preserving its original acquisition cost on the books.

This model provides improved transparency and more consistent treatment of credit risk, while preserving comparability and reversibility in financial reporting.

2. Which of the following best explains why historical loss data alone is insufficient under CECL?

It ignores current and forecasted conditions that impact collectability

Under ASU 2016-13, the **Current Expected Credit Loss (CECL)** model fundamentally shifts the approach to estimating credit losses. Unlike the **incurred loss model**, which relied heavily on **historical experience and the identification of a triggering event**, CECL requires a **forward-looking** and **comprehensive** approach. This means an entity must not only consider **historical loss data**, but also **current conditions** and **reasonable and supportable forecasts**.

Relying **solely on historical loss rates** is insufficient for several reasons:

1. Economic Environments Change:

- Historical patterns may not hold true under different economic conditions (e.g., recessions, inflationary pressures, or post-pandemic disruptions).
- For example, past low default rates may be irrelevant in a rising interest rate environment or amid geopolitical instability.

2. Industry-Specific Risks Evolve:

- A historically stable borrower may face new risks due to changes in regulation, technology, or competitive pressures.

3. CECL Requires a Lifetime Loss Estimate:

- The model demands estimation of expected losses **over the contractual life** of the asset, not just based on past data but by anticipating future risks that could affect collectability.

4. Forward-Looking Requirements:

- CECL mandates inclusion of **forecasted information** that is **reasonable and supportable**—this may include macroeconomic indicators like unemployment rates, GDP trends, or housing market forecasts, depending on the nature of the asset.

5. Regulatory Emphasis on Data-Driven Models:

- The FASB emphasizes that credit loss estimates must be grounded in **quantitative evidence**, not simply qualitative judgment or retrospective analysis.

Key Takeaway:

While historical data provides a useful **starting point**, CECL requires a more **dynamic, responsive, and forward-looking model**. The failure to incorporate current and future conditions would **undermine the reliability** of the estimate and result in **non-compliance** with the CECL standard.

3. Why is it incorrect under CECL to assume a current receivable has zero risk of loss?

All receivables must have some level of expected loss recognized

Under ASU 2016-13, which implements the **Current Expected Credit Loss (CECL)** model, entities are required to estimate and record **expected credit losses** for **all financial assets measured at amortized cost**—this includes **current receivables**, regardless of their payment status or perceived creditworthiness.

Here's why assuming **zero risk** for current receivables is incorrect:

1. No Financial Asset is Assumed 100% Risk-Free:

- CECL explicitly **prohibits** the assumption that any receivable is **fully collectible**.
- Even receivables that are **current and from longstanding customers** carry some probability—however remote—of **default or delay**, especially in uncertain economic conditions.

2. Measurement is Based on the Transaction Date:

- The assessment of expected credit losses must be done **at the transaction date, not in hindsight** using later collections.
- Therefore, **future events**, including actual collections, **cannot be used** to justify the absence of an allowance.

3. Expected Losses Must Cover the Full Life of the Asset:

- Even if a receivable is current today, CECL requires an evaluation of the **full contractual life**, considering whether **economic changes**, **customer deterioration**, or **external market pressures** could impact future payment behavior.

4. Allowance Required Even for Minimal Risk:

- CECL allows for **low expected loss amounts**—but not for **zero**—unless **reliable historical, current, and forecasted data** clearly indicate **no risk of loss**, which is extremely rare in practice.

5. No Professional Judgment Override:

- The standard aims to **minimize subjective overrides** and reinforce that allowances must be **data-driven**, not based on assumptions like “they always pay on time.”

6. FASB's Guiding Principle:

- One of CECL's guiding principles is: “**Nothing is 100% collectible**.”
- This principle ensures consistency, reduces audit risk, and increases comparability across financial statements.

Summary:

Even for **current** and seemingly low-risk receivables, CECL demands recognition of **some level of expected loss** based on **reasonable and supportable assumptions**. Entities must **document their methodology** and **avoid blanket assumptions of full collectibility**, ensuring compliance with both the letter and the spirit of the standard.

PART 2. AUDITING

Fundamentals of Audit Documentation

Welcome to the second and final program section of the A and A portion of this month's program. In this session, we'll explore the fundamentals of audit documentation and how to meet the key requirements of AU-C 230. You'll learn how to create clear, complete, and reperformable workpapers that support your audit conclusions and comply with professional standards. We'll also cover practical tips, common pitfalls, and how strong documentation can make your audits more efficient and defensible. Now let's join Chris Martin as we explore today's auditing topic and delve into the fundamentals of audit documentation.

Mr. Martin

Hi, I'm Chris. I am going to be an instructor today for the Fundamentals of Audit Documentation. Now, the topic of audit documentation may seem like somewhat of a little bit of a dry topic, right, but throughout my career as an auditor and at various levels, as you see here on my bio slide, and as an audit teacher for many, many years, I find that this is one of the areas that's easy to master, and doing it correctly can really make our jobs a whole lot easier, I think more interesting, more effective, and a lot more efficient as well. And it's not a hard area, but it does take some mindful attention to the details.

So, today we're going to be discussing the requirements of the audit standard, which is AU-C 230. I'm going to be navigating out the Checkpoint in just a moment to show you where you can find that audit standard because I know you're going to have some questions after today's presentation, and you may want to do a little bit more research, and by the way, it's one of those audit standards that I really, really encourage that you take some time to read.

It's not a very long standard. It's easy to read, it's easy to implement, and I think you'll do yourself a great favor by actually taking some time out to read through that particular standard. I think it's going to shed a lot of light on the ways that you can improve your documentation using a lot of the different tools, the techniques and the tips that I'll be sharing with you here today.

Now, even though the AU-C 230 documentation standard outlines the baseline of what documentation will entail, you're going to note that just like any other audit area, there's a lot of subjectivity in that particular standard, and that's going to require you and your team to use some professional judgment. We'll be covering a number of those particular areas to help you exercise that judgment to make your audits even better.

Let's take a look at our learning objectives for today's presentation. So, all of that being said, okay, upon completion of today's presentation, you should be better able, first of all, explain the requirements of AU-C 230, which again is the primary standard that deals specifically with the how, the what, the why, the by whom of documentation.

We're also then going to explain why the AICPA is focused on improving documentation, and we'll see a shocking statistic that actually every one of four reviewed audit files has actually received a materially non-conforming rating, right, and that's pretty sad because the documentation piece is actually relatively easy to get through as you're going to learn here today. So, we definitely don't want to be one of those firms that gets one of these materially non-conforming ratings, right?

Now, we will then describe quality documentation, okay. Now this is one of those subjective moments, define quality, if you will, and then finally, we're going to list ways to meet what we call the reperformability standard within AU-C 230.

And to me, this reperformability test is one of the best tools to help me judge the quality of my work and of the work that I'm going to be reviewing in my role within the profession, whether that be as an audit staff, an audit senior, a manager, a partner, a QC reviewer, a peer reviewer, etcetera.

So, whether you are the original documenter or you happen to be one of those levels of reviewers, today's presentation is going to help you be better at all of those different roles that you play within our profession.

Now, as we get into the details of the documentation standard, just keep in mind that what you learned today applies to those workpapers that you'll be creating from scratch, okay. So, new workpapers, maybe it's a new client, for example, and for those from a prior that you might be using as a guide. And a lot of firms refer to this as "SALY," S-A-L-Y, "Same As Last Year"; right? Sometimes SALY is a welcome member of our engagement team. Sometimes SALY is someone to be avoided; right. Sometimes we want to take a look at last year's workpapers and say, "We don't want to do it that way."

And I think after today's presentation, you'll be able to critically review a lot of the workpaper documentation that maybe you've generated or you've reviewed in the past to come up with some better ways to actually do some of that documentation.

Now, just keep in mind that just as you follow the documentation from a prior period, that definitely doesn't ensure your compliance with the standard, okay, as we're seeing from some continual peer review deficiency reports that are out there. And throughout my auditing career and especially as a consultant with Thompson Reuters where we are oftentimes engaged to perform some effectiveness and efficiency reviews of various engagements, I and our teams have seen so many different examples of poor documentation that seems to continue year, after year, after year because the teams just follow along with documentation that probably was never in compliance with the standards, anyway. And I'm sure many of you've seen this as well. So, we'll actually see some of these workpapers throughout today's discussions.

I often also found it very frustrating as an audit staff to get review points when I was following last year's work to the "T," right, when many times that work had been performed by the reviewer who is now giving me those review comments on that same documentation; right? I hope that's not going to be you, but I know that I have also been guilty of that as well when someone was maybe following my documentation from last year, and now as the reviewer I'm making some review comments on that, especially if they relate to the documentation itself.

Now, these bullets directly from the Standard itself provide a checklist that you can follow and can help us all make our documentation more effective, i.e., more in compliance with the standards and more efficient, i.e., easier to perform, easier to review, cleaner and easier to follow, cleaner and easier to understand.

This in turn, then, makes our current engagement and future engagements easier to plan and perform. For those of you who are maybe moving into roles where planning engagements and reviewing workpapers will be required, you're going to find that proper documentation this year will make your work so much more rewarding and easier next year and allow you to focus more on the things that you and your team are interested in, such as maybe better risk assessments, better ways to gather more convincing evidence, stronger conclusions, etcetera.

So, let's take a look at the slide here. First of all, it provides evidence for a conclusion about achieving objectives. Remember, our conclusion is our opinion. It's not a fact, but it's based on the evidence that we've been exposed to in order to support that opinion.

So, unlike many of the opinions that we seem to be inundated in the media, social media, etcetera, because we're CPAs that follow a Code of Professional Conduct, okay, we ensure that our opinions are reasonable based on the evidence that our audit procedures have allowed us to obtain.

These procedures are all about ensuring the achievement of the audit objectives. For example, in my opinion, right, maybe inventories are free of material misstatement. That tells me, right, or tells the user or the reader of that work that these inventories exist, they're complete, the client owns them, they're properly valued, they're properly classified on the balance sheet and all related disclosures have been included in the financial statements.

Now, that may sound familiar because we're actually concluding or opining on the various financial statement assertions that comprise those financial statement line items.

Number 2, it provides evidence that the engagement was planned and performed in accordance with generally accepted auditing standards, okay, or whatever standards that this engagement is intended to comply with, okay, maybe, for example, that's governmental standards. This documentation then demonstrates that we actually planned the engagement in accordance with those standards and will perform the engagement according to that plan.

Now, this includes the documentation of what we know about the client, the environment, the industry, the economy, the client's personnel, etcetera, in order to perform our risk assessments and ultimately to plan the procedures that we're going to execute in order to gather the evidence that we're going to need to make that opinion or that conclusion, or, you know, that particular judgmental decision that we make about the work that we've seen.

Number 3, it assists in the direction and the supervision of the engagement team. Now, as a supervisor or reviewer, you're going to need something to look at to ensure that the team is performing the work, and you'll also need a repository then to gather the evidence that supports the team's conclusion.

It also, as you see in the next bullet point, it retains matters of significance for future engagements. A lot of firms refer to that as their "PERM File," so that might include, for example, you know, loan agreements, certain contracts, the incorporation documents, etcetera, of the company. It also enables those internal and external reviews, including the QC reviewers, the peer reviewers and maybe any other regulatory requirements that you might have. And finally, as I mentioned previously, a real bonus here is the foundation for planning the current and future engagements. It also serves as a great training tool for auditors that are maybe new to your firm, maybe that are new to your team and/or maybe to this particular client.

Now, a good way to think about our documentation is to realize that we are creating an audit trail of the work that we did and the evidence that we obtained that allowed us to render the opinion that we're going to render or that we've already rendered, and remember, the reviewer of our work is actually auditing us.

Okay. Now I've got a few bonus slides for you at the end of your material. So, I'm going to go ahead and share one of our bonus slides right now. So, I'm going to jump to the end.

In this first bonus slide is the four ways to gather audit evidence. Now, whenever we talk about any kind of an audit procedure, right, we're simply going to use some combination of the four ways to gather audit evidence that you see on the slide, inquiry, observation, inspection, reperformance/recomputation.

Now, sometimes you might have other audit instructors that tell you, "Hey, you know, what, what about analytical procedures? What about confirmations?" Those are true as well. So, if you'd like to, you can add those to this particular slide, but for me, in my professional judgement, I think that confirmations and analytics are still part of the basic four ways to gather evidence that you see here.

Now, the most primary and the most common way that you're going to gather any audit evidence is through inquiry; right? You're going to ask questions of your client. You're going to send out a PBC request list. You might send out e-mail questionnaires; right? You might do various interviews throughout the personnel that you're going to be working with.

Those are all different forms of inquiry, and inquiry is a very valid form of audit evidence, but notice the little red plus that's next to it, because inquiry alone is not sufficient audit evidence. We must corroborate those inquiries to make sure that the client can support what it is that they just told us, whether that is an oral telling or whether that's something that they provide to us in writing.

Okay. So, I want to trust my client, but I have to verify what it is that they've told me if I want to use that for audit evidence. So, we call this "corroboration." How do I corroborate? I simply corroborate by adding one or more of the other ways to gather audit evidence.

So, I might ask you certain questions and then I might watch you do it; right? I might observe. Maybe I go see that particular asset, for example, okay. I might inspect your work. "Let me see the supporting documentation." "Let me see the check copy." "Let me see the contract." "Let me see that particular report."

I might reperform your work, okay, or reperform or recomputate some of your calculations. So, when we're turning in our audit documentation to the senior, the manager or the partner or above, they simply then are auditing us performing one or more of these ways to gather audit evidence. They're probably going to ask us a lot of questions to see if we know what we're doing. They're probably hopefully observing our work as we're performing it, maybe kind of checking in with us on a regular basis. They're available for questions, okay. Maybe they're providing real-time information that provides additional information that we would need to perform these particular procedures. They're going to be inspecting our documentation and most likely they're also going to be reperforming some of our work.

Now, that reviewer is going to audit us, as I was just mentioning, but they're also going to apply some risk assessments to us. So, if I'm an intern, that reviewer's probably going to do a more in-depth review of my work than if I'm an experienced staff person. The partner's going to do a less in-depth review of the workpapers because it's already been through the senior and the manager, for example. So, hopefully the risk has decreased by that application of those monitoring controls of those various stages of review before it got to him or her. Okay. So, just think of it as you are providing some documentation for the reviewer to actually come back and audit you, audit your work.

Now, let's get into the audit standard itself. Before I get there, I'm going to go ahead and share my screen with you. I'm going to navigate out to Checkpoint. Checkpoint happens to be my chosen subscription, the way that I do all of my different research. You might be subscribed to something different like maybe Accounting Research Manager, and that's perfectly acceptable. No matter what tool you use, you most likely have access to the AICPA standards, and that's where I'm going to navigate to first.

Let me share that screen with you. Okay. You should see my home screen to checkpoint on your screen now, okay? And if you take a look at the upper right-hand corner, you'll see that there's a link to the AICPA Standards. The AICPA is going to be the source of all of the different audit standards that we're going to need to comply with. So, it's a great place to start to take a look at what generally accepted auditing standards is going to require from a documentation standard.

Now, once we're in the AICPA link, we're simply going to navigate into the professional standards themselves, and once we're there, we're going to find the US Auditing Standards that are clarified.

That's those AU-C prefixes that we see in front of a bunch of numbers. Those are the clarified audit standards that are the ones that are applicable currently. So, once I expand that, we're going to navigate into AU-C 200 section. Those are the general principles and responsibilities of an auditor, and as I expand that one, we're going to see here that we have AU-C 230. Everything you could ever want to know about audit documentation.

Now, if I were to hit this print button there, you're going to see that it's about 12 pages long, which is not a lot; right? It's, it's double spaced, it's big letters. There's a few tables and things that are in there. So, it's not an intimidating read. So, again, I'm going to highly encourage you to check this one out very, very soon after today's presentation, and then that way you'll be even better at your documentation. Maybe you'll even learn some things that you can share with your engagement team to help improve their documentation as well. Okay. So it's easy to find AU-C 230.

Okay. So, once we get into AU-C 230, let's find out what these requirements actually are, okay.

Now we see here that audit documentation should also be prepared timely, okay? I don't know about all of you, right, but sometimes I can't remember what I did just a minute ago, much less what I did yesterday or last week or last month or, you know what, even three years ago. So, we have to train ourselves to document in the moment so that we capture the information that we need the first time.

Now, obviously this is going to have a huge impact on the way that we conduct ourselves with audit personnel as we can improve our interview skills in our evidence gathering capabilities.

Also, imagine the positive impact of not having so many review notes, especially the ones that are related to lack of adequate documentation, and then having to go back to the client personnel again and again to ask follow-up questions or to request information over and over.

We'll also see on a future slide here in just a few minutes that the dating of the auditor's report will also be based on the timely completion and the review of the work that's performed. So, documentation issues can easily affect that date and therefore the types in the amount of follow-up work that will ultimately need to be performed after the team leaves the field.

So, as the reviewer, I can see what it is that you did, okay, and be able to follow your judgment or your rationale, okay, your logical thought process, your mindful debate that you held with yourself as to how you actually reached the conclusion that you reached.

Now, if I'm a member of the engagement team, I may need or want to debate that with you, okay, for us to be able to reach an agreement on your conclusion, and we'll see in a few minutes that that debate is also going to be documented. We may not be able to agree, and we'll see that the standard actually allows for those disagreements and requires that those be documented as well.

Just remember, the accounting and auditing standards are not always clear cut on how something has to be accounted for or how something gets audited. Those gray areas require that professional judgement, and that's why our profession needs smart professionals like you who are able to think critically and actually be able to argue your point based on evidence.

If I'm an external reviewer, let's say I'm your peer reviewer coming in to review the work, I'm going to be looking to ensure that your team has complied with the standards. Now, in this case, I, as a professional exercising my judgement, may disagree with your conclusion, but that's not really the objective of my review. I'm going to be looking to see if I can follow your team's logical thought process in reaching the conclusion that you reached. Okay. Did you document that? Can I follow it through? If you can, I have to give you a Gold Star for your documentation and move on. I agree to disagree with you. You know that client a whole lot better than I do, right, so I have to trust that you knew what you were talking about and what you were thinking through, and if you reach the type of evidence that you needed, then I have to trust your professional judgement.

Now, note the second bullet that's here, okay. It does say "to an experienced auditor" there towards the end of that sentence. Now this experienced auditor will be the audience, it's the reader of your documentation. So, that's going to set an expectation for whom you're documenting. It's not the general public. It's not an investor. It's not a user of the financial statements. It's not even the client personnel. It's an experienced auditor, okay, and we're going to see how the AU-C defines this person in just a moment.

Prepared timely. Now, like I missed just a, just a moment ago, the timeliness of the documentation is really key, especially since we're often really busy. We're distracted, we're overwhelmed, often times we're rushed; right? We've got all those deadlines. So, take a look at what the slide says.

Auditors should prepare documentation at the time such work is performed or shortly thereafter. That documentation is likely to be more accurate than the documentation prepared at a much later time, and you go, “Duh”; right.

Okay. So, take the time to get the information that you need or at least take some good notes of what you think you're going to need to be able to satisfy yourself about the audit objectives that you're working on. Make a point of discussing any difficulties, uncertainties, potential issues, etcetera, with the appropriate engagement team members so we can devise a plan to deal with those and potentially discuss them with the client.

Now, as you see on the slide, good documentation enhances the quality of the audit, and it enables those effective reviews and the evaluation of the evidence and ultimately the adequacy of the conclusions that you reached.

Now, here's some advice. If you're a reviewer, okay, set some time aside each day during your engagement to review at least some of the engagement team's documentation so that you can head off any deficiencies, any problems, etcetera, before the team gets too far along and it becomes a nightmare to manage.

Now, as a former audit client, I know that I like working with teams that were organized and didn't have to keep coming back for information again and again or asking for more and more support for various items. And I'm not talking about for those times that more evidence was actually needed, but when they're simply needed because of the lack of thoroughness or the lack of documentation the first time.

Okay. So, who is that experienced auditor that we mentioned just a moment ago? We see here that the experienced auditor is an individual, whether that is a person that's internal to your firm or external to your firm, again, like maybe a peer reviewer who has practical audit experience and a reasonable understanding of audit processes, the engagement requirements. So, from a generally accepted auditing standards or maybe even legal or regulatory requirements of that particular engagement. They also have an understanding of the entity's business environment in the industry and relevant auditing and financial reporting issues.

So, as the experienced auditor reviewer, I don't know your client, but I do know how to audit. I know what the standards and the regulations require. I understand the industry and I'm aware of the relevant auditing and financial reporting issues that this type of engagement typically has. So again, keep that person in mind. That's the person that you're documenting to, that's your audience.

Now, since the experienced auditor reviewer doesn't have a connection with this client, our documentation then has to fill in the blanks to allow that reviewer to be able to understand, first of all, well, who our client is; right? The size, the industry, the complexity. Think through how our planning work helps us learn and document this understanding.

They also need to be able to understand the nature of the work. What did we do from a procedural standpoint? What was the test? Was it a confirmation? Was it a reconciliation, a test of controls, an analytical procedure, a sample? Okay. How were the items chosen for testing? Was it scopes? Was it a judgmental selection? Was it sampled, and what did you actually do with those particular items that you chose?

Now, once the items are chosen for testing, there are really only four ways to go about testing them; right? We saw these just a moment ago in that bonus slide. We can inquire about them, we can observe them, we can inspect them, we can inspect supporting documentation for them, we can recompute, we can reperform them; right? Those four ways to gather audit evidence. Every work program step is just simply a combination of those various items. Now, remember, though, inquiry alone is never sufficient, okay? So, it has to be supported in at least one of those other ways. Remember that's called corroboration.

Finally, how conclusive was the, was the evidence based on your risk assessment? Okay. Tell me, were there things that didn't meet your expectations? Maybe there was a suspected error or suspected fraud. Maybe there were exceptions to tested controls. Okay, what did you do about them? Is there a change in risk assessment that's needed? Do we need to do more work? Can we enter you're feeling comfortable that enough work's been done?

You're the one that gets to make this decision. And then remember, if you're the original documenter and the original tester, you then turn over that evidence for review by the next level above. They audit that. They determine whether or not they are satisfied that enough evidence was obtained in order to reach their conclusion. If not, they might write review points and send that back to you to go and gather additional pieces of information or to maybe enhance the documentation to better explain what it is that you did or what you looked at, or to give a better paper trail as to how someone might be able to reperform that work.

Okay. The additional requirements of AU-C 230. Okay. Again, the ability to understand the nature of the timing and the extent of those procedures, the results of those procedures, the evidence that was obtained and any information about significant findings or issues and conclusions that were reached, okay, including the significant professional judgments made to reach those particular conclusions.

Let's talk about those just a little bit further. What about the nature and the timing and the extent of the procedures? What does that actually mean? So, your documentation demonstrates what you did, when you did it, how much you did, what you found, what you needed to convince yourself. So, what evidence it was that you felt that was required in order for you to rely upon it.

So, you provide this information to me, the reviewer, so that again, I can inspect your work and reperform your procedures, if I so choose, using the assistance of your client. Okay. So, you don't have to provide every piece of paper or every piece of evidence that you obtained from the client. You can simply describe that to me, and if I can utilize the assistance of your client and go request that same piece of information, then that's all you would need to include in your workpapers.

We're going to see some examples of this in just a few minutes. And I like to refer to this as, "what did you obtain" versus "what did you feel that you needed to retain in the workpapers?" So, there'll be a big difference between the evidence that was obtained versus the evidence that was actually retained. And we'll get into that just a little bit later, okay.

Now, to do this, you see there in Bullet Point A that you're going to need to provide me with the identifying characteristics of the specific items that you looked at. Okay. Now again, there'll be a slide coming up here in just a moment that will facilitate a further discussion on this, and we'll have a little quiz as well.

Okay. So, I want to know who did the work, the date that they did it. I'll also want to see that the work was reviewed, who did the review and when that review was done. And we'll see and discuss some real-world examples and have a little quiz again on that in just, in just a moment.

Now, when we are exact with our documentation, it has a huge impact on the effectiveness and the efficiency of the engagement not only this year but in subsequent years as well. The purpose of the procedure is going to be key. Why did we do what we did? Okay, that helps us refine the objective of the procedure. So, as we document and review our documentation, did I do the appropriate work and gather the appropriate evidence that met or meets that audit objective?

So, for example, based on my observation and testing of the inventory count, do I feel comfortable that a complete and accurate count was achieved? Based on my confirmation of accounts receivable and my other test over accounts receivable, such as maybe some analytical procedures, maybe tracing subsequent collections, do I feel comfortable that accounts receivable actually exist and that they're properly valued, i.e., are they collectible?

So, knowing and understanding the objective of your procedure will assist you in properly documenting your logical methodology that helps you get to the point of making that conclusion. So, as the slide here shows, the purpose improves my procedures, it improves my documentation, it demonstrates my competence in doing the appropriate procedures and, again, facilitates an effective and efficient way to get there.

So, here's that further discussion of the identifying characteristics that you use to convince yourself, since you need to allow me to be able to reperform your work. Okay, again, if I so choose, you're going to need to give me enough guidance to get to the same stuff that you looked at.

So, if you did an inquiry, well, who did you speak to? Why did you talk to that particular person? When did you talk to them? What did you learn? Okay. Remember inquiry alone is not sufficient audit evidence. So, you're going to need to observe, inspect and or reperform what it is that you learn from this particular person. Okay, corroborate what you learned.

If you performed an observation, but what did you observe? Well, why did you observe that? When did you observe it? What did you learn from that observation? If you did an inspection, what did you inspect? Why did you inspect that? When did you inspect it? What did you learn from that inspection?

Reperformance; right? Starts to sound like a, a skipped record; right? What did you perform? Why did you reperform that? When did you reperform it? What did you learn from that reperformance?

When you choose items for test of details, you're going to be using some things like judgmental selection, you might use scope selections, you might use sampling, so be specific on how you chose those items. Where did you select them from? Why was that particular methodology chosen?

Now, let me share another bonus slide with you really quickly that's going to kind of help understand all of those different components.

So, I'm going to skip down with you to slide Number 49, and I call this the “further audit procedures tree.” I also refer to this one often times as the “seesaw diagram.” And let me just walk this through you really quickly, because all of these different items are things that you would want to include in your documentation.

So, whenever we're deciding on how we're going to audit a particular area, we're going to go through kind of a hierarchy of the different procedures that would be made available to us as auditors.

Now we see here on the upper left-hand side, the first thing that we might want to consider is, “Well, do we want to test the operating effectiveness of the key controls of this particular area?”

Let's say for example, we're auditing accounts receivable, okay? Now, remember whenever we're auditing a financial statement line item, we really are auditing the various financial statement assertions that are comprising that particular financial statement line item. So, within accounts receivable, we're testing, do they exist, right, which is a test of overstatement. Does the client truly own them? So, that's the right assertion. Are they complete? Are they possibly understated, in other words? Are they properly valued? Are they properly classified? Are they in the proper period? Are they accurately computed?

Okay, 1, 2, 3, 4, 5, 6, 7, seven financial statement assertions are all the different things that we're going to be auditing and we're gathering evidence about each one of those particular financial statement assertions if we deem, through our professional judgement, that those assertions are what we call relevant assertions during this particular audit.

Okay. So “relevant assertions” is an important term to understand and you're going to need to refer back to SAS 145, SAS 145 being one of the newest auditing standards that is been released. It became effective December the 15th of 2023, and it gave us new definitions that allow us better opportunities to use our professional judgement to determine which assertions are relevant during this particular audit.

Okay. To put it in a nutshell, a relevant assertion is an assertion that contains at least one risk of material misstatement. A risk of material misstatement under SAS 145 is a risk that would be material. Okay. So, it would cross the line of materiality and it is greater than a remote likelihood. So, it's at least reasonably possible, and the actual magnitude of the, of the error or the fraud could easily cross that line of materiality. If we have one of those, then we would have a relevant assertion.

So, when we're designing our work programs, the first thing we would want to consider, "Hey, do we want to test the operating effects of the key controls, or do we want to take a substantive test approach?"

Okay. So, I'm going to put a line under these and I'm going to put a fulcrum there because there's an inverse relationship at work. So, these are sitting on a seesaw.

If you can go out and test the operating effectiveness of the key controls and you find that those controls work, then you can reduce the amount of substantive tests that you're going to perform on that same assertion. However, if you don't test the internal controls or you do test them and you find that those internal controls do not work, they're not reliable, then your reliance on those would go down and you know you need to do more work with substantive tests.

Remember the nature, extent and timing that we talked about just a little bit ago, you would modify the nature, extent and timing of those substantive tests.

Okay. Now, never will you test the operating effects of internal controls and say, "That's all the evidence I need." You can't rely only on the client's internal control system. You're going to need to do some substantive test work. Let your seesaw swing. That's going to be a lot. That's going to be somewhere in the middle or it's just going to be a little bit of substantive test. Your professional judgment is going to play a huge role in that determination, but it's never going to be zero, okay?

So, when you decide that you're going to start performing your substantive test, notice you've got a couple of choices here as well. We can choose substantive analytics, or you can choose test of details. And I'm going to put an "and/or" here, okay.

Now, subset analytics are simply a comparison of your expectation to the, what the client has recorded. Okay, we have other learning opportunities for you to learn how to better do, better subset of analytics. As a matter of fact, there are other On-Demand webinars. There's one called Perfecting Analytical Procedures that will teach you how to get better at designing and performing and concluding on those subset of analytics. So, I invite you to check that other learning out as well as an addition to today's presentation.

So, if you go out there and if you take a look at this, we're going to put those two items on another seesaw because there's an inverse relationship at work here. If you can test something analytically and your analysis makes you believe that everything looks okay, then you can reduce and/or possibly eliminate the test of details that you would need to perform.

You'll learn in that other presentation that analytical procedures out on a substantive basis are not required by GAAS, so it's an optional choice. So, you may decide, "Hey, we don't want to do an analytical procedure." Or maybe you did an analytical procedure and it showed you that something was off or something was fishy, you couldn't get a good explanation from your client, so therefore your reliance on that analytical procedure goes down and you know you're going to spend more time and effort on the test of details.

Okay. Once you decide, "Hey, I need to do some test of details," notice you've got three choices there as well; right? You can choose the items that you're going to be testing with details by using some kind of a dollar scope. You can use some kind of judgmental criteria to choose those various items, or you could possibly use sampling, whether that's statistical or non-statistical, to choose those particular items for testing.

So, you have got a lot of choices, okay, in front of you, you're simply going to document which choices you made and why. Why were those appropriate? Now, typically these choices are going to be documented in your audit work program. So, that's just one other place where you're going to have this adequate documentation of what you chose to do, why you chose to do it, and ultimately the execution of those particular procedures and the conclusions that you reached.

Okay. So, let's take a little quiz here and see how well we understand this thought process about how we identify the various items that we've chosen, okay, to do test work on.

So, going back to our discussion a few minutes ago about documenting the identifying characteristics of the evidence that you used to convince yourself, let's go through this little quiz together. So, let's look at each one of these individually.

I'd like for you to think through to yourself, did this auditor provide enough identifying characteristics to enable you to get to the same evidence that they used if you were going to reperform the procedures that they performed?

Now, as you do this for this particular exercise, we're not judging their entire procedure. We're just looking to see whether or not they provided the road map to their evidence. So, let's take a look at Number 1. I haphazardly selected the following five purchase orders from the 12/31 current year-to-date purchase order report, which was PO 12782, and then they listed out 1, 2, 3, 4, 5, different purchase orders that they chose from that particular report.

So, if you were going to do what they did to these various items, could you get to these items? And I'm going to say, yes, I think you could; right? I think I could; right? I see exactly the purchase orders that this auditor looked at. They've listed them out for me. They've shown me the source of those particular items.

Now here's the question for you: Would this auditor have to make copies of these purchase orders, put tick marks, notes, etcetera, on them and include those various items in their workpapers? And the answer here is going to be "no"; right?

Remember the concept of obtain versus retain that I mentioned just a little bit ago, okay. And again, I'm going to be discussing this concept several times over the remainder of this presentation, but just know that everything that you obtain doesn't necessarily have to be retained. If I can get to the evidence using the assistance of your client, you don't need to scan it, copy it, etcetera, and include it in your workpapers.

Now that being said, your engagement team may decide differently. The senior, the manager, the partner, and others are often times going to help you decide what you need to keep in the workpapers and what you don't need or what they don't want you to keep.

Now, regardless of the retention in the workpapers, you're going to need to at least temporarily retain your evidence until that senior, that manager, that partner, and others have completed their reviews and you've cleared their review comments, then these particular items can be returned to the client or destroyed if they were copies; right? That's the time to start shredding those particular items.

Let's take a look at Bullet Number 2. We corroborated the reconciliation of accounts receivable controls with the client without exception. Could you reperform this, get to the same stuff that they did? Okay, and I'm going to give this one a, "No"; right? I don't think I could. You know, what do they mean by the word corroborated here? Okay, remember, corroborated means that you used another evidence gathering procedure to back up and support the procedure that you performed. So, did they inspect something? Did they observe something? Did they reperform something?

Which controls did they look at? They just said the accounts receivable controls. Who's the client, right? Name the person; right? Give me their title. Give me their role. For me, the client is that entity that we're auditing their financial statements for. So, that one's a big "no."

Number 3, I selected all checks paid subsequent to year-end greater than \$15,000. Now, this appears that they're probably performing maybe a subsequent cash disbursements test.

Okay. So, would we be able to get to the same stuff that they did? I selected all checks paid subsequent to year-end greater than \$15,000. There's a little bit of information there; right? They're subsequent to year-end, they're greater than \$15,000, but through what dates? From what account? Why this scope?

Okay. Now, let's pretend that those particular items were included. Okay. So, you're happy with the specific characteristics. Would I need to list out each one of those items with tick marks, et cetera? Okay. Again, probably not necessarily. You could easily describe in a few sentences how to get to the items and what you did to each of them, and that would allow me then to reform the procedures as you did.

Let's take a look at Number 4. We obtained the 12/31 current year account detail report number 14567, which tied to the general ledger without exception. Based on the sample size calculation at workpaper A-11, we selected every 100th invoice with a random start of 56.

Okay, I'm going to give this one a "Yes"; right. I see the source document. I see that that source document ties to the General Ledger. I can see where you calculated your sample. You tell me you're going to use systematic sampling methods. So, you give me the starting point and the selection criteria. I can now use your client to get to the same items.

Okay. Now I was going to mention that you might need to include here the sorting of the report, i.e., was it sorted by date, by client name, alphabetically, etcetera, so that if I use this same sort to get to the same items; right. This is a systematic selection, so random start, right, and every Nth item after that. Again, you might choose to list these particular items out or not. Either way, the identifying characteristics are likely sufficient.

Okay. Now that we've discussed the nature of the timing and the extent, let's look at the results of these procedures and any additional evidence that you might have needed.

So, what were the results of your procedures, okay? I'm looking for documentation of those results. For example, 10 of the 40 confirmations we sent out weren't received. But what did you do about that? Did we perform the alternative procedures to satisfy ourselves in the audit objective of existence of the accounts receivable has been achieved.

What if there's a gray area? Let's say it's the valuation assertion. Let's say where the staff person thinks that the accounts receivable are all collectible based on the alternative procedures and increase with the appropriate client personnel, but the engagement partner isn't yet convinced.

Well, okay. In this particular case, a debate, albeit probably a short one in this particular case, that debate is then going to ensue where the team is going to discuss the situation and decide to maybe gather more evidence, maybe have a meeting with the client personnel and the partner to resolve that particular issue.

Sometimes there might be times where the disagreement can't be resolved. Okay. Let's say it's a complex accounting issue. And again, remember I mentioned this a little bit earlier, that's going to be okay, and the auditing standards actually allow that disagreement of professional opinion, okay. Remember, this again is a job for professional judgment. It's going to be paramount. There can be differences of opinion. Hopefully there aren't many of these and the team will be able to appropriately resolve those, but again, if they're still left out there, they must be documented, and it's perfectly acceptable per the auditing standards.

The next item here, any significant findings or issues and the ultimate conclusions that were reached on those particular items, okay. Notice here, significant findings or issues and conclusions reached, including the significant professional judgments made to reach those conclusions. Things like discussions with management, those charged with governance or others, as well as when and with whom those discussions took place, okay.

For example, maybe there was an incidence of fraud, maybe there was a GAAS departure or maybe even a GAAP departure. Maybe it was a highly subjective item like a pension accrual or evaluation issue. So, as the reviewer, I'm looking for documentation of these significant items, okay, if there happened to be any, and ultimately how the team resolved them to conclusion.

Now, when we talk about significant findings or issues, okay, these are things like matters that involve the selection, the application, the consistency of accounting practices, including the disclosures that are related to those particular items. Things like maybe accounting for complex transactions or maybe items that are new or unusual for your client. Maybe it's a new accounting pronouncement. How did the client choose the way that they implemented their procedure? For accounting estimates and uncertainties, how did they come up with their own estimates? What was their thought process? What information did they use when we have matters that give rise to those significant risks?

Remember we talked about significant risk just a moment ago and the fact that a significant risk item has been redefined by SAS 145. It's something that is incredibly risky, meaning that there is a high degree of probability of this particular item is going to happen and it would be very material, okay. So, everything, that's a risk is going to have some kind of combination of likelihood and potential magnitude.

So, matters that give rise to a significant risk, we go to AU-C 315 that helps us to find that subjective area as to an identified and assessed risk material misstatement in our judgment would require what they call "special audit consideration"; right? And that definition really helps; right, right.

So, think of it, it's the big stuff, okay? And we do cover that particular standard in other trainings and other SAS 145 trainings itself. So, just for now, just know that it's the really risky stuff. Your engagement team will come together when you do your risk assessments, we'll identify what we believe the significant risks are going to know. So, for now, just know that these are the items that are based on your professional judgement are very risky. They probably carry a high level of inherent risk, meaning there's a very high risk of the material error fraud will get into the general ledger and there may be no internal controls whether those are present, present or operating, okay.

The identification of significant risk, though, does carry some additional auditor responsibilities. First of all, if you have an assertion that carries a significant risk, it's going to automatically tell you that you have a transition -- a significant transaction cycle that will be deemed significant that you and your engagement team will need to understand the controls over. Meaning you are going to have to assess the design effectiveness and verify the implementation of the related key controls in that particular area.

Also, if we refer back to that seesaw diagram, I had told you there's an inverse relationship between analytical procedures and tests of details, okay. And I told you that if your analytical procedure is strong enough, you may not need to perform any further test of details. Remember the "and/or," okay, but if you have a significant risk area, the standards tell us that you cannot provide substantive analytics alone as your only evidence. You would need to either test some controls and/or add on some test of details in that particular area. And again, you can just go back to that seesaw diagram and see all of those various inverse relationships, just know significant risks, you cannot rely on substantive analytics alone.

Now, the results of those procedures that indicate that the financial statements may be misstated or need or maybe we need to revise our previous or expected risk assessments, okay. "I thought for example that the valuation and the existence of inventory might be low, okay, it was last year. However, during my inventory observation, I noted a leak in the warehouse roof that resulted in a significant amount of damage to the inventory at year-end." The risk of existence and valuation now would be higher as the inventory is maybe used as the primary collateral for the bank who is the primary user of the financial statements. So, that would be one of those items that maybe causes us to reassess the risk related to it.

Maybe we had significant auditing difficulties. Maybe we had trouble getting the evidence that we needed. Maybe there were destroyed documents, for example. Maybe there are findings that might result in modification of our auditor's report. Again, there's other specific training that is offered through Checkpoint Learning that talks about dealing with report modifications and their auditing standards within that AICPA link that I showed you in Checkpoint, that has its own section on how to go about developing the auditor's report and the various report modifications that you would need to make under certain circumstances.

Lastly, communication amongst the engagement team members is going to be vitally important here to help you identify and deal with any of these particular significant items.

Now, AU-C 230 also includes things for GAAS departures and that report release date, and I mentioned that just a little bit earlier. So, one of the significant items that is specifically addressed is a GAAS departure. Maybe, for example, you aren't able to confirm accounts receivable, okay. Just know that accounts receivable is what we call a "presumptively mandatory auditing requirement."

If I were your peer reviewer coming into your workpapers, and I know that there are accounts receivable at this particular client, I'm going to expect to see accounts receivable confirmations. However, if you take a look at the confirmation auditing standard, there are some exceptions to the rule.

You don't always have to confirm if you meet one of these exceptions, but because that's a presumptively mandatory requirement, you need to document the fact that you knew that that was your requirement and here's why you did not choose to do that particular procedure, and ultimately, what you choose -- chose to do as an alternative to that and how you felt that that was sufficient evidence to be able to allow you to conclude.

The standard also addresses the report release date, which as we all know is not necessarily or automatically the date that we leave the field. The audit standard essentially defines this report date as what you see here on the slide. It's the date that the audit work has been completed, it's been reviewed, the financial statements have been prepared, and management has accepted responsibility for those financial statements. So, for example, the management letter has been signed and received by the auditor.

Now, AU-C 230 also addresses the situations when the report has been released, but new evidence has been uncovered that might affect your procedures and your conclusions. Let's take a look at the slide here. So, in a rare circumstance, again after the date of the report, the auditor becomes aware of information that existed at the time of the report or realizes maybe that a necessary procedure has been omitted, okay.

The auditor in this particular situation would document the circumstances that were encountered, the new or additional procedures, the evidence was obtained and the new conclusions that were reached, the effect on the report, if any, and who and when made and reviewed all of those resulting changes.

So, you can't just go in and change your workpaper documentation after the report has been released. It's basically locked down, and so any changes subsequent to that date has to be documented as to who did it, why they did it, when they did it, okay, and the resulting results and conclusions that might have changed based on that new evidence that was prepared and added to the workpaper documentation.

AU-C 230 also deals with the timing of the assembly of the documentation. So, when it can be deleted, what to do if there's a need to add to or modify the existing documentation? So, let's take a look here at the slide.

So, assembly of documentation no later than 60 days, that date is often times less for SEC or certain states. So, you need to look at the jurisdiction that you happen to be working in to see if a particular jurisdiction has a, a more timely date than the 60 days.

Also, we have to make sure that we maintain the confidentiality of the client information, especially, for example, if we're storing that information off-site.

When we're deleting information, okay, we cannot delete anything until the end of the document retention, and that's at least five years. If you're going to be adding to or modifying the information that's in those workpapers, other than those new or admitted procedures that we saw on the previous slide, again, you can't just go in there and make the change. There has to be a specific reason for that change, and then we have to document when and who the changes were made by and who ultimately reviewed those.

Now, as you take a look at this particular slide, you may go, "Hey, you know what? Our firm has a different policy," and that's perfectly acceptable. These are the minimums that are required by the standard, okay? So, your firm policy may speed up the finalization of the files, may extend the retention date of the documentation.

Now, we talked a little bit earlier about that obtained versus retain. So, what about the documents that were used in the audit but weren't included in the audit documentation? When do we discard that, okay. So, again, remembering our discussion about obtain versus retain we had a little bit earlier, you're going to want to hold on to those documents pending their review and sign off by all members of the engagement team. Those documents should be returned to the client or destroyed after all the interested members of the engagement team have signed off.

Now, firms have their own policies, but typically this information should be included in the files, or it should be destroyed or returned as of the audit report date. Keep in mind that should any kind of litigation ever ensue for any reason, any information, any documentation in your possession at that time becomes discoverable, okay. So, knowingly comply with your firm's policy related to audit notes, keeping copies of documents, keeping emails, text messages, phone communications, etcetera, make the decision to either retain them in the workpapers or clear your workspace of all of those various items.

Okay. So, now that we've covered the foundation requirements of the standard, let's get down to the why does this stuff matter? Why should we as the auditor actually care? What's the big deal here?

Well, as I mentioned earlier today, right, one of four reviewed files is what the AICPA considers to be materially non-conforming and that's not good; right? There are consequences to this and trust me, you don't want to be one of those firms that gets a materially non-conforming peer reviewed deficiency item. You have to go through additional training. There's a lot of hoops that you have to jump through, etcetera; right? So, it's not good to have this particular rating happen to you or your firm.

Okay. Now, there are three common misconceptions that auditors have related to their lack of documentation, this middle area. Let's take a look at those here on this next slide.

So, often times, for example, overall audit, the overall audit objectives can be met without documentation. Now, unfortunately, if it's not documented, it's assumed that you didn't do it. Okay. It's just like, you know, inquiry of a client, if we can't back up those inquiries with some kind of inspection of supporting documentation or of observation or reperformance, there's no evidence there. So, you can't utilize that as audit evidence. So, if you didn't document it, it doesn't count.

Bullets at point Number 2 audit program signoffs are sufficient. Okay, now here's the deal with this one. Signing off could work, okay, if the nature, the timing, the extent, the results, the evidence and the conclusions are all included in the work program. And I've actually I've been on engagements where this type of documentation was the focus, but I have also found that it's very rare.

It takes some real organization and a lot of teamwork in order to get your engagement team or your firm to that particular point where your audit work programs are so detailed that a sign-off would be sufficient to enable someone to come in and reperform your work again using the assistance of your client. So, often times we're going to need to include some kind of additional documentation in our workpapers.

Misconception Number 3, an oral explanation as a sole substitute. Okay, remember, you can't just tell me you did it. As a reviewer, remember I'm auditing you, and remember, inquiry alone is not sufficient audit evidence. So, you have to allow me to be able to corroborate your work. And here after the fact, it's likely going to need to be an inspection, okay? I can't observe you doing something that you did last week or last month or last year, okay. I can possibly reperform it, but I can't reperform an oral explanation. I need to see it, right? I need to be able to inspect that evidence.

Okay. That last bullet point in the third one here, additional resources, what are we talking about? Well, just keep in mind that so many other auditing standards make reference to the documentation standards. So, you're going to see these discussions over and over and over. They're summarized in AU-C 230, where, for example, the analytics standard, AU-C 520, it talks about the documentation of analytical procedures. So, again, you see references to this all over the place.

Also, I showed you Checkpoint just a little bit earlier where you can go find the actual documentation, standard, AU-C 230, but the AICPA, PPC, other methodology producers like CCH, Checkpoint Research, Checkpoint Learning, all of those various items are great additional resources to allow you and your team and learning more and getting better and better and better with your documentation. You just have to be mindful that you want to make it better and you have to just sneak through that reperformability standard and make sure that you meet those various required components.

Now, as we discussed a little bit earlier, it's really important that we think about the purpose of the workpaper prior to including it in the file. That purpose of that workpaper helps us determine, "Hey, is this particular item needed? Is it necessary? Could I maybe document this in a different or maybe in a better way? Is this something that I maybe be able to get from the client again at a future date if necessary?"

So, for example, if this is a report or something that my client could only produce at this particular point in time then they're not going to be able to come back and get that next year or three years from now, then we might need to capture that particular item in our workpapers.

Okay. So, as we discussed that,, again, that concept of obtained versus retained earlier, remember that it's definitely not necessarily or necessary to include everything in your audit file. Do you really need all of that? Does it add value? So, for example, should I attach this 100-page PDF; right?

If you include something, remember it has to be documented, it has to be reviewed, it has to be signed off by members of the engagement team. Does this subject us to inefficient use of our time? And you know, I laugh at this, but, you know, did the staff literally spend weeks during busy seasons scanning documents? Okay, I know sometimes you do.

Does the inclusion potentially increase the litigation risk? Remember, if it's in the file, it's fair to be questioned during the legal proceeding. So, a lot of firms have been really giving a lot of attention to their audit documentation to try to reduce that in order to ultimately reduce some of the litigation risk that they might be subjected to if that were to ever go to a lawsuit, for example.

We see "information overkill" on the upper right-hand side, okay. Just get to the point. I don't necessarily need a full transcript of every word, thought, etcetera. Just edit, edit, edit. Discuss it with your team. Seniors, get with your staff, discuss what you think should be documented. Help them understand what is and what is not needed or what is or maybe what is it desired.

If you have a personal preference, communicate that so they know what you want to include, what you don't want to include. Okay. Managers and partners, do yourselves a favor and have this same discussion with your seniors. Make your needs and desires known as they relate to the documentation.

Do you want them, for example, to include copies of bank statements in their cash testing? Okay. That would require using cross reference or maybe hyperlinks to other parts of the file, or could they maybe exclude those copies of the bank statements and use tick marks instead of those cross references and hyperlinks? Make it clear for them; right? Don't have them include it only to have to pull it out after the fact.

On the lower left-hand side, you see SALY, JELLY, WALY, all those different acronyms that are there, right? "Same As Last Year," JELLY, "Just Exactly Like Last Year." These are acronyms that we've seen firms use sometimes. Those are okay, right, but just give some thought to it. Don't use WALY, W-A-L-Y. We included this one because I've actually seen this in an audit file before and they said "Wrong As Last Year"; right? So, maybe you don't want to include that, okay, that you might have done something wrong as in a prior year, okay.

Don't joke around in your workpapers either; right? It's not a time or place for being funny or for being cute, right? Now, however, if you do note something that was done wrong, okay, maybe we tested the wrong assertion or maybe we had inappropriate procedures, let's fix it for the upcoming engagement and/or carry this knowledge into the other engagements where similar work might be being performed.

Okay. So, for example, if the concern is with cash overstatement, okay, which means the existence assertion, right. What's your primary concern with outstanding checks as you're testing that bank statement reconciliation, okay? Likely it's going to be that you're concerned about the completeness of the outstanding checks because leaving outstanding checks off of the reconciliation would ultimately cause an overstatement of cash. So, you might not want to test the existence of outstanding checks with the same scope as you would the completeness assertion.

The lower right-hand side, review notes. What review notes do you often see with your own work, okay? Let's head off these potential documentation issues at the very beginning of the engagement by maybe having a teaching session, a discussion about expectations, etcetera. Let's learn from each other.

Now as a senior and as a manager, I often required my staff and seniors to perform a thorough self-review prior to providing me with the workpapers for my review. Consider creating a self-review checklist for them, right, with your requirements and your preferences, so again, they have something to refer back to and they can check off and do their own reviews before they turn it over to you.

I also prefer, okay, when time and logistics allow to have the performer and the documenter of the work actually present when I was reviewing their work because it made it so much easier for me and served as a great training tool to help them understand what the reviewer might be looking for.

Now, I talked about tick marks just a moment ago, okay. So, what is a "tick mark," okay, first of all. So, a tick mark is a tool that we use to reference to something that's external to the workpapers. So, it's unlike a cross-reference that references to items that are included within the workpapers, okay.

So, whenever you're using tick marks, just treat them like all the other documentation tools that we've discussed. Remember the reperformance standard? Document only what you did, not what you intended to do.

So, at Anderson, when I worked there, we called this "ghost ticking," where you might put your tick marks down with the intention of actually going to do the work. Then you get distracted, you come back, you're like, "Yeah, I think I did that. I'm not really sure"; right. So, be careful and only tick mark or only document what you actually did. Be precise. Write your thoughts, your interpretations.

Remember, this is your judgement. Convince your senior, your manager, your partner. Be prepared to debate. Be prepared to defend your work. Bring information to the table for discussion and don't just cave if they disagree. Remember, you're the original, original auditor here. You're the one that read that document. You're the one that had that conversation with the client. So, make sure that you feel confident enough to be able to share your thoughts and your concerns or maybe your opinions and your professional judgment with the other engagement team members. And as I just mentioned just a moment ago, perform that thorough self-review, okay? And oftentimes you want to do this cold and do it before you submit that work for review.

Now, "quality workpaper documentation." Okay. When we think about this quality workpaper documentation, okay, and the title here is just a little bit misleading. This slide is really more about reviewing your documentation for quality.

So, for Bullets 1 and 2, okay, are there clearly defined steps? Is there specific details for the evidence that were obtained? Are these steps clearly defined in the work program or in the workpapers? Did you include those details that, again, will allow someone to come in behind you and reperform it?

On Bullet 3 there, do the scopes and the risk assessments relate to what's documented in the planning and the other risk assessment documents? So, for example, are we doing a ton of work on the low risk area and vice versa? Vice versa, maybe not enough work on a higher risk area? Do your cross references tie out? Are they really needed, okay? So, for example, is that other document really needed in the workpapers? Could it have been a tick mark instead? Consider this the same with hyperlinks, okay, because hyperlinks are basically just cross references within the workpapers.

Bullet point Number 5 there, "results at the top." I always like when my team puts their conclusions at the top. That way I know what the conclusion is as I start to review all of the different pieces of evidence that led them to that particular conclusion.

And then finally here, "self-review." Was it performed, that self-review again? And finally, okay, it says "all information is visible." No hidden sales and spreadsheets, for example. So, consider not hiding columns or rows in Excel and other types of spreadsheets. Remember, the reviewer's going to need to see what is there and you don't want any inappropriate information to accidentally get into the workpapers.

I guarantee you if your workpapers were ever discovered in a subpoena, those attorneys that are looking to prosecute your firm are going to unhide all of those cells and all of those rows and columns to see what's in there, and again, remember, that's fair game. So just keep everything visible, okay, transparent, let them see how things actually were derived. There's no reason to hide those.

Real quick question on practical application. What do you think here? Which is not a good practice when following prior year workpapers. And I think following prior year workpapers is a really good idea, okay? Would it be A, use them as a guide only, B, copy the tick marks exactly from last year for efficiency purposes, or C, understand current risks compared to the prior year.

So, which is not a good practice? The one that's not a good practice most likely here is B; right? You don't want to just copy the tick marks exactly from last year for efficiency purposes. And we discussed this a little bit earlier. Remember, SALY, "same as last year," okay.

Now, if those tick marks were good, if the information was great, maybe that's a really good practice, but we don't want to just do it kind of robotically the, "Oh, let's do exactly what they did last year." We need to make sure that it's appropriate, like doing A, use them as a guide, C understanding the current year risks compare to the prior years.

Now let's take a look at a few more examples. See what you think. Okay. So, this slide and the next one is kind of like going to the eye doctor; right? Which one's better, Number one? Number two? Now, these are pretty easy when you see the level of documentation here, but I think it's great to use this practice for seeing some of the ways that maybe you can get better at documenting your work.

Okay. So example number one, we obtained the bank statement and we audited it. Now, you're probably laughing, but trust me, this documentation is not as rare as you might think, okay.

Example 2, "We obtained the January 31st, 2000, current year plus-one bank statement for the client sole checking account ending in 6985 from the Chase Bank. We selected all checks greater than \$5000 per the cash audit program procedure number 2a to test for proper inclusion and exclusion on the outstanding checklist. See workpaper D-2."

Okay. I've actually seen the auditor include even more information, like maybe how they determine proper inclusion and exclusion, etcetera, but remember your audience, okay? Remember, we're documenting to an experienced auditor, so consider the necessity of those additional details. An experienced auditor probably knows what you're doing with these different checks to determine whether they were properly included or excluded on that outstanding checklist.

Okay. Now on Example 2 there, okay, as a follow-up from our previous discussion, would you need to include the bank statement with the tick marks, etcetera? And the answer is no; right? But remember this is going to be a personal preference of the senior, the manager and remember our CYA discussions just a little bit earlier. You probably want to hold on to those various items until those reviewers have gotten through their review and all of their different review notes have been cleared.

All right, next one here. Which one is better, Number 1 or Number 2? Okay. So, Example Number 1, we tied fixed asset additions to copies of invoices. Not really reperformable, is it; right?

Example 2, we trace the additions for the Green Water Plumbing project, the invoices PPI-7342, 7463 and 7759 from the Pacific Plumbing vendor. The total amount per each invoice agreed to the total Green Water Plumbing project addition in the manufacturing plant.

Okay, now on Example 1 there, this was probably on one of those generic work programs, okay, just like that. So, we just copied what that was. Consider enhancing your work programs as we talked about a little bit earlier, making them very client and engagement specific. That goes back to that discussion a little bit earlier. Can a sign off on a work program step be sufficient documentation? It can if you enhance it by including the required component, but if it's generically written like this one, probably not; right? You're going to need some additional information.

All right, now, here's some things to be on the lookout for. Now, these are some very common phrases to keep an eye out or an ear out for. Okay, "Based on my understanding of the client," "Scanned for unusual items," "Reviewed supporting documentation," "Per discussion with Chris," "No significant transactions were noted," "Examined all large checks."

Do these sound familiar; right? Unless I'm a mind reader, I don't know your understanding of the client, so I can't follow your logical thought process. You scanned for unusual items, but you scanned what? What did you consider unusual? What were you looking for?

Reviewed the supporting documentation. What was it? Was it checked copies? What is invoices? Which ones; right?

For discussion with Chris? Who's Chris; right? Was Chris the appropriate person to discuss this with? What's his or her name and title?

No significant transactions were noted. What do you consider to be significant? Was it some dollar scope; right? Was it some other judgmental attribute that you were looking for?

Examined all large checks; right? Again, what do you consider large? Tell me what it is.

Now, these are easy to fix and you can correct them this year, next year. That way SALY can be even more appropriate next year if you fix them now.

Okay. Some common documentation misses that are out there. These are pretty easy to kind of think through mechanically. So, mechanically performing steps without fully understanding the procedures and the relationships.

Carelessness. There's incomplete information resulting in inaccuracies that would require additional follow-up.

Inadequate documentation of your conclusions. Oftentimes when I'm teaching various audit classes, the staff people, sometimes the seniors, sometimes even managers and partners, they don't know how to conclude on various workpapers.

You know, remember, if you know what the purpose of the workpaper was for, right, it's easy to conclude whether or not that purpose was achieved. That's really what you're ultimately concluding on, okay. Once you can conclude on those audit objectives, it becomes easier to conclude on the overall financial statement assertions that make up that financial statement line item, and once you can conclude on all the different financial statement line items, it's easy to conclude on the financial statements taken as a whole.

Failure to explain why steps were not applicable or were not considered necessary. Now, this goes to those firms that maybe you're using some of those generic work programs from CCH or McGladrey or PPC, for example, and those steps are not considered necessary, so they just put "NA" by them, okay, "Not Applicable."

Well, you know what, sometimes you might want to explain why they're not applicable. My personal preference in my own practice would be just delete those steps that I didn't deem to be appropriate. So, all I'm working from is a work program that is the design that's been designed to gather the evidence that we actually need and the evidence that we want.

Okay. So, be careful just putting "NA" by different things without necessarily explaining why those weren't applicable. Your peer reviewer may come back and ask that. If you were to get litigated, I can guarantee you a prosecuting attorney is going to start asking questions about why these particular steps were considered not applicable in order to make you look bad in front of a jury.

And ineffective self-review, there's that "self-review" again. Recreating a workpaper when maybe a copy of a client document would have been enough. Maybe your client already does certain procedures that you could utilize as your own documentation.

I can remember, for example, when I was a staff person, we went through a real training session with our engagement team on doing better substantive analytics, and we wanted to do a more analytic approach on a number of our clients during the year. And so, in designing our work programs, we came up with a whole bunch of different types of analytical procedures that we wanted our client to compute for us.

And so, I went about going to the client to explain what it is that we wanted them to do on the PBC request list, and I went over all these various key performance indicators and all these different computations like the AR turnover ratio, the accounts payable turnover ratio, etcetera, with the client. And the controller goes, "Chris, we're more than happy to do these for you, right, but have you ever seen our month-end board reporting package?" And I'm like, "no." So, he pulled out this, this board reporting package and they already had done all kinds of different analytical procedures with all of management's discussion and analysis for the board of directors, and I never even knew that this existed; right? And I'm like, "You know what, forget all of these analytics that I'm asking for, I want that month-end board reporting package that has everything that we're going to need."

Now, of course, I had to go back and fuss at the audit partner because that audit partner often times went to those board of directors' meetings and never mentioned that the client had that document. That could have saved us a lot of time and effort because all we needed to do was obtain that document, include that in our workpapers, and maybe recalculate or reperform some of the client's work to make sure that they did those calculations appropriately. So, be careful with necessarily recreating things when maybe the client already does a lot of different things for you.

You might also consider PBC-ing some of your audit procedures to the client. For example, a real common one is, "Hey, client, how did you test the completeness assertion for your accounts payable and accrued liabilities at the end of the accounting?" And of course, your client's going to go "What," right? "What do you, what do you mean," and say, "Hey, you know what, there's this thing called a Subsequent Cash Disbursements Test where it helps you determine whether you captured all of your accounts payable and accrued liabilities."

Maybe we could teach our client how to do a subsequent cash disbursements test, give them a scope, have them document all of their work, and then we could include that as our work and just go back and reperform it at maybe a higher scope. Maybe something that you would want to consider doing, okay. If you can get a client to actually take on all of those different types of procedures.

It's worth asking; right? If you don't ask, you're never going to get it. If you do ask, maybe you would, and it's a really good item to maybe get in the habit of having your client do because it kind of is an enhancement of their own internal control processes; right? So, you might use a subsequent cash disbursements test as a monitoring control for them, and then you could use that maybe even as a test of controls as well. Just something to consider. What kind of audit procedures might we be able to push out onto our clients?

Now, some documentation, tips, and best practices. Remember, adequacy matters and it is relative. So, we want to make sure we have this discussion with our engagement team members. The details matter. So, details, details, details. Remember, this has to be reperformable. Don't become one of those statistics that you're going to get these peer review deficiencies from something that is easy to remediate as the documentation.

Remember we want quality over quantity. It's not the amount of documentation, it's how good the documentation actually is. Remembering that reperformability is the big key here. Be crystal clear. Tell the story. Let me see your logical thought process. Let me understand what it is that you know about your client and how you led yourself to that particular conclusion that you've made.

Now, I know that many of you actually use electronic workpapers, so just a few tips on those. These are just some personal preferences; right? Keep it on the screen when you can. If you have to scroll, a lot of reviewers prefer a vertical scroll over a horizontal scroll.

Okay, delete excess sheets, limit the colors and symbols. Use merge sales. Wrap text to make it easier to understand and to read. Put the results at the top. That's one of my personal preferences, one of your conclusions right at the top.

Utilize hyperlinks so that I can go back and forth when you're cross-referencing hyperlinking various documents. Again, remember we talked about this one earlier. Don't hide those cells, those rows, or those columns.

Think of the 30-second rule. Now, this one didn't come from me, but it came from one of my colleagues that she used when she used to work for one of the Big Four, and they had what they called the "30-second rule." So, within 30 seconds, I should be able to know what the purpose of the work program was, or the workpaper was, what the procedures were, and what the conclusion was. So, it's very easy for me to understand exactly what happens to be going on here. They called it the "30-second rule."

Okay. I'm not opposed to that. I think it's a pretty good rule of thumb to possibly use. Could somebody within 30 seconds really understand what I'm trying to communicate in this documentation?

Scrub, scrub, scrub. It just gets back to a little bit earlier. I said "Edit, edit, edit," right; clear, concise, get to the point.

Okay. Remember PSPR, a lot of firms require this as part of their firm policy. What's the purpose of the workpaper? What was the scope? What was the procedure? What was the result?

Now, if you were working for me, I don't have you necessarily restate all of those on every workpaper. If those are apparent on the work program and you've cross-referenced your work program to the workpaper, then I wouldn't necessarily have you repeat those, but again, this would be something that you would want to discuss with the reviewer or the reviewers to see what are their particular preferences.

The purpose, the scope, the procedures and the results have to be apparent somewhere in the workpapers. They don't have to be on every workpaper, but again, personal preference comes sometimes rules here, so make sure that you ask and you understand that.

Perform cold self-reviews when you can. Again, that thorough self-review. Talk to the senior, the manager and partner about their personal preferences. Maybe they have a self-review checklist that they can help you create that would help you be a better documenter and a better self-reviewer.

I think if you happen to be a staff person, remember when you become a senior or a supervisor and ultimately a manager and maybe even a partner, you're going to be reviewing workpapers throughout your career. So, you want to get really good at this early on and starting as a staff person, reviewing your own work is a great best practice to initiate and start doing.

And then the last one here, keep things light and tight. I'm not really sure exactly what that means, but I think it just means, "You know what? Keep that documentation tight" and, again, "clean, clean and concise and light," meaning don't include everything; right? Start to get better at giving proper descriptions of the evidence that would allow that re-performance, and don't feel like you have to retain everything in your workpapers.

We've got a few, what we call the top five worthless workpapers from the Home Office in Auditville; right? I don't know if these are the most worthless ones that are out there. The ones that you're going to see are pretty worthless, I think, but as we take a look at these five examples, remember these were pulled from real files and see if this makes you go, "Wow, you know what? We might be culprits similar to the ones that we are seeing here," okay, as you start to review your workpapers.

The first, so the first one here; right? This is obviously a scan into the workpapers. It's not very legible. It's kind of hard to read. So, remember, be careful what you scan in. The workpaper details need to be legible, okay? If they're not, maybe we need to retype it or have a new print out or something like that, or do something to, to use a different filter or something to clean up those particular items before we include them in the workpapers themselves. Remember, somebody's got to review all of that and sign off on it so make it legible.

Number 2 here. Okay, take a look at this particular documentation. This auditor looks like they're auditing cash, and we see here from this, it says they obtained the detail from the petty cash from this particular bank account, right? All balances were confirmed, counted and recorded as of March 31st, which I guess is the end of their year. And they were counting petty cash of \$4,000 when materiality is \$170,000.

So, I think, right, even if that was completely misstated, it's not going to be material. So, they're probably very ineffective and inefficient in this work. This would have been one of those areas that even if this was on the work program, "Hey senior, hey manager, hey partner, do we really want to do this," right? They probably did it just because it was same as last year. "Hey, they did it last year. We probably need to do it this year." Do you really? It's way below your scope; right? Bring this up as a discussion item in your planning meeting, and if it wasn't brought up in planning meeting, talk about it when you're actually in the field doing the work.

Here's one I see these oftentimes, you know, where, you know, no assets were found that matched this particular report criteria so this auditor felt the need to actually scan this in, include it, right? Maybe it could have been a tick mark rather than a workpaper, right, from the lead schedule. So, you know, keep these worthless types of documentation out. Somebody has to review this, sign off of it. It takes time, it takes attention and over the course of a busy season, right, all of these different 5-minutes here, 5-minutes there, they add up to possibly hours and hours of time that you could have spent with your family and friends rather than cleaning up workpapers or clearing up review notes or doing documentation itself.

Here's one that I think is really an important one to note as well. This looks like this particular auditor is doing some accounts receivable analytical procedures. They're doing some key performance indicators, looks like accounts receivable to current assets, AR to total assets, AR to net sales. They're doing some percentages changes from one year to the next.

Remember, bad math leads to wrong conclusions. If you take a look at this change that the auditor is computing, okay, they did not compute the percentage change from one year to the next appropriately; right? This is not a 5.9% change. It's actually 133% change. So, be careful in your computations and ensure that you do it appropriately.

Now, here's one that I think is a really good obtain versus retain top of an example. This particular auditor is doing some walkthroughs, okay. Walkthrough is a procedure that we perform that would help us verify the implementation of a key control. Sorry, I accidentally advanced that really too quickly, right?

So, this is an example of some walkthrough documentation that they looked at. And again, a walkthrough is a way that we can, as auditors, verify the implementation of key controls within one of the significant business cycles. Walkthroughs aren't required by GAAS, but it is a way that many, many firms choose to do the verification of implementation of those key controls, okay.

You can simply inquire, inspect, observe and reperform. That would be sufficient from a GAAS standpoint, but this particular auditor is using a walkthrough and a total of 36 individual documents were scanned. All of those items are documents that were reviewed during a walkthrough --walkthrough, and again, each one of these then had to have a preparer and a reviewer sign off at various levels. So, it added a lot of inefficiency to the workpapers themselves right into those reviews.

So, could these have been left out, not retained in the workpapers and just maybe referred to in maybe a paragraph or maybe just in the workpapers themselves? And the answer is yes. So, again, have that discussion about obtain versus retain with the appropriate members of your engagement team.

Okay. Here are those couple of bonus slides that I had had referred to a little bit earlier. Remember those four ways to gather audit evidence. I hope that kind of let a light bulb go off for you because even if you come up to an area and you're like, "I don't know how to audit this," the answer is, "Sure you do"; right? I bet you want to ask some questions, talk to some appropriate people. You probably want to observe something or watch something happening. You might want to inspect some supporting documentation for it, and you might want to reperform it or recalculate it or recompute it, whatever you want to call that particular item.

So, it allows you to be a creative problem solving solver as an auditor because you can now audit anything that happens to be out there by simply utilizing a combination of these four ways to gather audit evidence.

I hope that this bonus slide, the seesaw diagram, this further audit procedures tree, whatever you would like to call it, was a helpful tool for you. I encourage you to maybe print this particular one out, bring it to your planning meetings, have it posted up in your cubicle or wherever you happen to work until you can get this committed to memory. It's going to serve you very well. I bring this to every planning meeting that I facilitate and it really does help us stay on track with the hierarchy of the types of procedures that we would want to perform.

It's not specifically necessarily for the documentation, but again, it helps you understand what that peer reviewer might be looking for as they look to see why did you perform the procedures that you performed and linking those particular procedures back to your risk assessments.

Okay. So, a high risk, we did a lot of work; right? Remember, we changed the nature, extended and timing of the work. If we have lower risk items, we either eliminated work or we did lower amounts of work, and that linkage is a really important documentation that we have to include in our workpapers.

Here's our learning objectives again. Hopefully now you feel more confident in your better able to explain the requirements of AU-C 230. Remember, that's the audit documentation standard. You're going to go read this one after today's presentation; right? We can now explain why the AICPA is focused on improving that audit documentation. It's simply because it seems to continue to be a recurring problem at many, many firms out there every year.

We now know how to describe that quality documentation and how to better perform it, and we can list ways to meet that reperformability standard, which kind of is the litmus test for all the different procedures that we have.

Okay, here's my LinkedIn contact information. Join me on LinkedIn. It's a great place for us to network, and that way also it's a great place that you can ask me any particular questions related to documentation or any other questions about items that we teach here on Checkpoint Learning. I'll be happy to engage with you there and answer those questions to the best of my ability. I try to stay pretty timely with any of those particular inquiries. So, again, check me out on LinkedIn, let's network and ask some questions that happen to be there as well.

I want to say thank you. I hope you enjoyed today's presentation.

SUPPLEMENTAL MATERIALS

Fundamentals of Audit Documentation

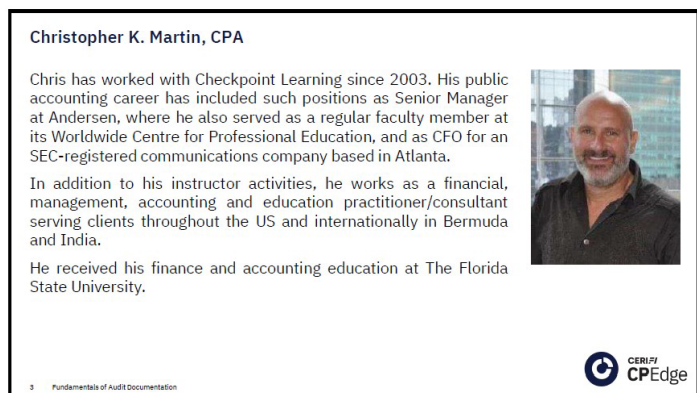


Fundamentals of Audit Documentation

Presented by: Christopher K. Martin, CPA

CERIF/ CPEDge

1



Christopher K. Martin, CPA

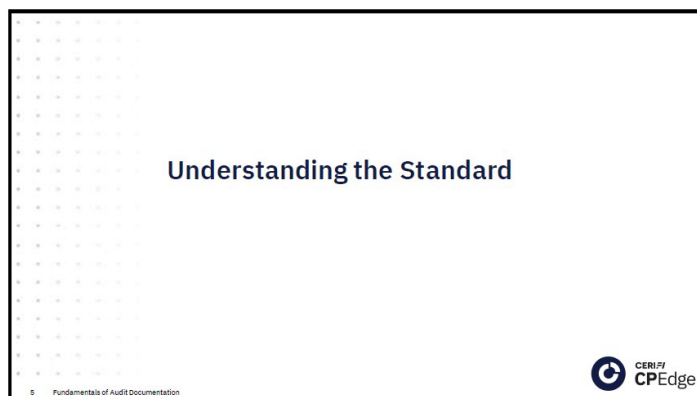
Chris has worked with Checkpoint Learning since 2003. His public accounting career has included such positions as Senior Manager at Andersen, where he also served as a regular faculty member at its Worldwide Centre for Professional Education, and as CFO for an SEC-registered communications company based in Atlanta.

In addition to his instructor activities, he works as a financial, management, accounting and education practitioner/consultant serving clients throughout the US and internationally in Bermuda and India.

He received his finance and accounting education at The Florida State University.

CERIF/ CPEDge

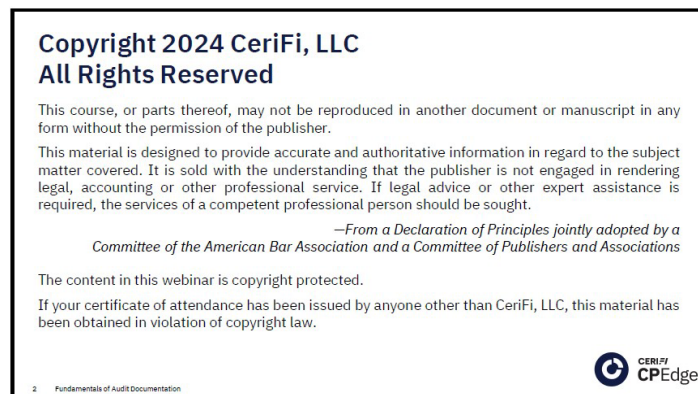
3



Understanding the Standard

CERIF/ CPEDge

5



**Copyright 2024 CeriFi, LLC
All Rights Reserved**

This course, or parts thereof, may not be reproduced in another document or manuscript in any form without the permission of the publisher.

This material is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

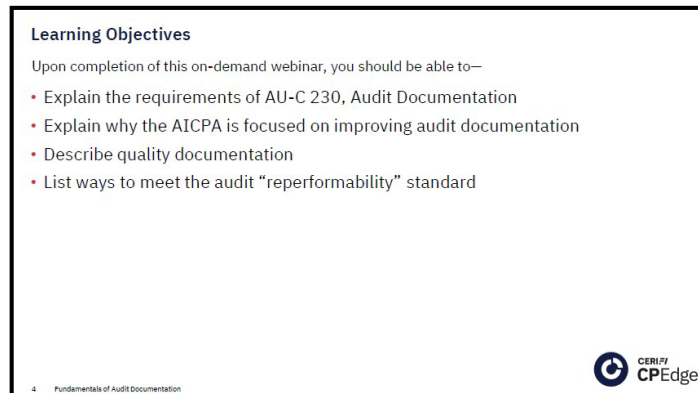
—From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations

The content in this webinar is copyright protected.

If your certificate of attendance has been issued by anyone other than CeriFi, LLC, this material has been obtained in violation of copyright law.

CERIF/ CPEDge

2



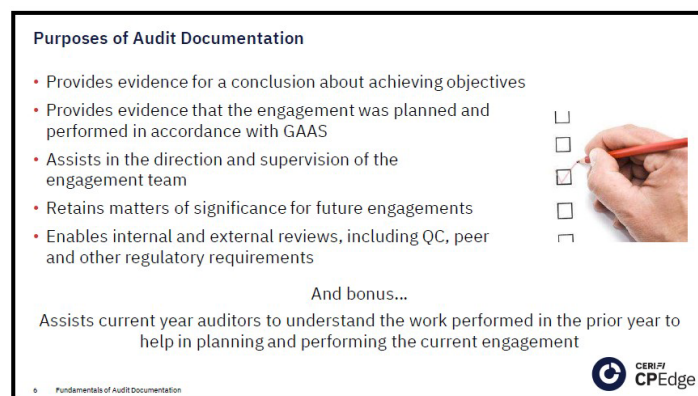
Learning Objectives

Upon completion of this on-demand webinar, you should be able to—

- Explain the requirements of AU-C 230, Audit Documentation
- Explain why the AICPA is focused on improving audit documentation
- Describe quality documentation
- List ways to meet the audit “reperformability” standard

CERIF/ CPEDge

4



Purposes of Audit Documentation

- Provides evidence for a conclusion about achieving objectives
- Provides evidence that the engagement was planned and performed in accordance with GAAS
- Assists in the direction and supervision of the engagement team
- Retains matters of significance for future engagements
- Enables internal and external reviews, including QC, peer and other regulatory requirements

And bonus...

Assists current year auditors to understand the work performed in the prior year to help in planning and performing the current engagement

CERIF/ CPEDge

6

Requirements of AU-C 230

Audit Documentation should—

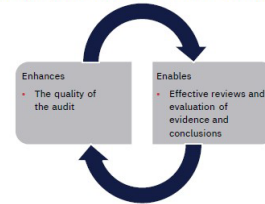
- Be prepared timely
- Be adequate to provide a sufficient understanding of both the work performed, its results, and the judgments (rationale) made in reaching conclusions to an experienced auditor



7 Fundamentals of Audit Documentation

Prepared Timely...

"Auditors should prepare documentation at the time such work is performed or shortly thereafter. That documentation is likely to be more accurate than documentation prepared at a much later time." AU-C 230.A3



8 Fundamentals of Audit Documentation

Who is the Experienced Auditor?

Experienced Auditor – An individual (whether internal or external to the firm) who has practical audit experience and a reasonable understanding of—

- Audit processes
- Engagement requirements (GAAS and legal/regulatory)
- Entity's business environment/industry and
- Relevant auditing and financial reporting issues



9 Fundamentals of Audit Documentation

Ensuring Adequacy

*"The auditor should prepare audit documentation **that is sufficient** to enable an experienced auditor, having no previous connection with the audit, to understand..." AU-C 230.08*

Factors to Consider

Entity	Nature	Identifying
<ul style="list-style-type: none"> • Size • Complexity 	<ul style="list-style-type: none"> • Procedures • Significance of evidence • Extent of exceptions • Conclusion 	<ul style="list-style-type: none"> • RMM • Methodology and forms • Extent of judgement involved



10 Fundamentals of Audit Documentation

Additional Requirements of AU-C 230

Ability to understand:

- Nature, timing and extent of procedures
- Results of those procedures
- Evidence obtained
- Significant findings or issues and conclusions reached (including the significant professional judgements made to reach those conclusions)



11 Fundamentals of Audit Documentation

Additional Requirements of AU-C 230

Ability to understand:

- **Nature, timing and extent of procedures**
- Results of those procedures
- Evidence obtained
- Significant findings or issues and conclusions reached (including the significant professional judgements made to reach those conclusions)



12 Fundamentals of Audit Documentation

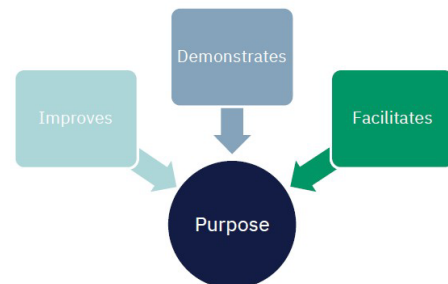
What Does it Mean... Nature, Timing and Extent?

- The identifying characteristics of the specific items or matters tested; (.A14)
- Who performed the audit work and the date such work was completed; and
- Who reviewed the audit work performed and the date and extent of such review. (.A15)



13 Fundamentals of Audit Documentation

Purpose of Identifying Specific Items



14 Fundamentals of Audit Documentation

Identifying Characteristic Considerations

- Procedures using...
 - Inquiries of specific entity personnel
 - Observations of a process
- Procedures requiring...
 - Selection of all items over a specific amount
 - Sampling from a population of documents



15 Fundamentals of Audit Documentation

Did They Identify it Right?

1. I haphazardly selected the following five purchase orders from the 12/31/CY year-to-date purchase order report (PO 12782): 12456, 14321, 15726, 17999 and 19201.
2. We corroborated the reconciliation of accounts receivable controls with the client without exception.
3. I selected all checks paid subsequent to year end greater than \$15,000.
4. We obtained the 12/31/CY account detail (Report #14567), which tied to the G/L without exception. Based on the sample size calculation at WP A-11, we selected every 100th invoice with a random start of 56.



16 Fundamentals of Audit Documentation

Additional Requirements of AU-C 230

Ability to understand:

- Nature, timing and extent of procedures
- Results of those procedures
 - Additional procedures or resolutions of differences of opinion
- Evidence obtained
 - Abstracts or copies of contracts or agreements
- Significant findings or issues and conclusions reached (including the significant professional judgements made to reach those conclusions)



17 Fundamentals of Audit Documentation

Additional Requirements of AU-C 230

Ability to understand:

- Nature, timing and extent of procedures
- Results of those procedures
- Evidence obtained
- Significant findings or issues and conclusions reached (including the significant professional judgements made to reach those conclusions)
 - Discussions with management, those charged with governance, or others as well as when and with whom the discussions took place



18 Fundamentals of Audit Documentation

“Significant Findings or Issues?”

- Matters involving the selection, application, and consistency of accounting practices
 - Accounting for complex or unusual transactions
 - Accounting estimates and uncertainties
- Matters that give rise to significant risks
- Results of audit procedures that indicate
 - The financial statements might be misstated (including corrected and uncorrected misstatements) or
 - The need to revise risk assessments
- Significant difficulties in applying necessary audit procedures
- Findings that could result in modification of the audit opinion or addition of an emphasis-of-matter paragraph



19 Fundamentals of Audit Documentation

AU-C 230 Also Includes...

GAAS Departure

- Justifications for departure from GAAS
- How alternative procedures performed were sufficient

Report Release Date

- Report date
- Audit work has been reviewed
- Financial statements prepared
- Management taken responsibility



20 Fundamentals of Audit Documentation

New Evidence After Report Released?

In Rare Circumstance:

- After the date of the report
- Auditor becomes aware of information that existed at the time of the report, or
- Realizes a necessary procedure was omitted

Auditor Should Document:

- Circumstances encountered
- New or additional procedures, evidence obtained and conclusions reached
- Effect on the report
- Who and when made & reviewed resulting changes



21 Fundamentals of Audit Documentation

Assembly & Retention

Assembly of Documentation

- No Later than 60 Days
- Less for SEC or Certain States
- Confidentiality of Client Information

Deleting Information

- End of Document Retention Period
- At Least 5 Years

Add/Modify Information

- Other Than New or Omitted Procedures
- Specific Reasons for Change
- When & Who the Changes were Made and Reviewed



22 Fundamentals of Audit Documentation

Why Should I Care



What's the Big Deal

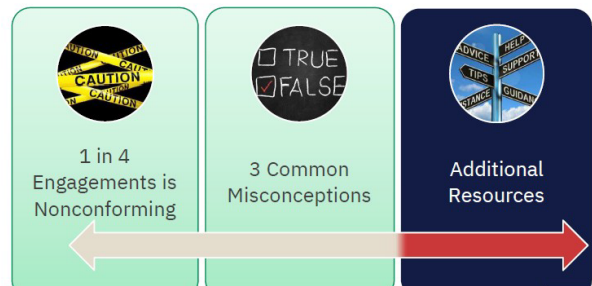


3 Common Misconceptions

- ☐ TRUE ☒ FALSE Overall audit objective can be met without documentation
- ☐ TRUE ☒ FALSE Audit program signoffs are sufficient
- ☐ TRUE ☒ FALSE Oral explanation as a sole substitute



Don't Forget About Available Tools!

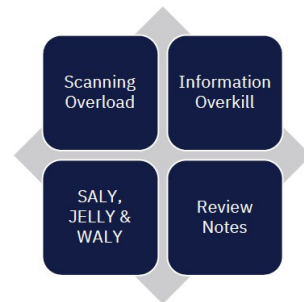


Quality vs. Quantity

- Is it needed?
- Is it necessary?
- Can we document it in a better way?



What Do We Mean...



Adequate Tickmark Documentation

- Remember the reperformance standard
- Document only what you did
- Be precise
- Write YOUR thoughts and interpretations
- Perform a thorough self-review before submitting for review



Quality Reviewer Workpaper

- Clearly defined steps?
- Specific details for evidence obtained?
- Linked to/from planning and risk assessment?
- Properly cross-referenced or hyperlinked?
- Results at top?
- Self-review performed?
- All info visible (e.g., no hidden cells in spreadsheets)?



Practical Application

Which is not a good practice when "following prior-year workpapers"?

- A. Use them as a guide only
- B. Copy tickmarks exactly from last year for efficiency purposes
- C. Understand current year risks compared to prior year



31 Fundamentals of Audit Documentation



31

Which One is Better...

Example #1...

"We tied fixed asset additions to copies of invoices."

Example #2...

"We traced the additions for the green water plumbing project to invoices #PPI-7342, #PPI-7463 and #PPI-7759 from the Pacific Plumbing vendor. The total amount per each invoice agreed to the total green plumbing project addition in the manufacturing plant."



33 Fundamentals of Audit Documentation



33

Keep A Look Out...

- "Based on my understanding of the client"
- "Scanned for unusual items"
- "Reviewed supporting documentation"
- "Per discussion with Chris"
- "No significant transactions noted"
- "Examined all large checks"



35 Fundamentals of Audit Documentation



35

Documentation Tips & Best Practices

- Adequacy matters and is relative
- Details, details, details
- Don't become a statistic
- Quality over quantity
- Remember reperformability is key
- Be crystal clear—tell the story



37 Fundamentals of Audit Documentation



37

Which One is Better...

Example #1...

"We obtained the bank statement and audited it."

Example #2...

"We obtained the January 31, 20CY+1 bank statement for the client's sole checking account ending in #6985 from Chase bank and selected all checks greater than \$5,000 (per the cash audit program procedure #2a) to test for proper inclusion/exclusion on the outstanding check list. See WP D-2."



32 Fundamentals of Audit Documentation



32

Be on the Look Out

34 Fundamentals of Audit Documentation



34

Common Documentation Misses

Mechanically

- Performing steps without fully understanding the procedures and the relationships

Carelessness

- Incomplete information resulting in inaccuracies that require additional follow-up

Inadequate

- Documentation of conclusions

Failure

- To explain why steps were not applicable or not considered necessary

Ineffective

- "Self-review"

Recreating

- The workpaper when a copy of a client document would be enough

36 Fundamentals of Audit Documentation



36

Documentation Tips – Workpapers

- Keep it on the screen
- If you must scroll, vertical is usually best
- Delete excess sheets
- Limit colors/symbols
- Use merged cells and wrapped text
- Put results at top
- Hyperlink
- Don't hide cells, rows, or columns



38 Fundamentals of Audit Documentation



38

Documentation Tips – Workpapers

- Think of the 30-second Rule!
- **Scrub, Scrub, Scrub!**
- **PSPR**
 - Purpose
 - Scope
 - Procedure
 - Result
- Perform **COLD** Self Reviews
- Keep things **TIGHT n LIGHT!**



39 Fundamentals of Audit Documentation

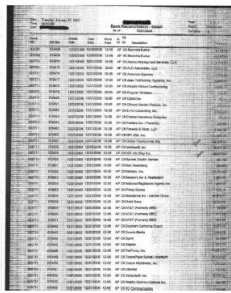
Top 5 Worthless Workpapers From the Home Office in Auditville, AV



40 Fundamentals of Audit Documentation

Top 5 Worthless Workpapers

Be careful what
you scan!
Workpaper details
need to be legible.



42 Fundamentals of Audit Documentation

Top 5 Worthless Workpapers

Account	Prelim	A-J's	Reclass	Resp	Annotation	Resp 03/07	%Chg
CITY GENERAL OPERATING	1,184,549.57	15,000.27	(105,162.00)	1,094,387.84		454,332.70	141
CITY PAYROLL	957.25	0.00	0.00	957.25		83,721.46	(8)
03-0105 PETTY CASH	3,795.55	0.00	0.00	3,795.55		3,900.00	(3)
CITY LOC	17,500.00	0.00	0.00	17,500.00		17,500.00	0
A Cash/Bank indebtedness (FLP)	1,206,802.81	15,000.27	(105,162.00)	1,117,641.08		54,116	187
RESIDENT TRUST	36,306.40	0.00	0.00	36,306.40	Obtained detail for petty cash from	35.17	(10)
RESIDENT TRUST ACCOUNT	(36,306.40)	0.00	0.00	(36,306.40)	All balances confirmed, counted and	35.17	(10)
Resident's trust fund	0.00	0.00	0.00	0.00	reconciled as at March 31	0.00	0

They counted petty
cash of \$4,000.
Materiality is
\$170,000!



42 Fundamentals of Audit Documentation

Top 5 Worthless Workpapers

Sys No	Ext	Co Asset No	Description	In Svc Cl Date	Disposal Date	D M	Acquired Value	Current Accum Depreciation	Net Proceeds	Gain/Loss Adjust Basis	Realized Gain (Loss)	G L
--------	-----	-------------	-------------	-------------------	------------------	--------	-------------------	-------------------------------	-----------------	---------------------------	-------------------------	--------

This could be a
Tickmark, rather
than a workpaper

No assets were found that match report criteria.



43 Fundamentals of Audit Documentation

Top 5 Worthless Workpapers

Category	Rate	Change
Adm in Current Assets	4.100%	
CV	5.750%	3.100% (1.100% increase)
Adm in Total Assets	4.000%	2.250%
CV	2.250%	0.250%
Adm in Net Value	2.250%	0.250%
CV	2.250%	0.250%
Other values in Adm	7.800%	0.000%
CV	7.800%	0.000%
Adm in Current Liabilities	0.250%	0.250%
CV	0.250%	0.250%
Adm in Total Liabilities	0.250%	0.250%
CV	0.250%	0.250%
Adm in Net Worth	0.250%	0.250%
CV	0.250%	0.250%

Bad math leads to
wrong conclusions!



44 Fundamentals of Audit Documentation

Top 5 Worthless Workpapers

- IC-01 Billings & Cash Receipts
- IC-02 Billings & Cash Receipts System
- IC-03 Billings & Cash Receipts Walkthrough
- IC-04 Billings & Cash Receipts Invoice No 701
- IC-05 Billings & Cash Receipts Invoice Number
- IC-06 Billings & Cash Receipts Invoice Date
- IC-07 Billings & Cash Receipts Invoice Description
- IC-08 Billings & Cash Receipts Invoice Amount
- IC-09 Billings & Cash Receipts Invoice Status
- IC-10 Billings & Cash Receipts Invoice History
- IC-11 Billings & Cash Receipts Invoice Summary
- IC-12 Billings & Cash Receipts Invoice Detail
- IC-13 Billings & Cash Receipts Invoice Analysis
- IC-14 Billings & Cash Receipts Invoice Reconciliation
- IC-15 Billings & Cash Receipts Invoice Audit
- IC-16 Billings & Cash Receipts Invoice Control
- IC-17 Billings & Cash Receipts Invoice Security
- IC-18 Billings & Cash Receipts Invoice Compliance
- IC-19 Billings & Cash Receipts Invoice Risk
- IC-20 Billings & Cash Receipts Invoice Insurance
- IC-21 Billings & Cash Receipts Invoice Legal
- IC-22 Billings & Cash Receipts Invoice Tax
- IC-23 Billings & Cash Receipts Invoice Accounting
- IC-24 Billings & Cash Receipts Invoice Financial
- IC-25 Billings & Cash Receipts Invoice Operational
- IC-26 Billings & Cash Receipts Invoice Management
- IC-27 Billings & Cash Receipts Invoice Information
- IC-28 Billings & Cash Receipts Invoice Communication
- IC-29 Billings & Cash Receipts Invoice Collaboration
- IC-30 Billings & Cash Receipts Invoice Integration
- IC-31 Billings & Cash Receipts Invoice Automation
- IC-32 Billings & Cash Receipts Invoice Optimization
- IC-33 Billings & Cash Receipts Invoice Innovation
- IC-34 Billings & Cash Receipts Invoice Transformation
- IC-35 Billings & Cash Receipts Invoice Disruption
- IC-36 Billings & Cash Receipts Invoice Reinvention

Total of 36 individual
client documents scanned.
Items are documents
reviewed during a
walkthrough.
Each one has a preparer
and reviewer sign-off.



45 Fundamentals of Audit Documentation

Bonus Slides



46 Fundamentals of Audit Documentation

Bonus Slide – 4 Ways to Gather Audit Evidence

- Inquiry (+)
- Observation
- Inspection
- Reperformance/Recomputation



47 Fundamentals of Audit Documentation

47

Learning Objectives

You should now be able to—

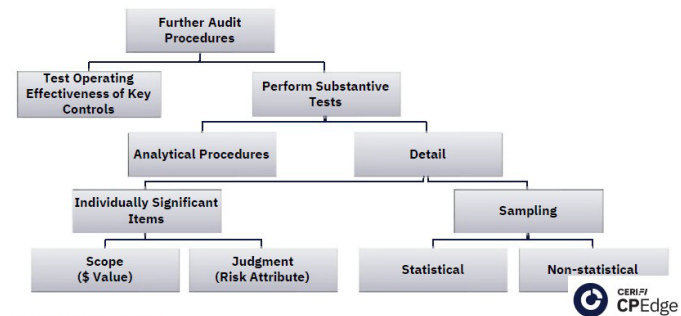
- Explain the requirements of AU-C 230, Audit Documentation
- Explain why the AICPA is focused on improving audit documentation
- Describe quality documentation
- List ways to meet the audit “reperformability” standard



48 Fundamentals of Audit Documentation

49

Bonus Slide – Further Audit Procedures



48 Fundamentals of Audit Documentation

48

Instructor Contact Information

- Christopher K. Martin, CPA
- www.linkedin.com/in/ckmartin



50 Fundamentals of Audit Documentation

50

Thank you



51 Fundamentals of Audit Documentation

51

Proceed to the next page for discussion questions.

GROUP STUDY MATERIALS

A. Discussion Questions

1. What is one key reason the AICPA is focused on improving audit documentation?
2. Which purpose is supported by properly prepared audit documentation?
3. According to AU-C 230, what should the documentation demonstrate when a disagreement arises in judgment?
4. What is one primary benefit of documenting the purpose, scope, procedure, and result (PSPR) in workpapers?
5. Why should audit teams be cautious about scanning and including excessive client documents?
6. What is a primary reason audit documentation must be clear and reperformable?

B. Suggested Answers to Discussion Questions

1. What is one key reason the AICPA is focused on improving audit documentation?

Inadequate documentation is a frequent cause of materially non-conforming ratings.

A primary driver behind the AICPA's emphasis on improving audit documentation is the high incidence of peer review deficiencies resulting from insufficient or unclear documentation. According to peer review findings, approximately one in four audit files reviewed are found to be *materially non-conforming*, often because the documentation fails to demonstrate that the audit was properly planned, executed, and concluded in accordance with professional standards. These failures may involve missing evidence of risk assessments, lack of clarity in audit procedures, undocumented conclusions, or inadequate descriptions of judgments applied—especially in areas involving significant findings or complex transactions. Poor documentation also hinders reperformability, which is a foundational requirement under AU-C 230. That standard requires the documentation to be clear enough that an experienced auditor with no prior connection to the engagement can understand what was done, why it was done, the results obtained, and the conclusions reached. Because documentation serves as the audit trail and is the primary means of demonstrating compliance with Generally Accepted Auditing Standards (GAAS), its quality directly affects the auditor's ability to withstand internal and external inspection, defend against litigation, and maintain public trust. Therefore, the AICPA has prioritized this issue to elevate audit quality and reduce the frequency of avoidable deficiencies across the profession.

2. Which purpose is supported by properly prepared audit documentation?

Facilitating the review and supervision of audit team members.

One of the explicit purposes of audit documentation, as defined in AU-C 230, is to assist in the direction, supervision, and review of audit team members. Well-prepared documentation provides a clear roadmap of what procedures were performed, by whom, when, and with what results—enabling managers, partners, and quality control reviewers to evaluate the adequacy of the work. This promotes consistency, strengthens engagement oversight, and supports efficient delegation of tasks. It also allows reviewers to identify whether appropriate professional judgment was exercised and whether the planned procedures were responsive to the assessed risks. Furthermore, when documentation is clear and organized, it facilitates real-time coaching opportunities and improves on-the-job learning for junior staff. Inadequate documentation, on the other hand, leads to inefficiencies, excessive review notes, and potential gaps in audit evidence. Therefore, thorough and timely audit documentation not only fulfills regulatory and professional requirements but also enhances team collaboration, quality control, and audit effectiveness across all levels of the engagement.

3. According to AU-C 230, what should the documentation demonstrate when a disagreement arises in judgment?

That the disagreement and rationale were clearly documented.

AU-C 230 explicitly requires that when a disagreement in professional judgment arises—whether between audit staff and reviewers or among senior members of the engagement team—the nature of the disagreement and the basis for the differing views must be thoroughly documented. This includes a description of the significant professional judgments made, the alternatives considered, the rationale supporting the final decision, and the timing and parties involved in any related discussions. The purpose is not to eliminate disagreement but to ensure transparency, demonstrate due diligence, and show that audit conclusions were reached thoughtfully and with consideration of all relevant viewpoints. This is especially important in areas involving complex accounting estimates, subjective assessments, or significant risks, where reasonable professionals may arrive at different—but defensible—conclusions. Proper documentation of such debates allows peer reviewers, regulators, or legal stakeholders to follow the audit trail and assess whether the audit team’s final decision was based on sound professional judgment, even if others may have chosen a different path. Ultimately, documenting these disagreements protects both the audit firm and the individuals involved by showing adherence to GAAS and the integrity of the audit process.

4. What is one primary benefit of documenting the purpose, scope, procedure, and result (PSPR) in workpapers?

It supports clear and efficient reviews by experienced auditors.

Documenting the **purpose, scope, procedure, and result** (commonly referred to as PSPR) in audit workpapers provides essential context that allows an experienced auditor—such as a reviewer, quality control inspector, or peer reviewer—to quickly understand what was done, why it was done, how it was done, and what conclusion was reached. This format promotes **reperformability**, a key requirement under AU-C 230, which mandates that an experienced auditor with no prior involvement must be able to understand the nature, timing, extent, and results of audit procedures performed. By including the PSPR, the documentation tells a complete, logical story of the auditor's work and rationale, reducing ambiguity and minimizing the number of review notes or follow-up questions. Additionally, PSPR documentation supports real-time supervision, effective knowledge transfer among team members, and more defensible audit conclusions in the event of regulatory review or litigation. While the work program may capture some of these elements, embedding PSPR directly in the workpaper ensures completeness and makes it easier for the reviewer to evaluate whether audit objectives were appropriately met and aligned with risk assessments. Thus, PSPR serves as both a quality enhancement and a time-saving best practice in audit engagements.

5. Why should audit teams be cautious about scanning and including excessive client documents?

It may result in inefficient reviews and increased litigation risk.

Including excessive or unnecessary client documentation in the audit file can hinder audit quality and expose the firm to unintended consequences. From a practical standpoint, excessive documentation **slows down the review process**, as supervisors and reviewers must spend more time sorting through voluminous workpapers that may not contribute meaningfully to audit conclusions. This can reduce efficiency, increase costs, and result in unclear audit trails. More importantly, from a legal perspective, **any documentation retained in the audit file becomes discoverable in litigation**, even if it was irrelevant, redundant, or never actually used in drawing audit conclusions. This introduces **litigation risk**, especially if the retained documents contradict other findings, include inconsistent or outdated information, or reveal internal uncertainties or uncorrected errors. Therefore, audit teams are strongly encouraged to apply professional judgment and consider the “**obtain versus retain**” principle: while certain evidence may be reviewed during the audit, it should not be retained unless it adds value, supports audit objectives, or is necessary for reperformability. Instead of scanning full source documents, auditors should describe identifying characteristics in the workpapers sufficient to allow reperformance, as permitted under AU-C 230. Limiting documentation to what's needed helps maintain a **clean, efficient, and defensible** audit file—aligned with both regulatory standards and risk management practices.

6. What is a primary reason audit documentation must be clear and reperformable?

To allow reviewers or peer reviewers to follow the audit team's logic and decisions.

Under AU-C 230, audit documentation must be prepared in a manner that enables an **experienced auditor**, with **no previous connection to the engagement**, to understand the nature, timing, and extent of procedures performed, the results obtained, and the conclusions reached. This principle is referred to as “**reperformability**.” It is central to the quality and defensibility of the audit. Clear and reperformable documentation ensures that reviewers—whether internal (managers, partners, quality control) or external (peer reviewers, regulators, or litigators)—can trace the auditor's work and reasoning without ambiguity. This is especially important when exercising professional judgment, assessing risk responses, or addressing significant findings. Reperformability serves several critical functions: it supports engagement quality control, allows for efficient supervision and coaching, reduces the risk of misunderstandings or redundant work, and forms the basis of the audit trail used in inspections or legal proceedings. Failure to meet this standard can result in **peer review deficiencies**, disciplinary actions, or reduced credibility in litigation. Therefore, clear documentation that communicates the audit team's **logical thought process, professional judgments, and evidence-based conclusions** is not merely a best practice—it is a **requirement** for compliance with generally accepted auditing standards (GAAS) and a pillar of audit integrity.

GLOSSARY

AICPA—Association of Certified Fraud Examiners

Audit Documentation—An auditor's primary record of the audit procedures applied, evidence obtained, and conclusions reached in an audit engagement. Examples of audit documentation include audit programs, analyses, memoranda, letters of confirmation and representation, abstracts or copies of entity documents, and schedules or commentaries prepared or obtained by the auditor. Audit documentation may be in paper form, electronic form, or other media. Audit documentation is also referred to as workpapers.

Audit Procedures—An audit procedure is specific and specialized steps or actions auditors take to meet audit objectives. It may vary for different audit engagements, depending on the complexity of the accounting system, the type of entity, and other factors unique to the engagement. Audit procedures are to be tailored to the engagement, as compared to audit standards, which do not change. Audit procedures are used for test of controls and substantive testing. The seven basic audit procedures are recalculation, observation and examination, confirmation, inquiry and written representations, scanning, analytical procedures, and examination of documents in two directions, vouching from the accounting records back to the original source documents and tracing from the source documents forward through the accounting process to the final recording of the transaction.

Disclosure—Additional information attached to an entity's financial statements, usually as explanation for activities which have significantly influenced the entity's financial results

FASB—Financial Accounting Standards Board

Forecasting—An Estimate of future demand using both quantitative and qualitative methods.

GAAP—Generally Accepted Accounting Principles

GAAS—Generally Accepted Auditing Standards

Measurement—Measurement is the choice of an attribute and unit of measure by which to quantify a recognized item.

SFAC 6.65–.72

Items reported in financial statements are measured by different attributes, depending on the nature of the item and the relevance and reliability of the attribute measured. The five measurement attributes for assets and liabilities currently used include (SFAC 5.67):

1. **Historical cost (proceeds):** the amount of cash, or its equivalent, paid to acquire the asset (received to incur the liability). Used for property, plant, and equipment, and most inventories (also “historical exchange rate” or “transaction-based”).
2. **Current cost:** replacement cost. The amount of cash, or its equivalent, that would have to be paid currently to acquire the same asset. Used for some inventories.
3. **Current market value:** the amount of cash, or its equivalent, that could be obtained by selling the asset. Used for some investments in marketable securities and liabilities involving marketable commodities.
4. **Net realizable value:** settlement value. The nondiscounted amount of cash, or its equivalent, which is expected to be received (paid) upon conversion (liquidation) of the asset (liability) in due course of business less direct costs. Used for short-term receivables and some inventories, trade payable and warranty obligations.
5. **Present value:** the present, or discounted (at the implicit or historical rate), value of future cash flows. Used for long-term receivables and payables.

Measurement scale or unit of measurement is nominal units of money (i.e., unadjusted for changes in purchasing power).

Professional Judgment—The application of the accumulated knowledge and experience gained through a relevant accounting or auditing training, by making use of the ethical standards, resulting in making informed decisions about the courses of action that are appropriate in specific circumstances

Significant Risks—Those risks for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk.

SSARS—Statements on Standards for Accounting and Review Services

Choose the best response and record your answer in the space provided on the answer sheet.

1. Which of the following financial assets is excluded from the scope of ASU 2016-13?
 - A. Debt securities held for investment
 - B. Loans in an employee benefit plan
 - C. Reinsurance receivables
 - D. Trade receivables

2. What is the correct treatment if a financial asset is determined to be 100% uncollectible under CECL?
 - A. Maintain the full amount in the allowance account
 - B. Reclassify the asset to a suspense account
 - C. Recognize an unrealized loss through other comprehensive income
 - D. Write off the asset in full

3. Which method is permitted for estimating expected credit losses under ASU 2016-13?
 - A. Any method the auditor prefers
 - B. Discounted cash flow method only
 - C. Loss rate method
 - D. Straight-line method of amortization

4. How should entities support their choice to adjust historical loss rates in response to changing economic conditions under CECL?
 - A. By deferring evaluation until year-end
 - B. By providing data that justifies the adjustments to reflect forecasted changes
 - C. By referencing unrelated industry averages
 - D. Through subjective analysis based on management experience

5. Which of the following is a disclosure requirement under CECL for the allowance for credit losses?
 - A. Identification of audit procedures used to verify aging schedules
 - B. Reconciliation of allowance to net income
 - C. Rollforward of the allowance account and discussion of key assumptions
 - D. Separate income statement for each loan portfolio

Continued on next page

-
6. According to AU-C 230, audit documentation must be sufficient to allow:
- A. An experienced auditor with no previous connection to understand the work performed
 - B. Any third party to understand the audit conclusions
 - C. Investors to assess audit evidence
 - D. Legal counsel to provide opinions on internal controls
7. Which of the following is one of the four basic ways to gather audit evidence?
- A. Budget reconciliation
 - B. Financial ratio calculation
 - C. Industry benchmarking
 - D. Inquiry
8. What is the key standard that outlines the auditor's responsibilities for documentation?
- A. AU-C 230
 - B. AU-C 315
 - C. AU-C 520
 - D. AU-C 540
9. Which of the following is a poor practice when referencing prior-year audit workpapers?
- A. Copying prior tick marks for efficiency
 - B. Reassessing the relevance of prior audit steps
 - C. Understanding changes in current year risks
 - D. Using prior workpapers as a guide
10. Which is a best practice for reviewers of audit documentation?
- A. Avoid reviewing workpapers until fieldwork is complete
 - B. Re-perform all procedures regardless of audit risk
 - C. Require full hard copies of all client documents
 - D. Review documentation incrementally throughout the engagement

Continued on next page

-
11. When is it acceptable to exclude original source documents from audit workpapers?
- A. When identifying characteristics are documented and can be reobtained
 - B. When the firm is under time pressure
 - C. When they were previously audited
 - D. When they were reviewed verbally with a manager
12. What is an appropriate reason to modify audit documentation after the report release date?
- A. To change reviewer initials
 - B. To delete immaterial documents for file size reduction
 - C. To improve formatting or add hyperlinks
 - D. To reflect auditor's change of opinion due to newly discovered prior evidence
13. Which documentation error could most likely lead to a peer review deficiency?
- A. Including a client's audit request list
 - B. Omitting documentation of conclusions and professional judgment
 - C. Preparing a tickmark legend on a separate document
 - D. Using color-coded spreadsheets in audit files
14. Which of the following items is considered a **significant finding** under AU-C 230?
- A. The auditor received prompt responses to emails
 - B. The client applied a new, complex accounting method
 - C. The client changed the layout of their office
 - D. The client hired a new receptionist
15. What is the purpose of the "30-second rule" as described in the presentation?
- A. To complete each workpaper in under 30 seconds
 - B. To ensure the client responds to PBCs within 30 seconds
 - C. To help reviewers quickly understand the purpose, procedures, and results
 - A. To limit all documentation to a 30-second summary

Subscriber Survey

Evaluation Form

Please take a few minutes to complete this survey related to **CeriFi CPE Network A&A Report** and return with your quizzer or group attendance sheet to CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to grading-cpedge@cerifi.com.

How would you rate the topics covered in this issue of **CeriFi CPE Network A&A Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Accounting Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Auditing Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of this issue of **CeriFi CPE Network A&A Report** did you like the most, and why?

Which segments of this issue of **CeriFi CPE Network A&A Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CeriFi CPE Network A&A Report**?

How would you rate the effectiveness of the speakers in this issue of **CeriFi CPE Network A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Accounting Speaker	_____	_____	_____
Auditing Speaker	_____	_____	_____

Are you using **CeriFi CPE Network A&A Report** for: CPE Credit ☐ Information ☐ Both ☐ _____

Were the stated learning objectives met? Yes ☐ No ☐ _____

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ _____

Were program materials accurate? Yes ☐ No ☐ _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐ _____

Were the time allocations for the program appropriate? Yes ☐ No ☐ _____

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ _____

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ _____

Specific Comments:

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CPE Group Attendance Sheet

Firm/Company Name: _____
Account #: _____
Location: _____
Program Title: _____ Date: _____

<u>Name</u>	<u>Email</u>	<u>Total Hrs</u>	<u>IRS PTIN ID (if applicable Tax only)</u>	<u>Sign In</u>	<u>Sign Out</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the Cerifi CPE Network newsletter, and earned the number of hours shown.

Instructor Name: _____ Date: _____
E-mail address: _____
License State and Number: _____

Course Title	
Course Date:	
Start Time:	
End Time:	
Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of <u>3 times per CPE hour</u> . This is achieved via polling questions. Sponsors must have a report which documents the responses from each student. The timing of the polling questions should be random and not made known to students prior to delivery of the course. Record the polling question responses below. Refer to the CeriFi CPE Network User Guide for more instructions. Partial credit will not be issued for students who do not respond to at least 3 polling questions per CPE hour.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

[illegible]

CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

Welcome to CeriFi CPE Network!

CeriFi CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **“Group Live” Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **“Group Internet Based” Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **“Self-Study” Format:** Each participant can take the self-study version of the CeriFi CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), CeriFi CPE Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for the formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) CeriFi CPE Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to CeriFi, LLC.

If you have any questions on this documentation or requirements, refer to the “Getting Help” section at the end of this User Guide **BEFORE** you conduct your training.

We are happy that you chose CeriFi CPE Network for your training solutions.

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

CeriFi CPE Network program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the **CeriFi CPE Network Series**, you may reproduce the necessary number of participant manuals needed to conduct your group study session.

“Group Live” Format

CPE Credit

All CeriFi CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as CeriFi CPE Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a **qualified, real time instructor while the program is being presented**. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study online.

- If the emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by CeriFi CPE Network after the “group live” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to CeriFi CPE Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether CeriFi CPE Network is the sponsor for the “group live” session, it is required that the firm hosting the “group live” session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

The entire transcript is available as a pdf via the link in the email sent to administrators.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group live” session should be sent to CeriFi CPE Network by the following means:

Email: grading-cpedge@cerifi.com

When sending your package to CeriFi, you must include ALL of the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CeriFi CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures. Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as CeriFi CPE Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript. You should circulate (e.g., email to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism to periodically check the participants’ engagement throughout the delivery of the program. Participants’ two-way video should remain on during the entire presentation.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and asks that participants confirm their attendance by using the “raise hands” feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone’s hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing “Present” into the Teams chat box. The moderator records the participants who have entered “Present” into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app’s report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be “content specific.” Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a “group internet based” delivery format.**

Real Time Moderator During Program Presentation

“Group internet based” programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi CPE account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by CeriFi CPE Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to CeriFi CPE Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether CeriFi CPE Network is the sponsor for the “group internet based” session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be “virtual”) of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

The email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group internet based” session should be sent to CeriFi CPE Network by the following means:

Email: grading-cpedge@cerifi.com

When sending your package to CeriFi, you must include ALL the following items:

Advertising /		Complete this form and circulate to your audience
Webinar Delivery		Use this form to track the attendance (i.e., polling
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Email

Follow these simple steps to use the printed transcript and video:

- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- E-mail your completed quizzer and survey to:

grading-cpedge@cerifi.com

Self-Study—Online

Follow these simple steps to use the online program:

- Go to <https://cerificpedge.com/>.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

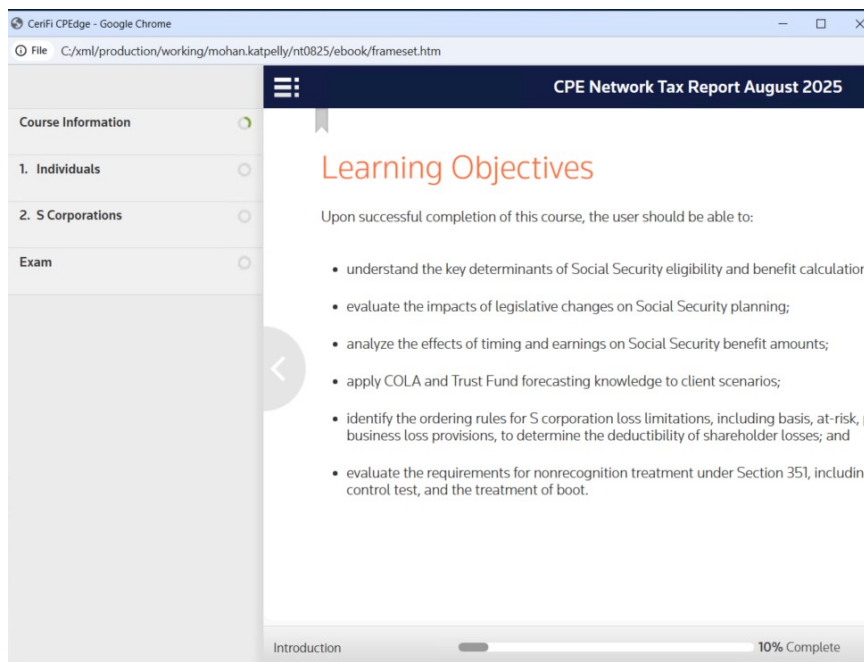
The screenshot shows the CeriFi CPEdge website. At the top, there is a navigation bar with links: "Ways to Learn", "Explore Courses", "CPE Subscriptions", "Buy for Team", and "Support". To the right of the navigation bar are links for "Contact Us", a shopping cart icon, and a "Login" button. Below the navigation bar is a search bar with the placeholder text "Search courses". A blue banner across the middle of the page reads "Checkpoint Learning is now CeriFi CPEdge!". Below the banner, the main heading is "CeriFi CPEdge CPE for CPAs". Underneath this heading is a subheading: "The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more." To the right of the text is a photograph of a smiling woman wearing glasses and a headset. Below the main heading, there are three columns of content. The first column is titled "Stay up to date" and includes the text "Dive deep into the details of evolving regulations and best practices, with courses delivered by trusted experts on a wide range of topics." followed by three bullet points: "Grow your expertise", "Learn the way you like", and "Upskill your organization". The second column is titled "Live events" and includes three items: "Webinars and Virtual Conferences", "Seminars", and "Conferences". The third column is titled "On-demand courses" and includes four items: "Self Study and Online Grading", "Nano Courses", "Video Learning", and "On-Demand Webinars".

- In the **CeriFi CPE Network** tab, select the desired Network Report and then the appropriate edition.



CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	July 2025
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	July 2025
GOVERNMENTAL NONPROFIT ACCOUNTING REPORT	9/19/2027	July 2025

The Chapter Menu is in the gray bar at the left of your screen:



CPE Network Tax Report August 2025

Learning Objectives

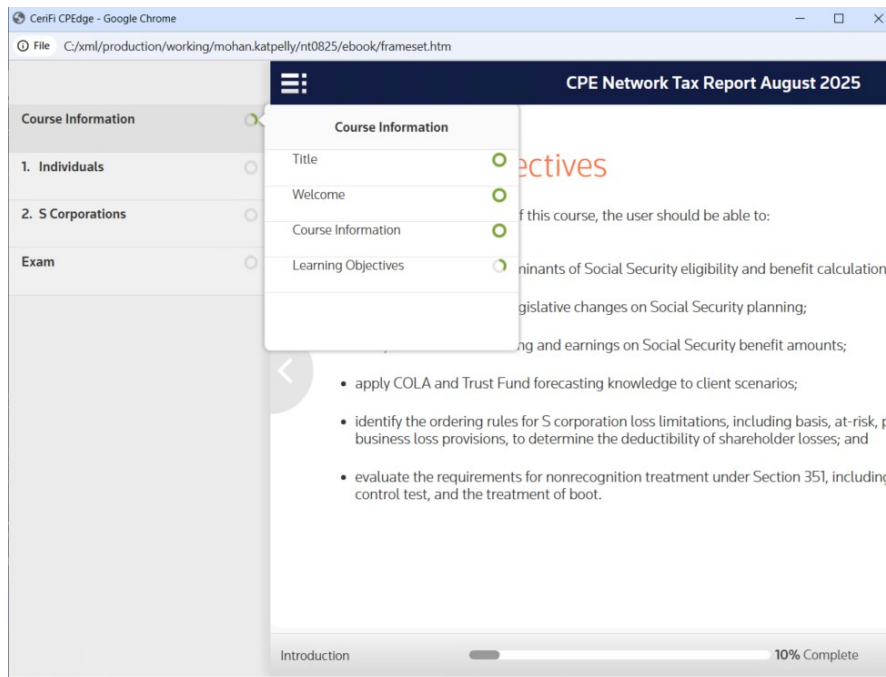
Upon successful completion of this course, the user should be able to:

- understand the key determinants of Social Security eligibility and benefit calculation;
- evaluate the impacts of legislative changes on Social Security planning;
- analyze the effects of timing and earnings on Social Security benefit amounts;
- apply COLA and Trust Fund forecasting knowledge to client scenarios;
- identify the ordering rules for S corporation loss limitations, including basis, at-risk, pe business loss provisions, to determine the deductibility of shareholder losses; and
- evaluate the requirements for nonrecognition treatment under Section 351, including control test, and the treatment of boot.

Introduction 10% Complete

Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



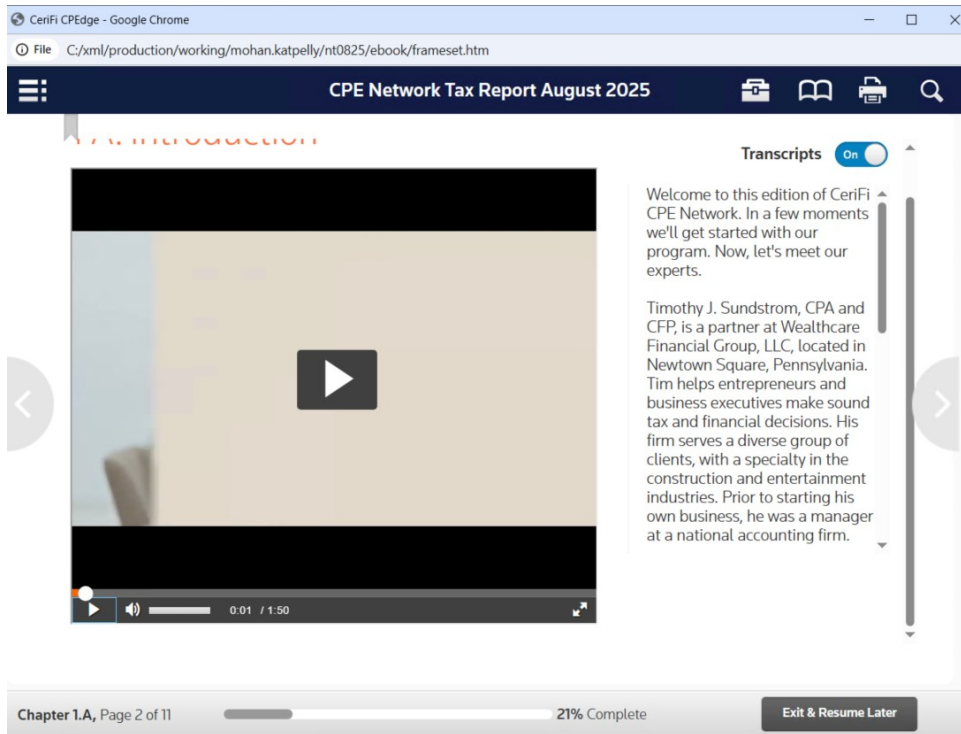
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access the related materials.



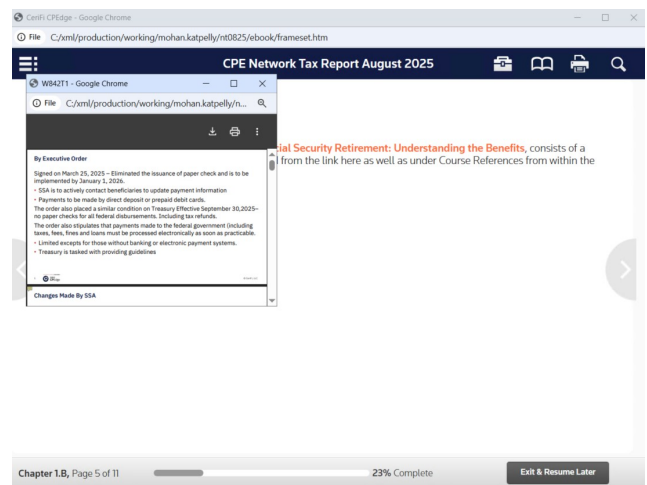
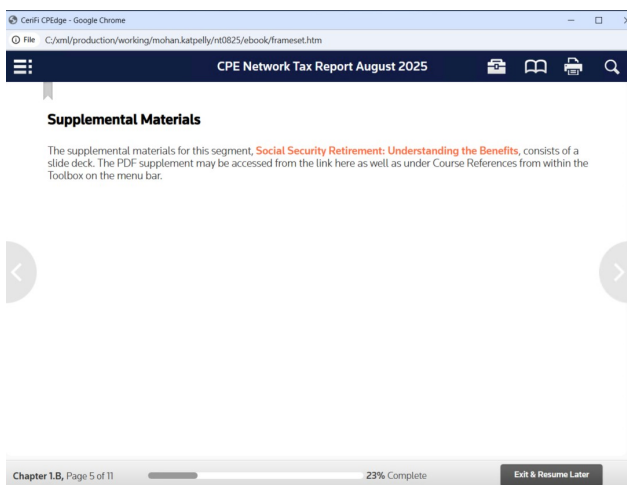
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts**

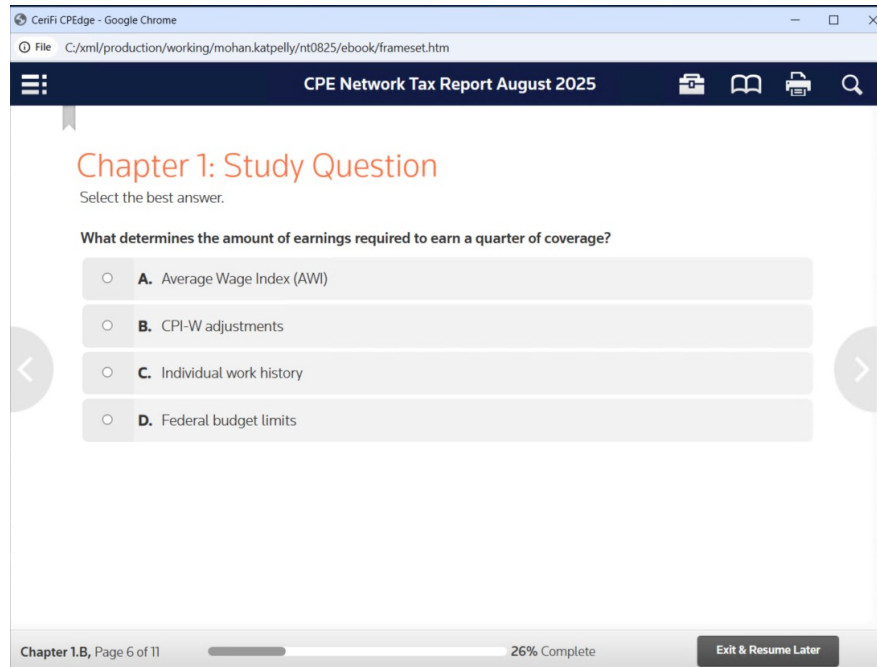
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.



The supplemental materials are available via the toolbox and the link will pop up the pdf version in a separate window.

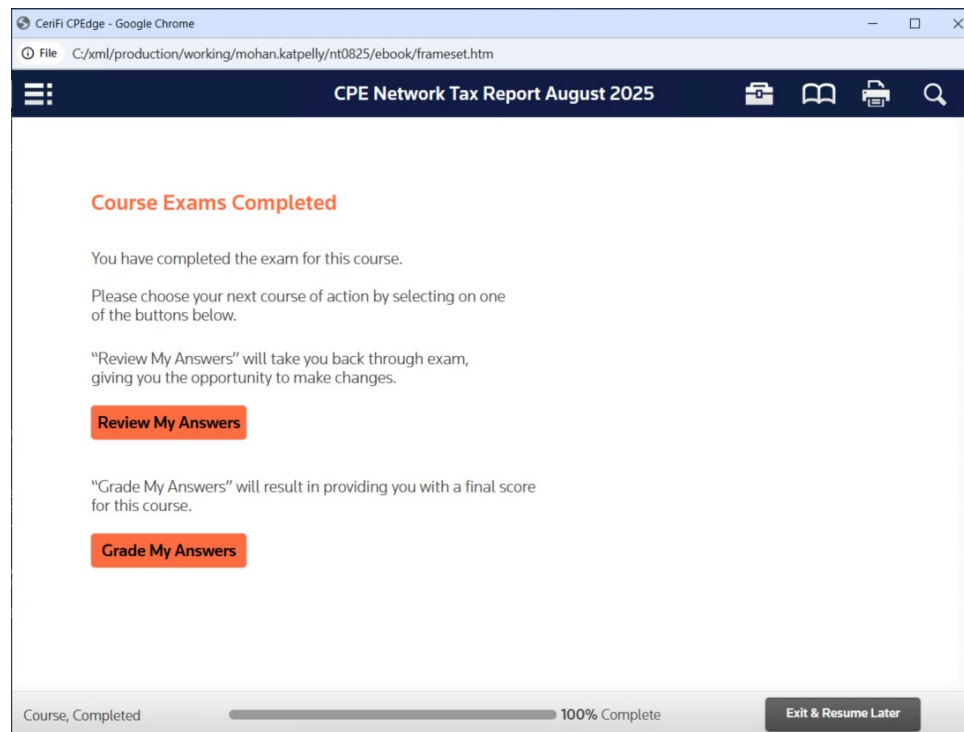


Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.



The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

CeriFi CPE offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real-time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate (if any).
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	Form Name	Location	Notes
"Group Live" / "Group Internet Based"	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
"Group Live"	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
"Group Internet Based"	Webinar Delivery Tracking Report	Transcript	Use this form to track the 'polling questions' which are required to monitor attendance during your webinar.
"Group Live" / "Group Internet Based"	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues
Product Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance
Customer Support	844.245.5970	cpedgesupport@cerifi.com	<ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates