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**CPE NETWORK**

## **ACCOUNTING & AUDITING REPORT**

**DECEMBER 2022**

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<b>EXECUTIVE SUMMARY</b> .....	1	<b>GROUP STUDY MATERIALS</b>	
<b>EXPERT ANALYSIS AND COMMENTARY</b> .....	3	A. Discussion Problems .....	31
<b>PART 1. ACCOUNTING</b>		B. Suggested Answers to Discussion Problems .....	32
FASB Update .....	3	<b>PART 3. SMALL BUSINESS</b>	
<b>SUPPLEMENTAL MATERIALS</b>		Quality Management Standards .....	33
FASB Update .....	11	<b>SUPPLEMENTAL MATERIALS</b>	
<b>GROUP STUDY MATERIALS</b>		Quality Management Standards and Impact on Professional Standards .....	39
A. Discussion Problems .....	17	<b>GROUP STUDY MATERIALS</b>	
B. Suggested Answers to Discussion Problems .....	18	A. Discussion Problems .....	47
<b>PART 2. AUDITING</b>		B. Suggested Answers to Discussion Problems .....	48
Auditor's Responsibility for Fraud and NOCLAR ....	19	<b>GLOSSARY OF KEY TERMS</b> .....	49
<b>SUPPLEMENTAL MATERIALS</b>		<b>CUMULATIVE INDEX 2022</b> .....	51
The Latest on an Auditor's Ethical Responsibilities for NOCLAR .....	25	<b>CPE QUIZZER</b> .....	57

Topics for future editions may include:

- Stock Appreciation Rights
- Covid-related Fraud



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# EXECUTIVE SUMMARY

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## PART 1. ACCOUNTING

### FASB Update ..... 3

Russ Madray, CPA reviews recently issued FASB guidance. [*Running time: 43:03*]

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

- Identify recent guidance released, ASC Topics affected, and effective dates
- Define portfolio layer method
- Identify changes to the guidance on TDRs
- Identify changes to fair value measurement of equity securities with sale restrictions

## PART 2. AUDITING

### Auditor's Responsibility for Fraud and NOCLAR ..... 19

Jennifer Louis, CPA discusses PEEC guidance on the auditor's responsibilities for fraud and noncompliance with laws and regulations. [*Running time: 26:35*]

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

- Identify the Code of Conduct areas of guidance
- Determine the effective date of the ethical guidance on fraud and NOCLAR
- Define NOCLAR
- Identify who has what responsibilities for compliance with laws and regulations
- Identify documentation considerations related to fraud and NOCLAR by auditors

## PART 3. SMALL BUSINESS

### Quality Management Standards ..... 33

Jennifer F. Louis, CPA, reviews recent changes to the quality control standards. [*Running time: 32:35*]

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

- Identify the effective date of the new quality management standards
- Determine the focus and components of SQMS No. 1
- Identify the differences between SAS 146, SSARS 26, and the quality management standards

## ABOUT THE SPEAKERS

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**Russ Madray, CPA, CGFM**, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

**Jennifer Louis, CPA**, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

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Program Level	Update
Prerequisites (Circle One)	<ul style="list-style-type: none"> <li>• Basic Accounting and Auditing professional experience</li> <li>• Basic Tax professional experience</li> <li>• Basic Governmental professional experience</li> </ul>
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### PART 1. ACCOUNTING

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#### FASB Update

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While the bulk of the heavy standard setting has passed, the FASB does continue to address issues that arise. Earlier this year the FASB released guidance related to fair value hedging, troubled debt restructuring, and fair value measurement of equity securities.

For more on these recent accounting updates, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

#### Ms. Grove Casey

So, today we want to talk about things that have been going on at the FASB. Now, they really haven't been issuing a lot of major guidance in the last few months, but there are a couple of new ASUs that we probably need to talk about. So, to begin with, let's take a look at ASU 2022-01. And I understand that, that ASU clarifies some guidance in ASC 815. So could you give us a little background on that?

#### Mr. Madray

Sure. Be glad to, and, and you're exactly right. I guess after going through several years of just major pronouncements of revenue recognition and leases and this, that, and the other, and credit loss standards, and then trying to tweak all that, it's nice to have a period of time where a lot of what's being issued is more clarification in nature. So we don't really expect to see anything major coming along for maybe even another year or so. But you were asking about this ASU 2022-01 that as you rightly said, it does clarify some things in Accounting Standards Codification, or ASC, 815, which is the topic on derivatives and hedging. Essentially, the purpose of this is to clarify the guidance related to fair value hedge accounting of interest rate risk where we have portfolios of financial assets.

This particular ASU amends the guidance in another ASU that was issued in 2017. It was 2017-12, which was targeted improvements to accounting for hedging activities. What that ASU did, ASU 2017-12, was establish something called a "last of layer method" for making fair value hedge accounting for these portfolios of financial assets more accessible. This current ASU 2022-01 renames that method. So instead of last of layer method, it's now going to be called the "portfolio layer method," but more importantly, addresses some feedback that the FASB had gotten regarding application of that method. The thing to keep in mind

here is the objective of a fair value hedge is to reduce or eliminate exposures to changes in the fair value associated with a specific item, the hedged item in this case, due to a particular risk, which would be referred to as the hedged risk.

And essentially, if the relationship between the derivative instrument and the hedged item meets the hedging requirements in Topic 815, then the changes in fair value would be accounted for as you see on, this first slide where you see the hedging instrument on the left and the hedged item on the right. As changes occur in the fair value of the hedging instrument and the hedged item, the gain or loss on the hedging instrument is recognized in earnings, and then the change in value that's attributable to the hedged risk on the hedged item is recognized in earnings. All of that runs through the income statement where it's recorded in the same line item on the income statement where the earnings effect of the hedged item would be presented.

So that's how fair value hedges are supposed to work. And again, where it gets more complex or complicated is where we are dealing with a portfolio of these financial assets, as opposed to just looking at one individual hedged item. So, essentially, under current guidance, Topic 815 allows entities to hedge a single layer of a closed portfolio of prepayable financial assets. And under that approach, the entity would designate a fixed amount of the portfolio as the hedged item in the fair value hedge of interest rate risk if it expects that the designated amount would remain outstanding at the end of the hedge term. So all that sounds like a word salad and a bunch of confusing terms. But if you look at the example on this slide, you'll see essentially how that works.

Let's say an entity has a \$1 billion closed portfolio of a 15-year prepayable mortgage loans and they expect that \$250 million will remain outstanding at the end of

10 years. In that case, the entity could designate up to a \$250 million portion of the mortgage portfolio as the hedged item in a fair value hedge of the interest rate risk for 10 years. The entity would then perform and document an analysis that supports its expectation that the hedged layer, in other words, the hedged item, that \$250 million layer, would remain outstanding at the end of the hedge term. That would be done as part of the initial hedge documentation, and then on each effectiveness assessment date thereafter. The analysis would incorporate the entity's current expectations of prepayments, defaults, other factors that might affect the timing and amount of cash flows that are associated with the closed portfolio of financial assets.

And because the \$250 million hedged amount is expected to remain outstanding at the end of the 10 years the entity would not need to consider prepayment risk when assessing the hedge effectiveness and measuring the change in fair value of that portion of the mortgage portfolio that's attributable to the interest rate risk. So when we're talking about a closed portfolio, and that again, what was referred to previously as last of layer method of hedging, that's what it's referring to. And again, this ASU was issued to amend and clarify how that is applied.

#### **Ms. Grove Casey**

So how does ASU 2022-01 impact the hedging guidance?

#### **Mr. Madray**

Essentially, ASU 2022-01 expands the scope of the guidance to allow entities to apply this portfolio layer method to portfolios of all financial assets including both prepayable and non-prepayable financial assets. That expansion of this method is consistent with the FASB's recent efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. So, in this case, entities that apply this last of layer method would designate as the hedged item in a fair value hedge of interest rate risk, a stated amount of the asset or assets that are not expected to be affected by prepayments, defaults, and other factors that could influence the timing and the amount of the cash flows. The hedged item would represent a single layer in that closed portfolio.

This ASU expands that current model to explicitly allow entities to designate multiple layers in a single portfolio as individual hedged items. That then allows

entities to designate multiple hedging relationships with a single closed portfolio, and therefore, a larger portion of the interest rate risk associated with that portfolio would be eligible to be hedged. Again, that's a whole bunch of words.

If we take a look at this example on the slide you see one approach that an entity might take to hedge multiple layers in a single closed portfolio. So, similar to the example we looked at a moment ago, to assume the entity has a billion-dollar closed portfolio of 15-year mortgage loans, and they previously designated a hedging relationship with \$250 million of the portfolio expected to be outstanding at the end of 10 years as that hedged item.

Now here, the entity wants to add a second hedged layer, and therefore, they designate a separate hedging relationship with \$500 million of that same portfolio expected to be outstanding at the end of five years as a hedged item. Once again, the entity would perform and document their analysis that supports the expectation that the hedged layers for both the hedging relationships will remain outstanding at the end of the hedge terms. That would be done as part of the initial hedge documentation, and on each effectiveness assessment date thereafter. It would incorporate the entity's current expectations of prepayments, defaults and other factors that might affect the timing and amount of cash flows associated with that closed portfolio of financial assets. Now further, this ASU also addresses questions about the types of derivatives that could be used as the hedging instrument in these potential multiple layer hedges.

Under this ASU the entity would have the flexibility to use any type of derivative or combination of derivatives by applying the multiple layer model that aligns with its risk management strategy. In the guidance on the multiple layer hedges of a single closed portfolio, this ASU also clarifies that no assets may be added to a closed portfolio once it's designated in a portfolio layer method hedge. However, at any time after the initial hedge designation, new hedging relationships associated with the portfolio could be designated and existing hedging relationships associated with that portfolio could be de-designated to align with their evolving strategy for managing interest rate risk on a timely basis. Also, in a manner that's consistent with what was established in that ASU in 2017, 2017-12 on single layer hedges, this ASU does require an entity to perform a documented analysis in each period to

support the expectation that the aggregate amount of the multiple hedged items will be outstanding for the periods that are hedged.

This ASU also requires partial or full de-designation of a hedged layer or layers if there's an anticipated or actual breach. In other words when the aggregate amount of the hedge layers exceeds the amount of the closed portfolio. In either case, this ASU does require the entity to determine which layer or layers to de-designate or partially de-designate in accordance with their own accounting policy election that specifies a systematic and rational approach for making those types of determinations.

#### **Ms. Grove Casey**

Well, it sounds like it should have a lot of practical use for a lot of different entities. But ASU 2022-01, doesn't that also address the accounting for fair value hedge basis adjustments? Could you talk about that a little bit?

#### **Mr. Madray**

Yes, sure. This ASU 2022-01 does also expand and clarify the existing guidance on accounting for fair value hedge basis adjustments under the portfolio layer method. And that would apply to both single layer and this new expanded multiple layer type of hedging. Now, as would be the case with any other fair value hedge the entity would adjust the basis of the hedged item for the change in fair value that's attributable to changes in the hedge risk that is interest rate risk at each reporting date. However, the hedged item, in other words, the hedge layer and the portfolio layer method hedge is related to multiple assets within a closed portfolio. But it's not necessarily related to all of the assets in that portfolio. So this ASU clarifies that the entity would adjust the basis at the portfolio level and would not allocate it to the individual assets within that portfolio.

There was no guidance on this type of treatment in the current guidance that was out there on the last of layer method. It goes on further that the ASU says, that if the assets in the closed portfolio are presented in more than one line item on the balance sheet, the ASU does require the entity to use a systematic and rational method to allocate those portfolio level basis adjustments to the associated line items, although we're not allocating it to the assets within the portfolio. It does also clarify that the entity would not allocate those adjustments on a more disaggregated basis for any disclosures that are not otherwise required by Topic

815. Instead, the entity would disclose the total amount of the basis adjustments as a reconciling item in any of the affected disclosures.

The ASU also updates the current guidance, which states that allocation basis adjustments may be required by other areas of GAAP. Finally, the ASU would not change the entity's current requirement to allocate the portfolio level basis adjustment to the individual assets within a closed portfolio upon a de-designation of the hedging relationship. In that case though, the entity would recognize that a reversal of all the basis adjustments that are associated with a breach in interest income and disclose the specific amount and cause of that particular breach. And then finally, the ASU does provide some guidance on the relationship between the portfolio layer method and other areas of GAAP. This addresses some questions that were raised about the interaction between the last of layer method and the guidance in Topic 326, which deals with credit losses and other impairment guidance by explicitly prohibiting entities from considering basis adjustments related to existing portfolio layer method hedges when measuring credit losses on the assets that are included in that closed portfolio.

#### **Ms. Grove Casey**

So the big question is, when is this ASU going to be effective?

#### **Mr. Madray**

Like as is often the case different effective dates for public and all other entities. For public business entities, this will be effective for fiscal years that begin after December 15, 2022. For all other entities, it'll be a year later, fiscal years that begin after December 15, 2023. It can be early adopted if the entity has already adopted 2017-12 for the corresponding period. When an entity does elect a multiple layer hedging strategy the requirements would be applied prospectively. And then aside from disclosure requirements in other areas of GAAP, entities should apply the amendments related to the fair value hedge basis adjustments under the portfolio layer method on a modified retrospective basis that is by making a cumulative effect adjustment to the opening balance of retained earnings. They can choose to apply other GAAP disclosure requirements prospectively or retrospectively.

And then finally, as of the adoption date entities can reclassify debt securities that qualify as being in a portfolio layer hedging relationship from the held to

maturity category to the available for sale category. If they intend to include those securities in a portfolio that's designated in a portfolio layer method hedge, they need to determine which securities to reclassify within 30 days of the adoption date of this ASU, and then include those reclassified securities within the portfolio layer method hedging relationship within those 30 days. So it gets complicated, doesn't it?

**Ms. Grove Casey**

Well, you should have known it was going to be complicated as soon as you said the word hedging.

**Mr. Madray**

When you start talking about hedging and closed portfolios, it can get a little tricky.

**Ms. Grove Casey**

Well, now let's move on to the ASU 2022-02. And I understand that that has to do with troubled debt restructurings. So could you give us an overview? Because I have the feeling that unfortunately, this is probably going to be applied to a number of entities or our customers' clients.

**Mr. Madray**

Most likely given the current economic environment I wouldn't be surprised. This was issued in March of 2022. This ASU eliminates the guidance on troubled debt restructurings, or TDRs, that exists currently in Topic 310 on receivables. Then it goes on and amends some guidance on something called vintage disclosures. We'll talk a bit more about that in a moment. The ASU also updates some requirements related to accounting for credit losses under Topic 326, which is the credit loss standard, and then, adds some enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers that are having financial difficulties. Essentially, where this came from is that as part of the post-implementation review process the FASB conducted outreach with various entities that have adopted ASU 2016-13, which is the credit loss standard.

During those outreach efforts there were some concerns raised that ASU 2016-13, which replaced the old incurred loss impairment methodology with the current expected credit loss methodology, or CECL had reduced the usefulness of the recognition/measurement/disclosure requirements related to troubled debt

restructurings or TDRs. They argued that the cost of applying the TDR guidance for entities that have adopted ASU 2016-13, exceeded any benefits that would be provided to users of those financial statements. They also pointed out some inconsistencies in the disclosure requirements in the credit loss standard and the example that was included in the implementation guidance in that standard related to presentations of gross write-offs and gross recoveries for receivables by year of origination. So overall, the purpose of this ASU 2022-02 is to eliminate these inconsistencies by amending the disclosure guidance and the example guidance. That's all related to those vintage disclosures that I mentioned a moment ago, and we'll circle back around to that in just a moment.

**Ms. Grove Casey**

Well, I'm looking forward to that because when I think vintage, I think 50 years old, and the guidance might be old, but I don't think it's quite that old. But before we get there, let's talk about how this ASU affects the accounting for troubled debt restructurings because recognition and measurement is what people pay more attention to.

**Mr. Madray**

Definitely. as I mentioned earlier, this ASU eliminates, supersedes the guidance that had existed for TDRs and instead requires entities to evaluate all receivable modifications under Topic 310 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. Also meant some other subtopics had to remove any references to troubled debt restructurings for creditors. So instead of the existing guidance, creditors will evaluate how to account for modifications that had been subject to the TDR guidance using this decision tree that you see on the slide. The next slide you see first, on the left hand side, is the restructured receivables EIR (Effective Interest Rate) at least equal to the EIR for the comparable receivables from the creditors, other new customers with similar collection risks. If the answer is yes, as the present value of cash flow is changed by at least 10%, which was we know as the old 10% cash flow test, if the answer is yes, we account for the modification as a new receivable.

But back to the first question, if the effective interest rate is not at least equal to the effective interest rate for comparable receivables, then we would account for the modification as a continuation of the existing

receivable. And we could also get back there if we don't meet the 10% test. As you see in the bottom right hand side is the modification more than minor, based on the specific facts and circumstances surrounding the modification. So that's the new approach for creditors evaluating how to account for modified receivables. In addition to eliminating that TDR guidance, entities that adopt ASU 2022-02 will no longer consider renewals, modifications, and extensions that result from reasonably expected TDRs and their calculation of their allowance for credit losses under Topic 326. In removing that requirement, the ASU stated that it was not the Board's intent to require that an entity reverse the effect of any extensions, renewals, and modifications on receivables with borrowers that are experiencing financial difficulty in considering historical loss data that's used in estimating the allowance for credit losses.

And further, if the entity employs a discounted cash flow method to calculate their allowance for credit losses, they'll be required to use a post modification derived effective interest rate as part of that calculation according to that guidance in Topic 326. If we take a look at the next slide, you'll see this table that summarizes the accounting for all receivable modifications after adopting this ASU. If you end up with continuation of the existing receivable, then as you see, the unamortized deferred fees and costs are carried forward in the amortized cost basis of the modified receivable along with any new fees that are received and direct costs that are associated with that restructuring. You then have a post modification derived effective interest rate that is an EIR based on the modified terms that's used when a discounted cash flow method is used to measure the expected credit losses.

Keeping in mind that the discounted cash flow method is not the only method that can be used in estimating current expected credit losses. On the other hand, if we end up with a new receivable, the unamortized deferred fees and costs that are associated with the original receivable, any prepayment penalties are recognized in interest income, then a new receivable is recognized. And also in this case, the post modification EIR is used if we're using a DCF method to measure expected credit losses.

So in addition to all this new measurement guidance, the ASU also requires new disclosures for receivables where there's been a modification in the contractual

cash flows where borrowers are experiencing financial difficulties. Modifications in the contractual cash flows of other receivables are defined as things like principal forgiveness, interest rate reductions, other than insignificant payment delays, term extensions, that type of thing under Topic 310.

Under this new ASU, a term extension would exclude any covenant waivers or modifications of contingent acceleration clauses. The Board did indicate in the ASU that collateral substitutions or addition of a guarantor would not be captured in these types of disclosure enhancements. So for receivables for which there has been a modification in a contractual cash flow, this new ASU requires disclosure by class of receivable of the types of modifications, financial effects of the modifications, and the performance of these modified receivables. Also under this new ASU, entities have to provide disclosures of receivables that one, had a payment default during the current period; and two, had modifications to the contractual cash flows within the 12 months before that default. Those disclosures have to show by class of receivable the type of contractual change that the modification provided, as well as the defaulted amount. Also noted in the ASU, a delay in payment that is considered insignificant is not required to be included in these enhanced disclosures. However, if the receivable has been previously restructured, entities need to consider all restructurings within the past 12 months to determine the significance or insignificance of the delay in payment.

#### **Ms. Grove Casey**

Well, those are new disclosures, but I think this ASU also addresses, what you referred to as vintage disclosures. Could you talk about what those are and what that means?

#### **Mr. Madray**

Sure. essentially this ASU amends the guidance in the credit loss standard to require public business entities to disclose gross write offs recorded in the current period on a year to date basis by year of origination in these so-called vintage disclosures. These disclosures would cover each of the previous five annual periods starting with the date of the financial statements and for annual periods before that, an aggregate total on adoption of this ASU, though an entity would not provide the previous five annual periods of gross write-offs. They decided instead, that would be applied on a prospective transition basis. So entities can build the five year annual period disclosure over time. So in other

words, upon adoption, we don't have to go back. Companies don't have to go back five years. They would start with the previous year and then build that until they ultimately have a five year.

**Ms. Grove Casey**

That should help some with the cost benefit there.

**Mr. Madray**

Right.

**Ms. Grove Casey**

So what about the effective date? When does it become effective, when we start our five year building there?

**Mr. Madray**

Again, since this is so closely tied to the credit loss standard, the effective date is also tied to that. So entities that have already adopted ASU 2016-13, the credit loss standard, the amendments in this ASU would be effective for fiscal years that begin after December 15, 2022. For entities that have not yet adopted the credit loss standard, the amendments will be effective when they do adopt. ASU 2016-13 entities can early adopt the amendments provided their adopted as of the beginning of the annual reporting period that includes an interim period of adoption. They're also permitted to elect to, or early adopt the amendments related to the TDR accounting and related disclosure enhancements separately from the amendments related to the vintage disclosures. Because you've got two separate issues that are addressed within the ASU entities can elect to apply the updated guidance on TDR recognition and measurement by using a modified retrospective transition method, which would result in a cumulative effect adjustment to retained earnings, or they can adopt those amendments prospectively. If they adopt prospectively, the guidance will be applied to modifications that occur after the date of adoption. The amendments on the TDR disclosures and the vintage disclosures are all adopted prospectively.

**Ms. Grove Casey**

All of that sounds like we have a lot of choices, and that people should really be reading those policy footnotes when they look at financial statements in the next few years.

**Mr. Madray**

Yes. There's a lot to keep up with.

**Ms. Grove Casey**

So, there's one more ASU that I want to take a look at today, and that's ASU 2022-03, and that relates to the fair value measurement of equity securities subject to contractual sale restrictions. So what can you tell us about that guidance?

**Mr. Madray**

Sure. This was issued in June of 2022. The purpose of it is to clarify the guidance in Topic 820 on fair value measurement, specifically related to fair value measurement of an equity security that's subject to a contractual sale restriction. And also to require some specific disclosures related to that type of equity security. Essentially, under Topic 820, when measuring fair value, entities need to consider characteristics that market participants would consider in a transaction at the measurement date. Topic 820 is explicit on what type of characteristics should be considered in measuring fair value. As you see on this slide, security-specific characteristics are always considered in a fair value measurement estimate. Whereas entity-specific characteristics are not considered in estimating fair value. The problem is, it's not always clear whether a contractual sale restriction is security specific or is it entity specific, which leads to questions and, the ubiquitous diversity in practice. So, an example of this type of restriction would be like an underwriter's lockup provision where an entity enters into an agreement with an underwriter that restricts the entity from selling its holdings for a specified period after the transaction, such as an IPO. Folks attribute the diversity in practice to the conflicting guidance in Topic 820 on the appropriate unit of account when measuring fair value. There are certain paragraphs in Topic 820 that indicated the unit of account is the individual equity security, which would lead to the thinking that a contractual sale restriction should be ignored in determining a security's fair value. But there's an example in Topic 820 that suggests that a legal or contractual sale restriction is a characteristic of the security, therefore, part of the unit of account of the security, and therefore, would be included in a fair value measurement. So to clear this up, this new ASU 2022-03 clarifies the guidance and amends that example that's in Topic 820.

**Ms. Grove Casey**

So let's talk a little bit about how this does clarify the guidance, because what you were talking about with the restrictions on the stock, remind me of I think it's FAS

150, which is going back quite a ways and the impact that it had on the balance sheet. So let's talk about this ASU and what it does to clarify the guidance.

### Mr. Madray

Sure. Essentially what this ASU does is, it clarifies that a contractual sale restriction that prohibits the sale of an equity security is a characteristic of the reporting entity that's holding the equity security, and therefore, would not be included in the equity security's unit of account, which makes it much more clear. Therefore, an entity would not consider a contractual sale restriction when measuring the equity security's fair value. In other words, the entity would not apply a discount related to a contractual sale restriction in applying the guidance in Topic 820 further, this ASU prohibits an entity from recognizing a contractual sale restriction as a separate unit of account. Under the existing guidance, in Topic 820, it states, "that although a reporting entity must be able to access the market, the reporting entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure the fair value on the basis of the price in that market." This ASU clarifies an entity should apply this existing guidance when measuring fair value of equity securities that are subject to contractual sale restrictions. That is a contractual sale restriction on the reporting entity that prevents the sale of the equity security in the market does not prevent the entity from measuring the fair value of the market security on the basis of the price in that particular market.

So we have an example on this next slide. It'll show you how that new guidance would work. Let's assume that ABC Corp invests \$9.9 million for 1 million shares of XYZ's equity securities. XYZ's equity is traded on an exchange with a quoted market price of \$10 per share on the date of their investment as part of the investment. Let's assume ABC enters into an agreement with XYZ that restricts it from selling the holdings for a specified period of time.

Well, this new ASU clarifies that ABC would measure the fair value of the equity security using the quoted market price of the unrestricted security, and would not adjust that price to reflect the effect of the sale restriction. So ABC would record a journal entry like you see here related to that investment in XYZ. So we would debit their investment, credit cash, and also record a gain. Because, the fair value of the securities based on the quoted market price unadjusted for the sale

restriction, they essentially recognize a day one gain on that transaction. Further, the ASU amends the implementation guidance that I mentioned earlier as well as a fact pattern in, specifically, Example 6 Case A in the Topic 820 implementation guidance to illustrate whether and if so, when an entity would consider a sale restriction in measuring fair value.

So the next slide shows you Example 6 Case A, as it's amended by this ASU that when measuring fair value, the entity should consider sale restrictions that are characteristics of the equity security. For example, a restriction resulting from a security that's not registered for sale with a national securities exchange or an over the counter (OTC) market when other securities from the same class of stock are registered for sale and not consider sale restrictions that are characteristics of the holder of the equity security, for example, a lockup agreement or a market standoff agreement or a sale restriction provision in an agreement between certain shareholders. Then finally, the ASU requires some specific disclosures related to equity securities that are subject to a contractual sale restriction including the fair value of the equity securities reflected on the balance sheet, as well as the nature and the remaining duration of the restrictions and any circumstances that could cause a lapse in the restrictions.

And then finally, as I mentioned, there's several things that had to be amended as a result of bringing consistency to all this guidance, this ASU adds to the master glossary a definition of an equity security. You see that on the next slide. Any security representing an ownership interest in an entity, for example, common, preferred or other capital stock, or the right to acquire, for example, warrants, rights, forward purchase contracts, call options, or dispose of, for example, put options and forward sale contracts, an ownership interest in an entity at fixed or determinable prices. The ...term equity security does not include any of the following, including written equity options, cash-settled options on equity securities or options on equity-based indexes, as well as convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor. So several places of clarification, but the bottom line is contractual sale restrictions generally are not going to be included in that fair value determination.

**Ms. Grove Casey**

And when are we looking at these amendments being effective?

**Mr. Madray**

Essentially, a breakdown between public business entities, and all others. For public business entities, it's effective for fiscal years that begin after December 15, 2023. Early adoption is permitted, and then for all other entities a year later, fiscal years that begin after December 15, 2024, again, with early adoption permitted in either interim or annual financial statements for those entities as well.

## SUPPLEMENTAL MATERIALS

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### FASB Update

by J. Russell Madray, CPA

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#### **ASU 2022-01, *Fair Value Hedging—Portfolio Layer Method***

##### **Overview**

In March 2022, the FASB issued ASU 2022-01, *Fair Value Hedging—Portfolio Layer Method*, which clarifies the guidance in ASC 815, *Derivatives and Hedging*, on fair value hedge accounting of interest rate risk for portfolios of financial assets. The ASU amends the guidance in ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, that, among other things, established the “last-of-layer” method for making the fair value hedge accounting for these portfolios more accessible. ASU 2022-01 renames that method the “portfolio layer” method and addresses feedback from stakeholders regarding its application.

##### **Scope**

Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. ASU 2022-01 expands the scope of this guidance to allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and non-prepayable financial assets. This scope expansion is consistent with the FASB’s efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies.

##### **Multiple-Layer Hedges of a Single Closed Portfolio**

Entities that apply the last-of-layer method designate, as the hedged item in a fair value hedge of interest rate risk, a stated amount of the asset or assets that are not expected to be affected by prepayments, defaults, or other factors influencing the timing or amount of cash flows. The hedged item represents a single layer in the closed portfolio. ASU 2022-01 expands the current model to explicitly allow entities to designate multiple layers in a single portfolio as individual hedged items. This allows entities to designate multiple hedging relationships with a single closed portfolio, and therefore, a larger portion of the interest rate risk

associated with such a portfolio is eligible to be hedged. Multiple-layer hedges are not addressed under current guidance.

ASU 2022-01 also addresses questions about the types of derivatives that could be used as the hedging instrument in potential multiple-layer hedges. Under the ASU, an entity has the flexibility to use any type of derivative or combination of derivatives (e.g., spot-starting constant-notional swaps with different term lengths, a combination of spot-starting and forward-starting constant-notional swaps, amortizing-notional swaps) by applying the multiple-layer model that aligns with its risk management strategy.

In its guidance on multiple-layer hedges of a single closed portfolio, the ASU also clarifies that no assets may be added to a closed portfolio once it is designated in a portfolio layer method hedge. However, at any time after the initial hedge designation, new hedging relationships associated with the portfolio may be designated and existing hedging relationships associated with the portfolio may be de-designated to align with an entity’s evolving strategy for managing interest rate risk on a timely basis.

Consistent with the guidance established by ASU 2017-12 on single-layer hedges, ASU 2022-01 requires an entity to perform a documented analysis in each period to support an expectation that the aggregate amount of the multiple hedged items (i.e., the hedged layers) will be outstanding for the periods hedged. ASU 2022-01 also requires the partial or full de-designation of a hedged layer or layers upon an anticipated or actual breach (i.e., when the aggregate amount of the hedged layers exceeds the amount of the closed portfolio). In either case, the ASU requires an entity to determine which layer or layers to de-designate or partially de-designate in accordance with its entity-wide accounting policy election that specifies a systematic and rational approach for making such a determination.

##### **Accounting for Hedge Basis Adjustments Under the Portfolio Layer Method**

ASU 2022-01 expands and clarifies the current guidance on accounting for fair value hedge basis adjustments under the portfolio layer method for both single-layer and multiple-layer hedges.

As it would for any other fair value hedge, an entity should adjust the basis of the hedged item for the change in fair value that is attributable to changes in the hedged risk (i.e., interest rate risk) as of each reporting date. However, the hedged item (i.e., the hedged layer) in a portfolio layer method hedge is related to multiple assets within a closed portfolio, but it is not necessarily related to all of the assets within that portfolio. Accordingly, ASU 2022-01 clarifies that an entity would adjust the basis at the portfolio level and should not allocate it to individual assets within the portfolio. There is no guidance on such treatment under current requirements.

If assets in a closed portfolio are presented within more than one line item on the balance sheet, ASU 2022-01 requires an entity to use a systematic and rational method to allocate the portfolio-level basis adjustment to the associated line items. However, it also clarifies that the entity should not allocate those adjustments on a more disaggregated basis for any disclosures not otherwise required by ASC 815. Rather, an entity should disclose the total amount of the basis adjustments as a reconciling amount in any affected disclosures. ASU 2022-01 updates the current guidance, which states that the allocation of basis adjustments may be required by other areas of GAAP.

Further, the ASU does not change an entity's current requirement to allocate the portfolio-level basis adjustment to the individual assets within a closed portfolio upon a de-designation of a hedging relationship. The entity must, however, (1) recognize the reversal of all basis adjustments associated with a breach in interest income and (2) disclose the specific amount and cause of the breach.

ASU 2022-01 also provides guidance on the relationship between the portfolio layer method requirements and other areas of GAAP. It addresses questions raised by stakeholders about the interaction between the last-of-layer method guidance and ASC 326 or other impairment guidance (for entities that have not yet adopted ASC 326) by explicitly prohibiting entities from considering basis adjustments related to existing portfolio layer method hedges when measuring credit losses on the assets included in the closed portfolio.

### Effective Date and Transition

ASU 2022-01's amendments are effective as follows:

- For public business entities, fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.

- For all other entities, fiscal years beginning after December 15, 2023, and interim periods within those fiscal years.

The guidance may be early adopted if an entity has adopted ASU 2017-12 for the corresponding period.

An entity that elects a multiple-layer hedging strategy should apply ASU 2022-01's requirements prospectively. Further, aside from the disclosure requirements in other areas of GAAP, an entity should apply the amendments related to the fair value hedge basis adjustments under the portfolio layer method on a modified retrospective basis by making a cumulative-effect adjustment to the opening balance of retained earnings. An entity may choose to apply the other GAAP disclosure requirements prospectively or retrospectively.

In addition, as of the adoption date, an entity may reclassify debt securities that qualify as being in a portfolio layer hedging relationship from the held-to-maturity category to the available-for-sale category if the entity intends to include those securities in a portfolio designated in a portfolio layer method hedge. An entity must determine which securities to reclassify within 30 days of the adoption date of the ASU and must include those reclassified securities within a portfolio layer method hedging relationship within those 30 days.

### ASU 2022-02, *Troubled Debt Restructurings and Vintage Disclosures*

#### Overview

In March 2022, the FASB issued ASU 2022-02, *Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance on troubled debt restructurings (TDRs) for creditors in ASC 310, *Receivables*, and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326, *Credit Losses*, and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty.

#### Background

As part of its postimplementation review process, the Board conducted outreach with stakeholders who have adopted ASU 2016-13, *Measurement of Credit Losses*

on *Financial Instruments*. During that outreach, stakeholders raised concerns that ASU 2016-13, which replaced the incurred loss impairment methodology with the current expected credit loss (CECL) methodology, had reduced the usefulness of the recognition, measurement, and disclosure requirements related to TDRs. Those stakeholders argued that the costs of applying the TDR guidance incurred by preparers who have adopted ASU 2016-13 exceeded the benefits provided to financial statement users.

In addition, stakeholders noted inconsistencies between the disclosure requirements in ASC 326-20-50-6 and the example included in the implementation guidance in ASC 326-20-55-79 related to the presentation of gross write-offs and gross recoveries for receivables by year of origination. In issuing ASU 2022-02, the Board aimed to eliminate such inconsistencies by amending both ASC 326-20-50-6 and ASC 326-20-55-79 to require the disclosure of gross write-offs in the current period by year of origination.

## **Main Provisions**

### ***Troubled Debt Restructurings by Creditors***

ASU 2022-02 supersedes the accounting guidance for TDRs for creditors in ASC 310-40 in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The ASU also amends other subtopics to remove references to TDRs for creditors.

In addition to the elimination of TDR guidance, an entity that has adopted ASU 2022-02 no longer considers renewals, modifications, and extensions that result from reasonably expected TDRs in their calculation of the allowance for credit losses in accordance with ASC 326-20. Further, if an entity employs a discounted cash flow (DCF) method to calculate the allowance for credit losses, it will be required to use a post-modification-derived effective interest rate as part of its calculation in accordance with ASC 326-20-30-4.

In addition to the new measurement guidance, the ASU requires new disclosures for receivables for which there has been a modification in their contractual cash flows because borrowers are experiencing financial difficulties. Modifications in the contractual cash flows

of a receivable are defined as principal forgiveness, interest rate reductions, other-than-insignificant-payment delays, or term extensions under ASC 310-10-50-39. Under the ASU, a term extension excludes covenant waivers and modifications of contingent acceleration clauses. Furthermore, the Board indicated that “collateral substitutions, or the addition of a guarantor, will not be captured in the disclosure enhancements.”

For receivables for which there has been a modification in their contractual cash flows, ASU 2022-02 requires disclosure, by class of financing receivable, of the types of modifications, the financial effects of those modifications, and the performance of these modified receivables (through a 12-month trailing period after the modification).

Under the ASU, entities must also provide disclosures of receivables that (1) had a payment default during the current period and (2) had modifications to the contractual cash flows within the 12 months before the default. The disclosures must show, by class of financing receivable, the type of contractual change that the modification provided and the defaulted amount.

As noted in ASU 2022-02, a delay in payment that is considered insignificant is not required to be included in the disclosures stated above; however, if the receivable has been previously restructured, an entity should consider all restructurings within the past 12 months to determine the insignificance of the delay in payment.

### ***Vintage Disclosures—Gross Write-Offs***

ASU 2022-02 amends ASC 326-20-50-6 to require public business entities to disclose gross write-offs recorded in the current period, on a year-to-date basis, by year of origination in the vintage disclosures. This disclosure should cover each of the previous five annual periods starting with the date of the financial statements and, for the annual periods before that, an aggregate total. However, upon adoption of the ASU, an entity would not provide the previous five annual periods of gross write-offs. The FASB decided that disclosure of gross write-offs would instead be applied on a prospective transition basis so that preparers can “build” the five-annual-period disclosure over time.

## Effective Date and Transition

For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

For entities that have not yet adopted ASU 2016-13, the amendments in ASU 2022-02 are effective upon adoption of ASU 2016-13.

Entities are permitted to early adopt these amendments, including adoption in any interim period, provided that the amendments are adopted as of the beginning of the annual reporting period that includes the interim period of adoption.

In addition, entities are permitted to elect to early adopt the amendments related to TDR accounting and related disclosure enhancements separately from the amendments related to the vintage disclosures.

Entities may elect to apply the updated guidance on TDR recognition and measurement by using a modified retrospective transition method, which would result in a cumulative-effect adjustment to retained earnings, or to adopt the amendments prospectively. If an entity elects to adopt the updated guidance on TDR recognition and measurement prospectively, the guidance should be applied to modifications occurring after the date of adoption. The amendments on TDR disclosures and vintage disclosures should be adopted prospectively.

### ASU 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

#### Overview

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which (1) clarifies the guidance in ASC 820, *Fair Value Measurement*, on the fair value measurement of an equity security that is subject to a contractual sale restriction. and (2) requires specific disclosures related to such an equity security.

Under current guidance, stakeholders have observed diversity in practice related to whether contractual sale restrictions should be considered in the measurement of the fair value of equity securities that are subject to such restrictions. On the basis of interpretations of existing guidance and the current illustrative example in ASC 820-10-55-52 (Example 6, Case A) of a restriction on the sale of an equity instrument, some entities use a

discount for contractual sale restrictions when measuring fair value, while others view the application of such a discount to be inconsistent with the principles of ASC 820. To reduce diversity in practice and increase comparability of reported financial information, ASU 2022-03 clarifies this guidance and amends the illustrative example.

#### Main Provisions

ASU 2022-03 clarifies that a “contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security” and is not included in the equity security’s unit of account. Accordingly, an entity should not consider the contractual sale restriction when measuring the equity security’s fair value (i.e., the entity should not apply a discount related to the contractual sale restriction, as stated in ASC 820-10-35-36B as amended by the ASU). In addition, the ASU prohibits an entity from recognizing a contractual sale restriction as a separate unit of account.

Under the existing guidance in ASC 820-10-35-6B, “[a]lthough a reporting entity must be able to access the market, the reporting entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.” ASU 2022-03 clarifies that an entity should apply this existing guidance when measuring the fair value of equity securities that are subject to contractual sale restrictions (i.e., a contractual sale restriction on the reporting entity that prevents the sale of an equity security in the market does not prevent the entity from measuring the fair value of the equity security on the basis of the price in that principal market).

In addition, ASU 2022-03 amends the implementation guidance in ASC 820-10-55-51, as well as the fact pattern in Example 6, Case A (by amending ASC 820-10-55-52 and adding ASC 820-10-55-52A), to illustrate whether and, if so, when an entity should consider a sale restriction in measuring fair value.

As amended by ASU 2022-03, Example 6, Case A, notes that when measuring fair value, an entity should:

- Consider sale restrictions that are characteristics of the equity security (e.g., a restriction resulting from a security that is not registered for sale with a national securities exchange or an over-the-counter market when other securities from the same class of stock are registered for sale).

- Not consider sale restrictions that are characteristics of the holder of the equity security (e.g., a lock-up agreement, a market stand-off agreement, or a sale restriction provision within an agreement between certain shareholders).

Further, ASU 2022-03 requires specific disclosures related to equity securities that are subject to contractual sale restrictions, including (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions.

The amendments in ASU 2022-03 are consistent with the principles of fair value measurement under which an entity is required to consider characteristics of an asset or liability if other market participants would also consider those characteristics when pricing the asset or liability. Specifically, the ASU clarifies that an entity should apply these fair value measurement principles to equity securities that are subject to contractual sale restrictions.

### **Effective Date and Transition**

ASU 2022-03's amendments are effective as follows:

- For public business entities, fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted.
- For all other entities, fiscal years beginning after December 15, 2024, and interim periods within those fiscal years, with early adoption permitted for both interim and annual financial statements that have not yet been issued or made available for issuance.



## GROUP STUDY MATERIALS

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### **A. Discussion Problems**

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1. Discuss how ASU 2022-01 expands the application of the “last-of-layer” method.
2. Describe the impact of ASU 2022-02 on creditors’ accounting for troubled debt restructurings (TDRs).
3. Describe the disclosure requirements included in ASU 2022-03.

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**B. Suggested Answers to Discussion Problems**

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1. Entities that apply the last-of-layer method designate, as the hedged item in a fair value hedge of interest rate risk, a stated amount of the asset or assets that are not expected to be affected by prepayments, defaults, or other factors influencing the timing or amount of cash flows. The hedged item represents a single layer in the closed portfolio. ASU 2022-01 expands the current model to explicitly allow entities to designate multiple layers in a single portfolio as individual hedged items. This allows entities to designate multiple hedging relationships with a single closed portfolio, and therefore a larger portion of the interest rate risk associated with such a portfolio is eligible to be hedged. Multiple-layer hedges are not addressed under current guidance.
2. ASU 2022-02 supersedes the accounting guidance for TDRs for creditors in ASC 310-40 in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The ASU also amends other subtopics to remove references to TDRs for creditors.
3. ASU 2022-03 requires specific disclosures related to equity securities that are subject to contractual sale restrictions, including (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions.

## PART 2. AUDITING

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### Auditor's Responsibility for Fraud and NOCLAR

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Independence and objectivity are hallmarks of the auditing profession. Still most auditors at least somewhat like their clients, which is what makes the ethical dilemma an auditor faces when they identify or become suspicious of a client not complying with laws or regulations. The AICPA has recently issued guidance on the auditor's responsibilities in this area.

For more on that ethical guidance, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

#### Ms. Grove Casey

So today we want to talk a little bit about what the auditor's ethical responsibilities are for NOCLAR. And why did the AICPA feel it was necessary to provide additional guidance about those ethical responsibilities for the non-compliance with laws or regulations, which is what NOCLAR stands for?

#### Ms. Louis

Right. They ultimately felt as if this was an area that needed to be clarified as it relates to ethical challenges with doing our work with integrity and objectivity in conformance with the AICPA's Code of Professional Conduct, and the questions coming into play around when a member that is a CPA, when I encounter, or if I'm made aware of a known or suspected non-compliance with laws and regulations, what should I do? And they, in essence, have created kind of three areas of guidance. One relates to a CPA in public practice that's just providing services. The second is, we're in public practice and we're doing a review or an audit. And then, the third category is CPAs that actually work as employees or volunteers and providing professional services like in the business aspects on the business and industry side. I'm not in public practice. So those were the areas where they decided there need to be clarity for each of those subsets of the CPA profession.

#### Ms. Grove Casey

So what's the effective date for this ethical guidance?

#### Ms. Louis

This is going to be effective for these interpretations for June 30, 2023.

#### Ms. Grove Casey

Who does an auditor or any professional services provider owe a responsibility to when complying with these ethical requirements?

#### Ms. Louis

The goal in looking at these rules was to think about the hallmark of our profession being that we have an overarching obligation to honor the public's trust, right? To think about the public's interest. And so as we think about the actions that we should take in responding to known or suspected NOCLAR, non-compliance with laws and regulations, then certainly we need to think about what we owe to the client as we are thinking about the professional services that we're providing. But also, what do we need to think about as far as that broader perspective in ensuring that we're honoring the public's trust and thinking about as well, what should we communicate to management and governance associated with these issues? When should I withdraw from a particular professional relationship or specific engagement? Those were all matters that they wanted to address within this interpretation.

#### Ms. Grove Casey

How is NOCLAR specifically defined for the purposes of ethical interpretation?

#### Ms. Louis

The non-compliance can be intentional or unintentional. It can be, an act of omission or commission, I did something or failed to do something. And it also has to be something that's contrary to prevailing laws and regulations. But another important element is that it has to be committed by the client or somebody working for or under the direction of the client, which could also include management and governance. And what I am focused on as far as non-

compliance, it has to have either a direct and material effect on the financial statements or the ability for that client to continue operations. So there can be a quantitative or qualitative, it can be a historical or prospective effect as we think about these non-compliance issues. But they did try to say, Here's the things that we are considering to be within the scope of this particular interpretation.

**Ms. Grove Casey**

Is there any limitation on which laws or regulations this ethics interpretation is meant to apply to?

**Ms. Louis**

Well, as they think about these matters remember that it has to be that it's a direct and material effect, right? And if not, then it's something that's fundamental to the operating aspects of the business, including its ability to continue or its ability to avoid penalties, right? So as we think about the types of things that are meant to apply, it could be things like violations of environmental protection regulations. It could be money laundering. It could be something related to tax and pension liabilities and payments. Those would all be things that would be included to be addressed. So things that would not be included would be something like personal misconduct that's unrelated to the business activities of the client or non-compliance by a vendor or a customer. Like those would not be included within the scope of what this ethics interpretation is meant to try and bring clarity to.

**Ms. Grove Casey**

What's the primary reason why NOCLAR should be of interest to any professional services provider, but most specifically auditors.

**Ms. Louis**

The main thing is the potential effect on financial statements, on disclosures, on loss contingencies as we think about fines and litigation and other consequences that could end up being material. And also just the potential harm that could come from employees, from investors, from creditors and because of the substantial harm, the adverse consequences that could result to these various parties from either a financial or non-financial perspective, there needs to be some action as it relates to items that could be direct and material in the end.

**Ms. Grove Casey**

How does an auditor balance possible conflicting ethical requirements related to client confidentiality?

**Ms. Louis**

So they do recognize in this ethics interpretation that there is a confidential client information rule as it relates to those that are in public practice. And if I'm in business or industry, I also have to think about the confidentiality of my organization that I'm employed by or volunteer with. And, in general, we shouldn't disclose any information related to compliance to a third party without the client's express consent. But, there are exceptions to the rule as it relates to certain regulatory authorities. Like if it is an SEC client and we have to comply with whistle-blowing provisions within the Sarbanes-Oxley Act. There could always be exceptions to the rule by a law or regulation. But in general, we do need to be sensitive to these obligations we have related to client confidentiality as we think about what do we tell third parties, which has nothing to do with what we tell management and governance of the actual entity that we're associated with.

**Ms. Grove Casey**

What about other legal or regulatory requirements that an auditor may be subject to?

**Ms. Louis**

Definitely you have where there could be beyond the ones that I already mentioned, like the SEC, there could be the state boards of accountancy. There could be government auditing standards that have to be complied with. There also could be, in some circumstances, there may be some state or federal civil or criminal laws that impose some requirements that might be beyond what is covered by this particular ethics interpretation. So it is important as we think about responsibilities to obtain an understanding of the legal and regulatory provisions that I have to comply with, and to make sure that I'm considering who's the appropriate authority for me to communicate with and any prohibitions that I have related to making certain disclosures.

**Ms. Grove Casey**

Ultimately, who would you say is responsible for compliance with laws and regulations?

**Ms. Louis**

Well, obviously for the entity it's management and governance of that organization as they think about the conduct of their business activities, and they're responsible for identifying and addressing any non-compliance with laws, regulations, contracts, agreements, the CPA is there as a second set of eyes as it relates to providing those professional services.

**Ms. Grove Casey**

Well, are there any broad-based responsibilities for AICPA members in public practice, which would include auditors as a subset?

**Ms. Louis**

Right. So every member in public practice, when they become aware of a matter in which this interpretation applies, the member has to take timely steps to understand the nature of the matter and the potential harm to the entity – its investors, its creditors, its employees, its public. So everybody needs to timely understand the nature and the consequences of this matter that I know or suspect.

**Ms. Grove Casey**

Let's talk about what the more specific responsibilities for a member that provides financial statement or review services for a client are.

**Ms. Louis**

All right. So if I'm doing a review or an audit and I become aware of credible information about known or suspected non-compliance, then I need to not just gain an understanding the nature of the act and the circumstances, but I also need to make sure that I'm discussing the matter with an appropriate level of management and governance as needed. And this discussion will then help me clarify a better understanding of the facts and circumstances related to this matter, and the potential consequences that could exist and have a financial statement effect either on the face financial statements or the disclosures.

**Ms. Grove Casey**

How does the auditor determine who the most appropriate parties are for any conversation about NOCLAR?

**Ms. Louis**

Well, always as we think about who's the appropriate level of management for a variety of communications related to fraud and internal controls, it's generally going to be at least one level above the person or persons involved. And if I believe that management's involved in known or suspected non-compliance, then I should have more direct communications with those charged with governance. You also may consider discussing the matter with internal audit, assuming that's applicable in the context of a group audit. The appropriate level of management may be the level of management that actually controls the overall group reporting entity. So you need to look at the nature of the circumstances, the individuals that are involved, the consequences of the matter, and who actually would be able to investigate and take appropriate action at the end of the day.

**Ms. Grove Casey**

What type of actions should the auditor recommend that management or governance take?

**Ms. Louis**

Part of the communications is to advise management and governance around timely appropriate action if they haven't done so already. And this could include how to remediate or mitigate the consequences of non-compliance. It could be related to deterring some sort of non-compliance that has yet to occur, but it also would include appropriate action disclosing the matter as required by law or regulation to appropriate authorities when necessary that we're ensuring that that other communication happens in addition to dealing with the consequences of the entity itself.

**Ms. Grove Casey**

Are there any special considerations for group audit situations?

**Ms. Louis**

So if I'm aware of an issue with NOCLAR as it relates to a group engagement, the group audit engagement partner ultimately has to use the information that they're aware of as it is in the course of doing the group audit to make sure that they're informed of the matter and responding to the matter in the context of this being a group engagement, that ultimately the matter might be relevant to one component. It might be relevant to more than one component, as we're thinking about the

purposes of considering the group engagement. So we do have to make sure that as things may be relevant to a specific component that unless prohibited by law or regulation, the group partner should inform the component auditor so that they can figure out the implications on their end of things. And so we do need to use the requirements about communication considered in AU-C §600 that deals with audits of group financial statements.

**Ms. Grove Casey**

When should an auditor deem it most appropriate to withdraw from an audit due to NOCLAR issues?

**Ms. Louis**

Sometimes it's going to be because the client isn't taking a timely response. It might be that as we think about that there wasn't any action that's being taken to deter future non-compliance, that there's no action being taken to reduce risks such as, adding additional controls or training. It could be that they haven't disclosed things appropriately. And so I might start having questions about management's integrity. I might start having questions about perhaps being perceived as being complicit in trying to cover up a non-compliance with laws and regulations. And so it may be that I withdraw from a particular engagement, or it might be that I withdraw from just the entire professional relationship with this client. And so part of it will be built around, what is the legal and regulatory framework? How urgent is the matter? How pervasive is the matter? Does it have an effect on your ability to feel as if management has a sense of integrity and ethics, and what type of harm actual or potential harm could occur? And so I want to ensure sometimes I might need to seek legal advice for myself. I might need to consult with internal or external parties in order to figure out what an appropriate course of action may be in the given circumstances.

**Ms. Grove Casey**

Let's talk a little bit more about how a member may no longer have confidence in management's integrity. It's not just from the external auditor's perspective, but even internal now that we have a separate hierarchy there, but they may have the same kind of issue come up. So let's talk a little bit more about that.

**Ms. Louis**

Yes. So part of it's going to be that just our code of conduct says as a CPA, that I should only associate myself right with clients and services where I believe

that the parties responsible for the subject matter have integrity, as we even think about who we associate with, as I make engagement acceptance/continuance type decisions. And so it could be that because I lack confidence in management's integrity, that if I believe that management was involved in the non-compliance that was perhaps intentional when I'm aware that they're knowledgeable about a non-compliance and aren't doing anything about it in a reasonable timeframe, if they're willing to violate kind of ethical principles in one aspect, I need to be concerned about what are they willing or able to do in a larger degree when faced with other ethical conflicts.

**Ms. Grove Casey**

So what are specific documentation considerations that a member should comply with, including auditors?

**Ms. Louis**

Well, the documentation needs to indicate what did I identify and what were the results of any conversations I had with management, governance, and other parties, and how did those parties respond? And if there were any judgements I had to make or documenting the course of action that I chose to do that, that's readily apparent within some form of documentation that I'm retaining. And that would be whether I am doing a review or an audit or whether I'm performing other professional services as a public practice CPA, that would be important.

**Ms. Grove Casey**

What if a professional services provider identifies or suspects NOCLAR and they aren't engaged to perform a review or audit? What responsibilities does he or she have?

**Ms. Louis**

Well, so if you're within the same firm, but I'm not a part of that engagement team, so I'm not a part of the audit or attest team. I am required to communicate, not just with management, governance, as we've discussed, to let the client be aware of circumstances, but to also using your firm's policies and procedures to communicate within the firm. So obviously, I would go to whoever the engagement partner is and to focus on letting them know this would be within my firm or within a network firm. So if I'm functioning within a network and somebody else in my network does the review or the audit, you're going to have the same

responsibilities as if your specific firm was doing the review or the audit. So it is important to think about that I would have an obligation because I want to enable the review or audit partner to have that information in order to figure out the implications on the work that they're doing for a given client of theirs as it affects my risk assessment on an audit or a review, and could affect the ability to accept or continue this assurance type engagement that I'm now associated with. And so the implications need to be there with that.

**Ms. Grove Casey**

What if the professional services provider is from the same firm that provides the review or audit services, but is not assigned to the reviewer, the engagement team, is that different?

**Ms. Louis**

So, if there's another firm that is out there, so if it's your firm, you have an obligation to communicate within your firm or your network firm, right? But if we have, where our firm does not do the review or the audit, but there is another firm that is audited, now I have to be concerned about the client confidentiality provisions that exist, right? And so I can't go to a third party without my client's consent. If it's your firm or a network firm, it's not considered a third party because it's inherently a part of what you do. But if you have a they're audited I ultimately I'm not allowed to communicate without the client's permission. Now, I may ask the client's permission and they may say, okay or they may say no, but of course if they say no, then I have to start worrying about management's integrity, which cycles back around to, even though I'm just doing other professional services for you, should I be associated with you? And even what I'm doing that's not associated with a review or associated with an audit.

**Ms. Grove Casey**

So what special considerations should be made when there are ethical conflicts and obstacles to doing the right thing?

**Ms. Louis**

There ultimately are going to be many cases where our guidelines, our principles, might conflict with each other. As far as what might be an obstacle to taking appropriate action, there could be conflicts just within our professional or legal standards in and of itself. So we just talked about one, right? I'm aware of a non-

compliance or fraud, but it would violate my client confidentiality provisions for me to tell somebody. In the end, a member is required to just try to do the best thing that you can. As you're weighing your alternative actions and you think about the facts and the circumstances, you think about applicable laws, regulations, you think about the significance of the issues involved. And, if you depart from something like client confidentiality, you just need to be able to support it, right? That I need to be able to show that this really was the best course of action to take. We try to do the best we can when we're dealing with those conflicts.

**Ms. Grove Casey**

Is there anything else that you think is important to note related to resolving ethical conflicts?

**Ms. Louis**

I think it's important that as you're challenging yourself around these conflicting issues consult when needed. So you can consult internally within your firm. You may consult appropriately with, say, a professional body, like you can consult with your State Board of Accountancy or the AICPA without violating client confidentiality, I can hypothetically give scenarios and get some advice about what to do. I often have different partners that might reach out to me to consult on a variety of matters, which sometimes does include some ethical things. So it should be an appropriate person, right? As we're, as we're thinking about things while not necessarily, you know, violating provisions of giving specific names and identifiable information, but you also could consult with a lawyer, right? We sometimes there may be legal means that the substance of the issue is such that I should talk to my own legal counsel related to a given issue. So if we are consulting, then it is important to also have documentation around the substance of the matter who we discuss the matter with. What decision did I end up making and if there was an ethical conflict, like how did I end up deciding that given the circumstances, this was the best choice, the best plan of action that I had as I thought about everything together.



## SUPPLEMENTAL MATERIALS

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### The Latest on an Auditor's Ethical Responsibilities for NOCLAR

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by Jennifer F. Louis, CPA

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#### Introduction

Identification or suspicion of a client's or employer's noncompliance with laws or regulations (NOCLAR) is one of the most challenging ethical issues a CPA can face.

When a member encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a professional service to a client, threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] may exist.

The multiple interpretations creates separate guidance for members in business, providing review or audit services, and providing other services.

An ethics interpretation related to this matter is effective June 30, 2023.

#### 1.180.010 Responding to Noncompliance With Laws and Regulations

The purpose of the ethics interpretation is to set out the member's responsibilities when encountering such noncompliance or suspected noncompliance and guide the member in evaluating the implications of the matter and the possible courses of action when responding to it. The member's responsibilities in this interpretation are owed to a person or entity that engages the member or member's firm to perform professional services (engaging entity). Therefore, when the engaging entity and subject entity are different, the term client refers to the engaging entity.

A distinguishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a member are as follows:

- a. To comply with the "Integrity and Objectivity Rule" [1.100.001]
- b. To alert management or, when appropriate, those charged with governance of the client, to enable them to
  - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or

- ii. deter the commission of the noncompliance when it has not yet occurred
- c. To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
- d. To take such further action as appropriate in the public interest
- e. To comply with applicable laws, regulations, and the "Compliance With Standards Rule" [1.310.001]

#### NOCLAR Defined

Acts of omission or commission, intentional or unintentional, that are contrary to prevailing laws or regulations. They may be committed by a client, governance, management, or others working for or under the direction of the client. There is a focus on noncompliance with direct and material effect on the financial statements or an ability to continue business.

This interpretation sets out the approach to be taken by a member who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements
- Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties

Examples of laws and regulations which this interpretation addresses may include those that deal with the following:

- i. Fraud, corruption, and bribery
- ii. Money laundering

- iii. Securities markets and trading
- iv. Banking and other financial products and services
- v. Data protection
- vi. Tax and pension liabilities and payments
- vii. Environmental protection
- viii. Public health and safety

Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its financial statements. Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.

A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

### **Client Confidentiality**

When responding to noncompliance or suspected noncompliance in the course of providing a professional service to a client, the member should consider the member's obligations under the "Confidential Client Information Rule" [1.700.001].

### **Other Legal or Regulatory Requirements**

Some regulators, such as the SEC or state boards of accountancy, may have regulatory provisions governing how a member should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a member has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure.

### **Client Responsibilities**

The client's management is responsible, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any noncompliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

### **Responsibilities for Members in Public Practice**

When a member becomes aware of a matter to which this interpretation applies, the member should take timely steps to comply with this interpretation, taking into account the member's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees, or the general public.

### **Responsibilities for Members Providing Financial Statement Review or Audit Services**

If a member engaged to perform financial statement audit or review services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance.

Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.

The appropriate level of management with whom to discuss the matter is a question of professional judgment. The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If a member believes that management is involved in the noncompliance or suspected noncompliance, the member should discuss the matter with those charged with governance. The member may also consider discussing the matter with internal auditors, when applicable. In the context of a group audit engagement, the appropriate level may be management at an entity that controls the client.

In discussing the noncompliance or suspected noncompliance with management and, when appropriate, those charged with governance, the member should advise them to take appropriate and timely actions, if they have not already done so.

The member should consider whether the client's management and, if applicable, those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected noncompliance. If not, the member may want to suggest appropriate sources of information or recommend that they obtain legal advice.

The member should comply with the following:

- a. Applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made.
- b. Applicable requirements under professional standards, including those relating to
  - i. identifying and responding to noncompliance, including fraud;
  - ii. communicating with those charged with governance;
  - iii. considering the implications of the noncompliance or suspected noncompliance on the audit, review, or compilation report for the current or prior engagements; and
  - iv. communicating a former client's noncompliance to the successor auditor to the extent required under professional standards.

## Group Audits

A member may, for purposes of a group audit engagement, be requested by the group engagement team to perform work on financial or other information related to a component of the group. If the member becomes aware of noncompliance or suspected noncompliance, the member should, in addition to responding to the matter in accordance with the provisions of this section, communicate the noncompliance or suspected noncompliance to the group audit engagement partner in accordance with AU-C section 600, unless prohibited from doing so by law or regulation.

If the group audit engagement partner becomes aware of noncompliance or suspected noncompliance in the course of a group audit engagement, including as a result of being informed of such a matter, the group audit engagement partner should, in addition to responding to the matter in the context of the group audit engagement in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement. In these circumstances, the group audit engagement partner should take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

## When to Withdraw

The member should evaluate the appropriateness of the response of management and, if applicable, those charged with governance.

In light of the response of management and, if applicable, those charged with governance, the member should determine whether withdrawing from the engagement and the professional relationship is necessary, where permitted by law and regulation.

The determination of whether withdrawing from the engagement and the professional relationship is necessary may depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter

- c. The pervasiveness of the matter throughout the client
- d. Whether the member continues to have confidence in the integrity of management and, if applicable, those charged with governance
- e. Whether the noncompliance or suspected noncompliance is likely to reoccur
- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public

As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the member's options and the implications of taking any particular course of action.

### Documentation

In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member should, in addition to complying with the documentation requirements under applicable professional standards, document the following:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, those charged with governance, have responded to the matter
- d. The judgments made and the courses of action the member took

### Responsibilities of Members Providing Other Services Than Review or Audit

If a member engaged to perform professional services other than a financial statement audit or review service becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should seek to obtain an

understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

If the member identifies or suspects that noncompliance has occurred or is likely to occur the member should discuss the matter with the appropriate level of management and, if the member has access to them and when appropriate, those charged with governance.

Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.

### Responsibilities if Member's Firm Provides Review or Audit Services

If the member is performing a service other than a financial statement audit or review service for a financial statement audit or review client of the firm or a component of a financial statement audit or review client of the firm, the member should communicate the noncompliance or suspected noncompliance within the firm. The communication should be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner.

If the member is performing a service for a financial statement audit or review client of a network firm or a component of a financial statement audit or review client of a network firm, the member should consider whether to communicate the noncompliance or suspected noncompliance to the network firm. If the communication is made, it should be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner.

In all cases, the communication is to enable the financial statement audit or review engagement partner to be informed about the noncompliance or suspected noncompliance and to determine whether it should be addressed in accordance with the provisions of this interpretation and, if so, how.

### Responsibilities if Member's Firm Does Not Provide Review or Audit Services

If the member is performing services for a client that is not a financial statement audit or review client of the firm, except as required by law or regulation, the

member is not permitted to communicate the noncompliance or suspected noncompliance to the firm that is the client's external auditor, if one exists. See the "Confidential Client Information Rule" [1.700.001].

### When to Withdraw

The member should determine whether withdrawal from the engagement and the professional relationship is necessary, where permitted by law and regulation.

Examples of circumstances that may cause the member no longer to have confidence in the integrity of management and, where applicable, those charged with governance include such situations as the following:

- The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- The member is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the member's options and the implications of taking any particular course of action.

### Documentation

In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member is encouraged to document the following, in addition to complying with the documentation requirements under applicable professional standards:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, those charged with governance have responded to the matter
- d. The judgments made and the courses of action the member took

### 1.000.020 Ethical Conflicts

An ethical conflict arises when a member encounters one or both of the following:

- Obstacles to following an appropriate course of action due to internal or external pressures
- Conflicts in applying relevant professional standards or legal standards. For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain client confidentiality.

Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the member should consider factors such as the following:

- Relevant facts and circumstances, including applicable rules, laws, or regulations
- Ethical issues involved
- Established internal procedures

The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules and law. If the member was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the member may have to address the consequences of any violations.

Before pursuing a course of action, the member should consider consulting with appropriate persons within the firm or the organization that employs the member.

If a member decides not to consult with appropriate persons within the firm or the organization that employs the member and the conflict remains unresolved after pursuing the selected course of action, the member should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The member also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the engagement team, specific assignment, client, firm, or employer.

## GROUP STUDY MATERIALS

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### **A. Discussion Problems**

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1. Define what NOCLAR means.
2. Discuss what a member's responsibilities are if noncompliance known or suspected is identified while performing professional services – and he/she also performs review or audit services.
3. Discuss a member's considerations related to withdrawal from an engagement due to a NOCLAR situation.

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**B. Suggested Answers to Discussion Problems**

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1. NOCLAR is defined as acts of omission or commission, intentional or unintentional, that are contrary to prevailing laws or regulations. They may be committed by a client, governance, management, or others working for or under the direction of the client. There is a focus on noncompliance with direct and material effect on the financial statements or an ability to continue business.
2. If a member engaged to perform financial statement audit or review services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance.

Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.

3. The member should determine whether withdrawal from the engagement and the professional relationship is necessary, where permitted by law and regulation.

Examples of circumstances that may cause the member no longer to have confidence in the integrity of management and, where applicable,

those charged with governance include such situations as the following:

- The member suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- The member is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the member's options and the implications of taking any particular course of action.

## PART 3. SMALL BUSINESS

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### Quality Management Standards

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For some time the AICPA has been working on improving the quality of audits. As part of that program, they issued quality control standards, updated the CPA exam to assess professional skepticism and critical thinking, and added to practice monitoring via peer review, ethics enforcement, and NASBA collaboration. Recently, they've issued new guidance on quality management.

For more on the new guidance, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

#### Ms. Grove Casey

So today we want to talk a little bit about quality management standards and the impact that that's having on professional standards. To begin with, can we start by talking about how the creation of quality management standards is part of a larger audit quality enhancement initiative led by the AICPA?

#### Ms. Louis

Yes, the AICPA back in 2014, began an enhancing audit quality initiative that you may see the acronym EAQ related to that where they were trying to figure out what are some of the challenges that are out there that are impeding our ability to have high quality financial statement audits that can result in providing valuable information to the users of those reports. There was a wide variety of areas that they decided to focus on, including things like updating the CPA exam as a part of your pre-licensure requirements, looking at peer review and how to improve the peer review process, focusing on ethics enforcement, looking at learning and support that they provide to CPAs, but then also thinking about other sets of standards, other things that are out there as far as resources that exist in providing this guidance to these auditors. And some of the things that could have occurred at the end were also things like creating certain certifications like having somebody that might be certified in the valuation of financial instruments. So there are things that have occurred and the Auditing Standards Board, the ASB, also had looked at multiple projects that could be based on improving the quality management that exists out there. That's where some of these quality management standards evolved from that overarching project around just enhancing audit quality from a broad-based point of view.

#### Ms. Grove Casey

Well, what are the effective dates for these new quality management standards and related changes within the professional standards?

#### Ms. Louis

So there are these quality management standards that ultimately will have effect when we start looking at December 15, 2025. But... you're designing your new system of controls around quality management in accordance with these new quality management standards and you'll have a time period to actually design and implement them. And then there'll be a monitoring period, right? As you look at applying the standards that monitor whether or not things are happening consistently, in a quality way, that's going to occur as you're actually using the standards for those types of engagements. So including things like engagement quality control review, right? As we think about the review, that has to be done. There has to be something that's being done as far as audit work or review work that the engagement quality reviewers can actually look at. So we are looking at, for some of them, like that element of it that would be for audits and reviews of financial statements for periods beginning on or after that December 15, 2025 timeframe. That's going to be the same for changes in the SASs and the SSARS that'll be focused on engagements conducted for periods beginning on or after 12/15/2025. So, we're really looking at calendar year 2026 engagements moving forward.

#### Ms. Grove Casey

Well, can you explain more how the new quality management standards were approached in terms of design?

**Ms. Louis**

We had preexisting standards that were called Statement on Quality Control Standards, SQCSs, and we were actually at SQCS No. 8. There also was a project that was done internationally that resulted in some quality management standards that were issued from the international standard setting bodies that also started having a framework from which the AICPA could build from. The Public Company Accounting Oversight Board, the PCAOB, also has its own project related to quality management standards for audits of these issuers. So as we created them, they were looking at what other regulatory bodies were doing, and they tried to converge with them in a way where if there's differences, they're very purposeful differences, based on the specific population that our standards are being used and applied from. They did decide that from the quality management standards that they wanted to separate, here's the rules related to a firm's responsibility for establishing a system of quality management, and then there was a separate standard, SQMS, that contains the requirements related to performing quality control reviews and appointing an engagement control reviewer. So the SQMS No. 1 is broad based in looking at different components that should be a part of just a firm's quality management when they have accounting and auditing practices. And then, SQMS No. 2, will focus just on the engagement quality review and the reviewer that's going to be doing that work.

**Ms. Grove Casey**

Well, what are the major topic areas that are addressed by SQMS No. 1?

**Ms. Louis**

An important part of what they added to these quality management standards that didn't exist underneath the old Quality Control standards is that it is intended to be a risk-based approach. So that means that there's now a component of your quality management standards that focuses just on the firm and how you've established a risk assessment process of determining various levels of risk with different engagements, because that will lead to maybe different policies and procedures that need to be applicable to certain audits or certain reviews, right? Or certain agreed upon procedures. So that's one thing, adding that new component, and then, also adding a component related to information and communication as a specific element on top of the

preexisting components that existed underneath the old quality control standards that dealt with governance and leadership, acceptance and continuance of clients, and specific engagements, performing my engagement, monitoring, and other things that already was there. They kept those components, and then, added some new stuff.

**Ms. Grove Casey**

Well, can you explain in more detail how SQMS No. 1 encourages a risk-based approach to quality management?

**Ms. Louis**

So part of it is going to be that there are, in addition to that specific component that I talked about them adding, even within some of the preexisting components to have, for example, more robust requirements as it relates to leadership and governance, and having enhancements with expectations with monitoring, and taking remediated corrective action. And, then also adding some new requirements for when I'm using a network firm or some other service provider as a part of doing the audit. The goal in the end is to make sure that there are quality objectives that are built into these different components that exist within our quality management standards. And there it has a requirement to establish specific quality objectives that are going to be based on the nature and the circumstances of the firm, and the type of engagements that you do. And so you establish your quality objectives within the components in order to ensure that you're putting together policies and procedures that will be directly related to those quality objectives.

**Ms. Grove Casey**

Well, how are quality risks intended to be identified and assessed?

**Ms. Louis**

So ultimately when we think about quality risks, first of all, you have to identify and assess what would be called a quality risk, which is based on understanding the factors that might get in the way of achieving your quality objectives, and to make an assessment in the end about, ...how, and to what degree could these different conditions, events, circumstances adversely affect us? Where is there a reasonable possibility of a quality control risk occurring, whether it's individually or in combination with other types of risks? But the effect of

it would be that it adversely affects the achievement of one or more of our quality objectives. You will think about things both the frequency of when these quality risks could occur, and the speed with which they could affect your firm. Not every risk would need to have a specific control or process or procedure to manage it.

Like we are going to look at as a risk based approach, where is it that the nature, time and extent of the firm's responses to address these risks, that they're actually like linked back to the underlying reasons why we even thought there was a quality risk to begin with. There are certain responses that are going to be detailed in the standard, saying, we're expecting that every firm will have this type of response, but then other than that, it's going to be up for the firm to decide in the end, what types of objectives do they have, what types of risks do they face, and how can we respond and manage those risks?

#### **Ms. Grove Casey**

Well, how is the firm's governance and leadership intended to enhance quality management under these new standards?

#### **Ms. Louis**

A large part of it as we think about the governance and leadership component is to talk about the expected behavior of leadership in setting the tone at the top of the organization that quality matters, but also to look at the qualifications of who's sitting in these leadership positions and how do we hold leadership accountable for actually governing, right, for actually providing oversight. How do we evaluate their performance? And so that's an element that's been expanded as we think about assigning responsibility and accountability for quality management, including accountability for the managing partner the firm CEO, right? The managing partner or equivalent whoever. However, your governance structure is of the organization. That governance structure has an ability to influence some of the decisions that are being made operationally within the organization. And, they should take ownership over those decisions.

#### **Ms. Grove Casey**

What other resources will be used by the firm to better ensure quality management?

#### **Ms. Louis**

Underneath the old standards, they talked principally about human resources, but the new quality management standards just broaden that to say, well, there's technological resources, there's intellectual resources like our firm's methodology, our templates, our practice aids, and then, there's also the human resources, the people, and this may include people outside of our firm, as we have component auditors and other resources that we might tap into as we're performing these audit or attest engagements. So as they look at quality control, it's not just quality control over your people, it's also quality control over your IT applications, your audit tools, your intellectual resources as well to make sure that they're being used and maintained in a way that's appropriate as you consider the variety of resources and the variety of the sources of those resources.

#### **Ms. Grove Casey**

You mentioned that a new component was created for information and communication. Can you explain a little bit more about what that component that was added by SQMS number one?

#### **Ms. Louis**

Yes, absolutely. So the new component really underscores the importance of having a continuous flow of information and sound communication throughout the organization. It's trying to figure out ultimately how we exchange information within the firm, including information that's coming from the top leadership of the firm. We need to be able to have a process within our information systems to identify, capture, process, and maintain data and information that will be useful for making good decisions about quality management, and particularly, as we might be looking at different types of firms, small firms versus large firms, ...as we think about different types of complexity of firms themselves. But yet all firms need to have a method of capturing information. We also need to have standards for communication, things that enhance the expectation that we'll have better communication throughout our firm as it relates to quality management. But we also will encourage firms to be more transparent with some external bodies that might be interested in quality management. That will be the key – to establish policies and procedures, to lay out things related to the information processing, internal communications, but then also when are external communications appropriate in the circumstances?

**Ms. Grove Casey**

What else was changed by SQMS No. 1 related to monitoring and remediation?

**Ms. Louis**

So part of it is enhancing the focus from just thinking about monitoring quality at an engagement level to have a focus on monitoring the entire quality management system. The goal is to think about you as we think about a system of quality management and new requirements will focus on designing monitoring activities rather than prescribing these activities. Because there's going to be firm specific factors that are involved in what's needed as far as the nature, the timing, the extent of monitoring. And that's going to be dependent on the complexity of the firm. It's going to be based on the nature of your engagements. And it also though would be thinking about engagement partners, right? EPs as they call them, that there does need to be monitoring of specific engagement partners. There could be monitoring on a cyclical basis and determining how often I look at engagements related to a particular partner is going to depend on how often they complete engagements, what type of engagements are they doing? But there does need to be an approach of cycling through looking at monitoring for specific engagement partners, but then thinking also about just monitoring quality control from a broad-based perspective in a risk based way as well.

**Ms. Grove Casey**

So when performing monitoring and determining the proper remediation, does the firm have to take into account the root causes of matters identified? I know in the healthcare industry, it's really been like a, a focus in say probably the last five to 10 years that finding the root cause is more important almost than just treating the symptoms of where you're at. Is that the same case here?

**Ms. Louis**

Yes, absolutely. And it's because they want to make sure that as you are taking remediative steps to correct your problem, the steps that we're taking are appropriate and tailored to the specific circumstances that we uncovered. Leadership has to play a role in making sure that they understand the severity and pervasiveness of issues. This includes understanding better, what are the fundamental root causes between where we are and where we want to be? Because that

difference is going to lead to the recommendation of how do we keep that from happening again, that specific thing.

**Ms. Grove Casey**

Well, what if a firm is part of a network of firms? It would seem like that would be a little bit more difficult to maybe implement these kinds of changes.

**Ms. Louis**

Exactly. And there's a lot of firms that are part of networks where there's network requirements and network services that are available to the firm. And the firm needs to understand, how does that affect my quality management? And, do we need to modify something or supplement something in our firm's processes, procedures around quality management to help drive improvements, maybe at the network level, right? It might be that networks need to provide more information to the firms so that the firms can do a better job at managing their quality. There needs to be communication and consideration about how those approaches being a part of a network. What does the network need to do with their own quality management and monitoring? And how does that affect the firm level as it relates to quality management?

**Ms. Grove Casey**

Well, it sounds like these new quality management standards are meant to be scalable. Is that true?

**Ms. Louis**

That is absolutely a goal – to think about focusing on quality objectives that can be scalable to firms of different sizes, different complexities. They're looking at the outcome to improve audit quality. They're not looking to prescribe specific rules and requirements that are out there. They want you to comply with some basic principles, to establish your quality objectives, to figure out your quality risks that are going to keep you from achieving those objectives, and then, put together your firm-specific approach for your system of quality management to figure out, how can we be better, given what's suitable for the nature and circumstances of our firm, but also the specific types of engagements that we perform.

**Ms. Grove Casey**

We haven't really talked much about the engagement quality review requirements. What does SQMS No. 2 primarily focus on related to that topic?

**Ms. Louis**

It is focusing on, first of all, how does a firm determine when an engagement quality review is needed to respond to a quality risk. So when should it occur? And then, if we've determined that, yes, it should occur, then what should be policies and procedures for appointing the engagement quality reviewer? So engagement quality is going to be put as a EQ. Like if you see EQ, they're talking about the engagement quality so that you have the engagement quality review, and then, you have your engagement quality reviewer. And so the requirements or guidelines of making those determinations related to these matters, they're going to be also within some principles, they'll be for the firm to decide ultimately what do we want to establish as our specific rules and regulations in that area.

**Ms. Grove Casey**

What are the anticipated benefits of taking on this new approach to describing requirements for engagement quality reviews?

**Ms. Louis**

Well, part of it too, and, and one of the reasons why they created an entirely separate standard compared to SQMS 1 is to emphasize, first of all the importance of having engagement quality reviews. And to also provide a mechanism to differentiate what's the responsibilities of the firm, which is what is in SQMS 1 and what's the responsibilities of the engagement quality reviewer, which is in SQMS No. 2. So that clearly differentiates those roles and their responsibilities, but yet within SQMS No. 2 they are ensuring that that also is scalable and, to make sure that it is something that can be responsive to quality risks and it could also be quality risk for any type of engagement, not just an audit engagement where engagement quality review may be appropriate in the circumstances.

**Ms. Grove Casey**

Are the requirements for appointment and eligibility of the EQ reviewer now more stringent than before?

**Ms. Louis**

Well they are more robust compared to the previous quality control standards. And it also focuses on engagement quality reviewers that can either be internal to the firm or sometimes they're external to the firm. And as they think about the eligibility of individuals,

they're looking at it from both perspectives. To also think about who might be assisting the engagement quality reviewer as there might be multiple parties that are involved in the engagement quality review process, right? There is going to be a leader, right? There's going to be somebody that's designated as the formal reviewer, but there's going to be others that will help in that quality review process. That also will be what's laid out in these new standards as we think about the work of others that are assisting in that quality review.

**Ms. Grove Casey**

What other aspects of engagement quality reviews were enhanced with SQCS No. 2?

**Ms. Louis**

Well, they did also look at ethical requirements, including the threats to objectivity that could exist with an engagement quality reviewer. How do we eliminate or mitigate those to an acceptable level, particularly as we think about a focus on significant judgments, significant matters, and to ensure that the engagement quality reviewer stands back and makes an assessment about whether or not I believe that my performance requirements have been met. And so, specifically, right before they sign off, have they stood back and made this determination and have you designated to the engagement partner when you're comfortable? Like, it's okay, I'm good with this work product; I'm good with this report, that's being created. So that's one of the things that they're looking at and the documentation that has to be kept and how do I involve the engagement quality reviewer at appropriate parts in the engagement process, particularly when there are significant judgments or significant matters that are being dealt with. Could we deal with them on a more timely basis as opposed to at the tail end of the engagement?

**Ms. Grove Casey**

Well, you've mentioned a few things related to a relatively new SAS, SAS 146. How does that new auditing standard reflect these new quality management standards?

**Ms. Louis**

So SAS 146 it talks about, how do I apply these new standards at the engagement level, right? So we talked about how the quality management standards are trying to be less engagement specific and more firm based, but then, how do I make it engagement specific for audits?

That's what this SAS is intended to achieve, and to focus more specifically on the engagement partner in an audit, what do they need to do to manage and achieve quality on these engagements? How do we also though, reinforce that every member of the engagement team plays a role in maintaining quality? How do we leverage what the firm requirements are? How do we apply the firm's system to these specific engagements as we look at establishing a culture of expected behavior amongst engagement team members with SAS 146 focusing on audit engagement team members.

**Ms. Grove Casey**

Well, are there varying levels of accountability that the engagement partner has per SAS 146?

**Ms. Louis**

There's things that the engagement partner must do, and then they have a phrase 'take responsibility for', which means that I'm allowed to assign or delegate like things while I'm still taking ownership, right? It's not something I specifically have to do. It can be procedures, tasks, actions that appropriately skilled and experienced members of my engagement team can do for me, right? So what expressly is intended to be done by the engagement partner and what can the engagement partner take responsibility for while still designating certain things outward? The engagement partner does though need to be sufficiently and appropriately involved throughout the engagement. There's still the engagement leadership. They still have an overall responsibility for high quality audits, right? And, they do need to take responsibility for directing and supervising the team, right? But who ultimately, as we talk about specific tasks, rules, responsibilities, can we have assist them?

**Ms. Grove Casey**

What if there's a group audit engagement? How are quality management responsibilities determined under SAS 146 there?

**Ms. Louis**

Yes, that is a key part because we could have a network firm. We could have an auditor that we're using that's not a part of my firm's network. And therefore, they are looking at the audits of group financial statements and talk about specific considerations that apply to that audit, including as we think about when a component auditor is involved and what are the actions that the

engagement partner has to take as they deal with these component auditors or other personnel that might be external to the firm. And so that is certainly key and it ties into planning and the nature, timing, and extent of the direction and supervision and review of work, that does include team members who are external to the firm.

**Ms. Grove Casey**

Is there also an emphasis on how ethical requirements tie into quality management within SAS 146?

**Ms. Louis**

It does as we think about understanding what ethical requirements we have, what threats could we have related to compliance with those ethical requirements, and particularly emphasizing independence as being an important element as we think about audits. So SAS 146 does talk about application material that looks at how I link all of these different requirements together in a broader based system of quality management.

**Ms. Grove Casey**

Well, I want to wrap up, and this is a slightly different set of standards, but what's the purpose of SSARS 26?

**Ms. Louis**

All right, so SSARS 26 looks at your SSARS engagements and says, As we have these overall quality management standards, as we have SAS 146, how do we adopt and apply things as we're doing a prep, a comp, a review underneath the SSARS? And there are some things that had to be amended, including in Section 60 that just deals with general principles for any engagement that's done underneath the SSARS, but then also things that are more specific to compilations and reviews that would bring forth all these principles that they're trying to lay out for the firm, but also for very specific engagements that the firm does.

## SUPPLEMENTAL MATERIALS

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### Quality Management Standards and Impact on Professional Standards

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by Jennifer F. Louis, CPA

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#### Background of *Enhancing Audit Quality Initiative*

A hallmark of the public accounting profession is the ability to perform high-quality financial statement audits that provide valuable information to users. In 2014 the AICPA began an *Enhancing Audit Quality Initiative* (EAQ) to take a data-driven approach to improving audit quality, tackling a variety of quality challenges ever since.

In June 2022, the Auditing Standards Board (ASB) and the Accounting and Review Services Committee issued four interrelated final standards on quality management (collectively, QM standards):

1. Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*
2. SQMS No. 2, *Engagement Quality Reviews*
3. Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
4. Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

The effective dates are as follows:

- **SQMS No.1** – Designed and implemented by 12/15/2025 with evaluation required to be performed within one year following 12/15/2025 (e.g., audits and reviews for calendar year 2025 or other engagements that begin on or after 12/15/2026).
- **SQMS No. 2** – Audits and reviews of financial statements for periods beginning on or after 12/15/2025, with other engagements beginning on or after 12/15/2025 (based on the earliest date of when the engagement letter is signed or the engagement performance begins).

- **SAS No. 146** – Engagements conducted in accordance with GAAS for periods beginning on or after 12/15/25 (e.g., calendar year 2026).
- **SSARS No. 26** – Engagements performed in accordance with SSARSs for periods ending on or after 12/15/25 (e.g., calendar year 2026).

#### More on Creation of New Quality Management Standards

A new quality management section of the AICPA *Professional Standards* called *Statement on Quality Management Standards* (SQMS) supersedes *Statement on Quality Control Standards* (SQCS) No.8. It converges with international quality management standards issued in December 2020, which will also be the foundation for PCAOB quality management standards for audits of issuers.

There were two SQMS that were issued simultaneously. SQMS No. 1 addresses the firm's responsibility for establishing a system of quality management. SQMS No.2 contains requirements related to appointing engagement control reviewers and performing quality control reviews.

SQMS No. 1 requires a firm to design, implement and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice. It consists of:

- Eight components that operate in an iterative and integrated manner.
- Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services and documentation.

SQMS No. 1 introduces a new risk assessment process aimed at achieving quality objectives. The firm is required to establish prescribed quality objectives, assess quality risks and design and implement responses. SQMS No. 1 also requires the firm leadership to annually evaluate and conclude whether the system of quality management is meeting its objectives.

An Engagement Quality (EQ) reviewer performs the review at the engagement level on behalf of the firm. SQMS No. 2 addresses the following:

- The appointment and eligibility of the EQ reviewer and
- Performance of engagement quality reviews.

An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks. SQMS No. 1 requires that the firm determine when an engagement quality review is an appropriate response to quality risks.

### Organization of SQMS No. 1

The core of the new approach is to focus firms' attention on risks that may have an impact on engagement quality. Unlike the old (extant) QC section 10, the new approach requires a firm to customize the design, implementation, and operation of its system of quality management (SQM) based on the nature and circumstances of the firm and the engagements it performs. The standard takes a more proactive approach to quality management, with an increased emphasis on a continuous improvement.

The components of the SQM addresses the following eight components:

1. The firm's risk assessment process (new)
2. Governance and leadership (adapted from the leadership responsibilities for quality within the firm component in QC section 10)
3. Relevant ethical requirements (same name as component in QC section 10)
4. Acceptance and continuance of client relationships and specific engagements (same name as component in QC section 10)
5. Engagement performance (same name as component in QC section 10)
6. Resources (adapted from the human resources component in QC section 10)
7. Information and communication (new)
8. The monitoring and remediation process (adapted from the monitoring component in QC section 10)

### Summary of SQMS No. 1 New Risk-Based Approach

There is a new risk-based approach, incorporating a risk assessment process driving firms to focus on quality management tailored to their circumstances. There are revised components of the system of quality management, including two new components.

In addition, there are more robust leadership and governance requirements, enhanced monitoring and remediation processes, and new requirements for networks and other service providers.

The addition of a new risk assessment process to better focus a firm's attention on risks that may impact engagement quality, including the following steps:

1. Establish quality objectives for each component except monitoring and remediation.
2. Identify and assess risks to the achievement of the quality objectives.
3. Design and implement responses to address the quality risks.

The standard requires the firm to establish specific quality objectives based on the nature and circumstances of the firm and its engagements for each component except risk assessment and monitoring and remediation. The firm is required to establish additional quality objectives when necessary to achieve the objective of the SQM. However, the firm may not find it necessary to establish additional quality objectives.

Identifying and assessing "quality risks" involves both of the following:

- Understanding the factors (such as conditions, events, circumstances, actions or inactions) that may adversely affect the achievement of the quality objectives, and
- Consider how and the degree to which the factors may adversely affect the achievement of the quality objectives. However, the assessment of identified quality risks does not require formal ratings or scores.

Quality risks are where there is a reasonable possibility of the risk occurring, and individually (or in combination with other risks) adversely affecting the achievement of one or more quality objectives.

Consider both the expected frequency of occurrence and speed of impact before a firm would have an opportunity to mitigate the effect. Not all risks meet the definition of a quality risk based on professional judgment.

The nature, timing, and extent of the firm's responses to address the quality risks are linked to the underlying reasons for the assessments given to the quality risks. Certain responses are specified in the standard. However, the specific responses required by the standard will not be sufficient for the firm to address all its quality risks. Other responses will be added by firms to sufficiently address all its specific quality risks.

Firms are also required to identify information indicating the need for additions or modifications to quality objectives, quality risks, or responses over the course of time.

### **Focus on Governance and Leadership**

SQMS No. 1 provides substantial enhancements to improve the robustness of firms' governance and leadership. It specifically addresses the expected behavior of firm leadership in setting the tone at the top, the appropriate qualifications of leadership and holding leadership accountable through performance evaluations.

The standard newly addresses the importance of quality in the firm's strategic decisions and actions (including financial and operational priorities). It also emphasizes the firm leadership's ability to influence decisions about the firm's resources.

The firm is required to assign ultimate responsibility and accountability for the SQM to the firm's CEO, managing partner (or equivalent) or, if appropriate, managing board of partners (or equivalent).

In addition, the firm is required to assign the following to designated individuals:

- Operational responsibility for the SQM.
- Operational responsibility for specific aspects of the SQM, including compliance with independence requirements and the monitoring and remediation process.

### **Focus on Resources**

SQMS No. 1 expands to address all resources that the firm needs both to operate the system and to perform engagements, not just "human resources" as previously required.

These resources cover the following:

1. Technological resources. For example, audit tools or IT applications used by the firm for independence monitoring.
2. Intellectual resources. For example, the firm's methodology, guidance, templates or tools.
3. Human resources. This may include people outside the firm used in engagements, including component auditors or EQ reviewers who are external to the firm.

The standard focuses on what resources are needed, how they are used and maintained and whether they are appropriate. The principles-based nature of the requirements relating to resources considers the variety of resources used and their source.

SQMS No. 1 also covers the use of resources from service providers and how to determine that those resources are appropriate for the intended use by the firm. A resource from a service provider could be a methodology, an IT application or people used in an engagement.

Services that come from a firm's network, if the firm belongs to a network, are not considered as coming from a service provider (see the section "Network" that follows).

### **Focus on Information and Communication**

SQMS No. 1 includes a new component: information and communication. The new component underscores the importance of a continuous flow of information and communication by linking the exchange of information to the firm's culture, so that it is driven from top leadership throughout the firm.

The standard requires that the firm establish an information system with processes to identify, capture, process and maintain information, acknowledging that less complex firms with fewer personnel and direct

involvement of leadership may accomplish the objective with less rigorous or detailed policies and procedures.

Both internal and external communication are addressed within the standard. From an internal perspective, it reinforces the need for robust communication throughout the firm. From an external perspective, the standard reinforces a key public interest issue: encouraging firms to be transparent to external parties about their SQM in a relevant, innovative, and proactive manner.

To drive the proactivity of communication, the standard requires that firms establish policies and procedures that address when communications with external parties are appropriate. The standard provides flexibility regarding the specific information communicated, the form of that communication and the nature, timing and extent of communication.

### **Focus on Monitoring and Remediation**

SQMS No. 1 enhances monitoring activities and shifts the focus from engagement level monitoring to monitoring the entire SQM. The standard promotes more proactive and effective monitoring activities through increased emphasis on tailoring the monitoring activities sufficient to provide a basis for the firm to evaluate the SQM.

The new requirements emphasize factors that firms should consider in designing monitoring activities, rather than prescribing these activities. The nature, timing and extent of monitoring activities will be driven by many firm-specific factors, including the following:

1. How the underlying system is designed.
2. The nature and circumstances of the firm and engagements it performs.
3. The extent of changes to the system.
4. The results of previous monitoring activities or external inspections.

The standard includes a requirement to inspect completed engagements and for EPs to be inspected on a cyclical basis. The firm determines its inspection criteria, including:

- How often to select completed engagements.
- Which completed engagements to select.

- Which EPs to select.
- How frequently to select an EP.

In making decisions, the firm takes into account factors such as other types of monitoring the firm does, areas of risk and how the system is designed.

The standard includes requirements for evaluating findings, identifying deficiencies, and evaluating the severity and persuasiveness of the deficiencies. These include a new requirement to investigate the root cause of identified deficiencies, which is intended to be flexible to encourage firms to scale the nature, timing and extent of the procedures to investigate the root cause of the deficiencies so that they are appropriate and tailored to the circumstances.

The evaluation of the severity and pervasiveness of deficiencies is also used by leadership in evaluating the system and concluding whether it achieved its objectives.

In addition, a number of improvements were made to address remediation, including requirements of leadership to assure that remedial actions have been implemented and are effective.

### **Focus on Networks**

SQMS No. 1 requires that if a firm is subject to network requirements or uses network services, the firm should understand how those requirements or services fit into the firm's SQM and determine whether the requirement or service needs to be adapted or supplemented to be appropriate for use in the firm's SQM. This is intended to drive improvements at the network level because firms will need networks to provide more information than they may be providing now.

The standard addresses monitoring activities undertaken by the network and requires the firm to determine the effect of network-level monitoring activities on the firm's monitoring activities.

The firm is also required to understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine that network requirements have been appropriately implemented across the network firms and to obtain information annually about the results of the network's monitoring activities.

### Focus on Scalability

The new quality management approach encourages a firm to think about the nature and circumstances of the firm and the engagements it performs in designing, implementing, and operating its SQM. The approach is focused on achieving quality objectives that are outcome-based. This approach is inherently scalable for firms of different sizes and complexity.

### Focus on Engagement Quality Reviews

SQMS No. 1 requires that the firm determine when an engagement quality review is an appropriate response to quality risks. SQMS No. 2 contains requirements for policies and procedures addressing the appointment and eligibility of engagement quality (EQ) reviewers and performance of EQRs.

The requirements for EQRs currently reside in extant QC section 104 and AU-C section 220.5.

Although there will no longer be requirements for the performance of engagement quality control reviews (EQRs) in AU-C section 220, SAS No. 146 contains requirements regarding the engagement partner's (EP's) responsibilities relating to the EQR, which largely focus on how the EP and the engagement team interact with the EQ reviewer.

Creating a separate standard for EQRs is expected to provide a number of benefits, including:

1. Clarifying that an EQR can be a response to quality risks for any type of engagement—not only audit engagements.
2. Emphasizing the importance of the EQR.
3. Facilitating the enhancement of the robustness of the requirements for the eligibility of EQ reviewers and the performance and documentation of the EQR.
4. Providing a mechanism to more clearly differentiate the responsibilities of the firm and the EQ reviewer.
5. Increasing the scalability of SQMS No. 1 by not including requirements that would be irrelevant in circumstances when a firm determines that there are no engagements for which an EQR is an appropriate response to address the quality risks.

The requirements in SQMS No. 2 for the appointment and eligibility of the EQ reviewer (whether internal to the firm or external) are more robust than the current guidance.

Requirements and application material have been added to address:

- The eligibility of the individuals within the firm responsible for the appointment of EQ reviewers.
- The eligibility of individuals to assist the EQ reviewer in performing the EQR.
- The authority, competence, and capabilities of the EQ reviewer, including sufficient time to perform the EQR.
- The EQ reviewer taking responsibility for the performance of the EQR, including that the work of individuals assisting in the EQR is appropriate.

The requirements also address compliance with relevant ethical requirements, including that threats to objectivity of the EQ reviewer are eliminated or reduced to an acceptable level.

The requirements focus the EQ reviewer's attention on significant judgments and significant matters. The standard includes a stand-back requirement for the EQ reviewer to determine whether the performance requirements of the SQMS with respect to the performance of the EQR have been fulfilled. Once the EQ reviewer has made this determination, the EQ reviewer is required to inform the EP that the EQR is complete.

An effective EQR is achieved when the EQ reviewer is involved at appropriate points in the engagement, consistent with when significant judgments are being made by the engagement team because doing so facilitates the resolution of issues in a timely manner. Accordingly, SQMS No. 2 includes a new requirement addressing the EQ reviewer's responsibility to perform the procedures at appropriate points in time during the engagement.

SQMS No. 2 includes a specific requirement for the EQ reviewer to take responsibility for documentation of the EQR and adds a requirement that the documentation be filed with the engagement documentation. The standard also includes an overarching requirement for the

documentation to be sufficient to enable an experienced practitioner (having no previous connection to the engagement) to understand the nature, timing and extent of the EQR procedures performed.

### Summary of SAS No. 146

SAS No. 146 clarifies and strengthens the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner (EP) in managing and achieving quality on the audit engagement. It also reinforces the importance of quality to all members of the engagement team.

SAS No. 146 addresses how the EP leverages the firm's system and manages quality at the engagement level. The SAS makes clear that the EP has overall responsibility for managing and achieving quality. This includes creating an environment that emphasizes the firm's culture and expected behavior of engagement team members. These behaviors include the responsibility of all engagement team members for quality; the importance of professional ethics, values, and attitudes; and the importance of professional skepticism to a quality audit.

The EP remains ultimately responsible and, therefore, accountable for compliance with the requirements of the SAS.

- The phrase “take responsibility for” is now used for those requirements for which the EP is permitted to assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team.
- For other requirements, the SAS expressly intends that the requirement or responsibility be fulfilled by the EP. To fulfill the requirement, the EP may obtain information from the firm or other members of the engagement team (for example, information to make the required decision or judgment).

Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this SAS, unless the engagement team's understanding or practical experience indicates that the firm's responses to quality risks are ineffective in the context of the specific engagement, or information provided by the firm or other parties indicates that the firm's policies or procedures are not operating effectively.

The EP needs to be sufficiently and appropriately involved throughout the engagement, as this is fundamental to providing the engagement leadership required to achieve high-quality audits and, therefore, to meeting the objective of SAS No. 146.

The EP is required to take responsibility for the direction and supervision of the engagement team and review of their work. This includes tailoring the nature, timing, and extent of this responsibility to the nature and circumstances of the engagement and the resources (inclusive of technological, intellectual, and human resources) assigned to the engagement. If the resources are insufficient or inappropriate, the EP is required to take appropriate action.

### Focus on Group Audit Engagements

Engagement team members in a group audit engagement may include personnel who are external to the firm.

AU-C section 600 deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. Application guidance in SAS No. 146 states that the firm or EP may take different actions with respect to component auditors or other personnel who are external to the firm than the actions applicable to firm personnel.

Additionally, examples are included in application guidance in SAS No. 146 of considerations that may be made when component auditors are members of the engagement team. Conforming amendments to AU-C section 300, *Planning an Audit*, clarify that the audit plan should include a description of the nature, timing, and extent of the planned direction and supervision of engagement team members and the review of their work. This includes engagement team members who are external to the firm, such as component auditors.

### Focus on Ethical Requirements

In addition to enhancing the extant requirements, SAS No. 146 includes requirements regarding the following:

1. Understanding of the relevant ethical requirements and whether other members of the engagement team are aware of those requirements and the firm's related policies or procedures.
2. Threats to compliance with relevant ethical requirements.

3. Determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

SAS No. 146 also includes new application material that links with the firm-level requirements in SQMS No. 1, describes possible appropriate actions if noncompliance is indicated, and links to the requirement in AU-C section 700 for the auditor's report to include a statement regarding the auditor's independence.

### **Summary of SSARS No. 26**

SSARS No. 26 amends various AR-C sections to provide consistency regarding certain concepts related to quality management between SAS No. 146 and the SSARSs.

SSARS No. 26 amends the following AR-C sections in AICPA Professional Standards to be consistent with the standards issued by the ASB:

- Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- Section 80, *Compilation Engagements*
- Section 90, *Review Engagements*



## GROUP STUDY MATERIALS

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### **A. Discussion Problems**

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1. At a high level, discuss the overall objectives of SQMS No. 1.
2. At a high level, discuss the overall objectives of SQMS No. 2.
3. Discuss what is meant by the term, quality risks.

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## B. Suggested Answers to Discussion Problems

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1. A new quality management section of the AICPA *Professional Standards* called *Statement on Quality Management Standards (SQMS)* supersedes *Statement on Quality Control Standards (SQCS) No.8*. It converges with international quality management standards issued in December 2020, which will also be the foundation for PCAOB quality management standards for audits of issuers.

There were two SQMS that were issued simultaneously. SQMS No. 1 addresses the firm's responsibility for establishing a system of quality management. SQMS No.2 contains requirements related to appointing engagement control reviewers and performing quality control reviews.

SQMS No. 1 requires a firm to design, implement and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice. It consists of:

- Eight components that operate in an iterative and integrated manner.
- Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services and documentation.

SQMS No. 1 introduces a new risk assessment process aimed at achieving quality objectives. The firm is required to establish prescribed quality objectives, assess quality risks and design and implement responses. SQMS No. 1 also requires the firm leadership to annually evaluate and conclude whether the system of quality management is meeting its objectives. SQMS No. 1 requires that the firm determine when an engagement quality review is an appropriate response to quality risks.

2. An Engagement Quality (EQ) reviewer performs the review at the engagement level on behalf of the firm. SQMS No. 2 addresses the following:
- The appointment and eligibility of the EQ reviewer and
  - Performance of engagement quality reviews.

An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks.

3. Quality risks are where there is a reasonable possibility of the risk occurring, and individually (or in combination with other risks) adversely affecting the achievement of one or more quality objectives. Consider both the expected frequency of occurrence and speed of impact before a firm would have an opportunity to mitigate the effect. Not all risks meet the definition of a quality risk based on professional judgment.

## GLOSSARY OF KEY TERMS

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**Equity Security**—Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices.

**NOCLAR**—Noncompliance with laws and regulations; acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations.

**Portfolio Layer Method**—formerly known as the “last of layer” method; enables an entity to apply fair value hedging to a stated amount of portfolios of prepayable and nonprepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable and nonprepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets.

**Quality Control**—Firms with accounting and auditing practices under the AICPA Code of Professional Conduct were required to have a system of quality control under QC 10. The system of quality control should include policies and procedures addressing leadership, ethics, acceptance and continuance of clients and engagements, HR, engagement performance, and monitoring. The goal of the quality control system is to provide reasonable assurance that the firm and its personnel are complying with both professional standards and laws and regulations, as well as issuing appropriate reports.

**Quality Management**—New AICPA guidance issued to replace the SQCSs. SQMS 1 provides guidance on a firm’s system of quality management, while SQMS 2 provides guidance on engagement quality reviews and reviewers. SAS 146 provides the guidance on quality management of an audit engagement performed under GAAS. SSARS 26 provides quality management requirements for engagements under the SSARS. The new standards move from a policies-based approach to a risk-based approach, with firms assessing risks to audit quality and tailored techniques.



## CUMULATIVE INDEX 2022

### BY TOPIC

<b>Topic</b>	<b>Month–Page</b>	<b>Topic</b>	<b>Month–Page</b>
Accounting and Financial Reporting for Personal Financial Statements .....	May-3	Compensation Expense .....	Nov-5
Accounting and Review Services Committee .....	May-45, Nov-36	Compilation Engagements.....	Nov-35
Accumulated Rights .....	Jan-4	Compilations .....	Jan-43, Feb-25
Agreed Upon Procedures.....	Oct-41	Compliance Audit .....	Jun-24, Sept-25
Allocation Basis Adjustments.....	Dec-5	Component Auditors .....	Sept-25, Oct-26
Allowance for Credit Losses .....	Dec-7	Computer Security Incident Response Teams ...	Sept-8
American Rescue Plan.....	Jun-23	Constructive Receipt .....	Aug-5
Analytical Procedures.....	Jan-43, May-45	Contingencies .....	Feb-3
Annual Service Cost .....	Jul-6	Contract Assets.....	Jun-5
Anticipated Forfeitures .....	Jan-4	Contract Liabilities .....	Jun-5
Assertion-Level Control .....	May-28	Contracts with Customers.....	Jun-5
Assessing Control Risk.....	May-25	Contractual Basis.....	Mar-7
Attest Engagements .....	Nov-35	Control Deficiency .....	Mar-48
Audit Deficiencies .....	Aug-25	Control Environment.....	May-27
Audit Evidence .....	Aug-43	Control Reliance Plan.....	May-28
Audit Planning.....	Aug-46	Control Risk .....	May-30, Aug-48
Audit Risk .....	May-25	Corporate Social Responsibility Reporting.....	Jul-21
Audit Services .....	Aug-25	Covered Member .....	Oct-42
Auditing Accounting Estimates .....	Aug-43	Credit Losses .....	Dec-5, 6
Auditing Standards Board .....	Oct-41	Creditors.....	Aug-3
Auditor's Point Estimate .....	Aug-49	Cryptocurrency.....	Nov-17
AUP Engagements .....	Oct-41	Cryptography.....	Nov-17
Benefit/User Service Approach .....	Jul-6	Current Expected Credit Loss.....	Aug-45, 49, Dec-6
Binomial Model.....	Jun-3	Cyber Security Risk Management.....	Sept-3
Bitcoin .....	Nov-17	Cybersecurity Risk Management Reporting Framework.....	Sept-9
Black Scholes .....	Jun-3	Cybersecurity Risks.....	Jan-20, Sept-3
Botnets.....	Sept-3	Debt Instruments .....	Aug-45
CARES Act .....	Jun-23, Sept-45	Deferred Compensation.....	Jul-3
Cash Basis .....	Mar-4	Deferred Compensation Arrangements....	Jul-3, Aug-3
Client Confidentiality .....	Dec-20	Depositor.....	Nov-22
Climate Change .....	Oct-3	Depreciation .....	Aug-49
Code of Professional Conduct .....	Mar-21, Oct-25	Derivatives .....	Nov-22
Commercial Organization.....	Jun-25	Digital Assets .....	Nov-17
Communication .....	Mar-56	Digital Fluency .....	Jan-20
Comparative Financial Statements .....	Nov-41	Direct Control.....	May-28
Compensation.....	Aug-3	Direct Financial Relationship .....	Oct-42
Compensated Absences .....	Jan-3	Discounted Cash Flow Method .....	Dec-7

<b>Topic</b>	<b>Month–Page</b>	<b>Topic</b>	<b>Month–Page</b>
Distributed Ledger.....	Nov-17	Impairment of a Loan.....	Feb-5
Economic Benefit Doctrines.....	Aug-5	Income Tax Basis.....	Jun-47
Employee Retention Credit.....	Sept-45	Incurred Loss Impairment.....	Dec-6
Employee Stock Options.....	Nov-3	Indefinite Lived Asset.....	Nov-18
Engagement Letters.....	Feb-25, Oct-44	Independence.....	Mar-21, Dec-19
Engagement Quality Review.....	Dec-36	Independent.....	Oct-42
Entity's Ability to Continue as a Going Concern.....	Feb-5	Indirect Controls.....	May-28
Entity-Level Controls.....	May-28	Information and Communication.....	Dec-34
Environmental.....	Jul-21	Inherent Risk.....	May-29, Aug-48
Equity-Classified Share-Based Awards.....	Jun-3	Inquiries.....	Jan-43, May-45
Equity Securities.....	Aug-7	In Relation to Opinion.....	Jun-26
ESG.....	Jul-21	Interest Rate Risk.....	Dec-3
Estimated Current Values.....	May-4	Internal Control.....	May-27, Aug-47
Exit Value.....	Feb-11	Internal Control Deficiencies.....	Mar-47
Expenditure Metrics.....	Oct-5	Internal Controls Over Compliance.....	Jun-28
Fair Value.....	Feb-4	International Financial Reporting Standards.....	Jul-25
Fair Value Hedging.....	Dec-3	Jury Duty.....	Jan-5
Fair Value Measurement.....	Dec-8	Key Controls.....	May-28
Fair Value Measurement of Equity Securities ...	Dec-3	Known Events.....	Jul-42
Financial Reporting Framework.....	Mar-8	Last of Layer Method.....	Dec-3
Financial Risk.....	Oct-3	Leadership and Governance.....	Dec-34
Findings.....	Oct-47	Lease Accounting.....	Jun-7
Finite Lived Asset.....	Nov-18	Lease Standard.....	Aug-43
First Party Insurance.....	Sept-9	Limited Assurance.....	Jan-43, May-45, 49
FRF for SMEs.....	Mar-10	Liquidation Basis of Accounting.....	Jul-46
GAGAS.....	Jun-25	Loan Refinancing and Restructurings.....	Dec-6
Going Concern.....	Jul-41	Loss Contingencies.....	Feb-4
Governance.....	Mar-56, Jul-21	Lump Sum Payments Under Union Contracts ...	Aug-3
Government Assistance.....	Sept-45	Maladvertising.....	Sept-3
Government Auditing Standards.....	Jun-23, 25	Malware.....	Sept-3
Government Orders.....	Sept-48	Management.....	Mar-56
Grantor Trust.....	Aug-3	Management's Discussion and Analysis.....	Jul-25, Nov-41
Greenhouse Gas Emissions.....	Oct-3, Oct-11	Material Climate Impacts.....	Oct-11
Greenhouse Gas Emissions Disclosures.....	Oct-3	Material Weakness.....	Mar-48, 56, Aug-47
Gross Receipts Test.....	Sept-48	Medicaid.....	May-48
Group Audits.....	Sept-25	Medical Care Providers.....	Sept-45
Group Audit Engagement.....	Oct-26	Medicare.....	May-48
Group Audit Engagement Partner.....	Dec-21	Merger and Acquisition.....	Aug-25
Hedged Risk.....	Dec-3	Military Service.....	Jan-5
Impairments.....	Aug-45, 48		

<b>Topic</b>	<b>Month–Page</b>	<b>Topic</b>	<b>Month–Page</b>
NOCLAR .....	Oct-23, Dec-19	Qualitatively .....	Feb-5
Non-Compliance with Laws and Regulations .....	Oct-23	Quality Control Standards .....	Dec-33
Non-Compliance with Laws or Regulations....	Dec-19	Quality Management .....	Dec-33
Non-Federal Entity .....	Jun-23	Quality Management Standards.....	Dec-33
Nonfungible Tokens .....	Nov-17	Quality Risk .....	Dec-34
Non-GAAP Measures.....	Aug-26	Quantitatively .....	Feb-5
Non-Qualified Deferred Compensation Plan .....	Jul-3	Rabbi Trusts .....	Jan-3, Jul-3, Aug-3
Non-Retirement Post-Employment Benefits .....	Jan-3, Aug-3	Ransomware.....	Sept-3
Nonvested Shares .....	Nov-3	Ratio .....	May-50
Nursing Homes.....	Sept-45	Reasonable Application of a Reasonable Valuation Method.....	Jun-3
Objectivity .....	Dec-19	Regulatory Basis .....	Mar-7
Other Comprehensive Basis of Accounting.....	Mar-3	Relevant Assertion .....	May-30
Other Comprehensive Income .....	Aug-7	Remote Auditing .....	Jan-19
Option Pricing Model.....	Jun-3	Representation Letter .....	Oct-47
PCAOB .....	Aug-25	Required Supplementary Information.....	Nov-40, Nov-41
Peer Reviews .....	May-25	Responsible Party .....	Oct-42
Penetration Testing.....	Sept-7	Restricted Stock.....	Nov-5
Pension .....	Aug-48	Restricted Stock Awards .....	Nov-3
Personal Financial Statements .....	May-3	Revenue Procedure.....	Aug-5
Phishing.....	Sept-3	Review Engagements .....	Jan-43, May-45
Plan A.....	Aug-5	Reviews.....	Jan-43
Portfolio Layer Method .....	Dec-3	Risk Assessment.....	May-25
Predictive Tests .....	May-50	Risk Assessment Process.....	Dec-34
Prescribed Format.....	Nov-39	Risk-Based Approach.....	Dec-34
Prescribed Forms .....	Nov-40	Risk of Material Misstatement .....	May-25, Jul-23, Aug-48
Preventive Controls .....	Sept-5	Risks and Uncertainties Disclosures.....	Feb-7
Principal Market .....	Nov-20	Sabbatical Leave .....	Jan-6
Primary Recipient.....	Jun-23	Schedule of Expenditures of Federal Awards...	Jun-26
Professional Ethics Executive Committee .....	Mar-21, Oct-23	Share-Based Awards .....	Jun-3
Professional Judgment.....	May-26	Significant Deficiencies.....	Mar-48, 56, Aug-47
Professional Skepticism.....	Dec-33	Single Audit .....	Jun-23
Professional Standards.....	Dec-33	Sinking Fund Approach.....	Jul-6
Program Specific Audit .....	Jun-25	Social.....	Jul-21
Provider Relief Fund .....	Jun-23	Special Purpose Frameworks.....	Mar-3
Public Business Entities.....	Dec-7	Special Purpose Acquisition Companies .....	Aug-25
Public Company Accounting Oversight Board .....	Aug-25	Split Dollar Life Insurance .....	Jul-4
Qualified Compensation Plan .....	Jul-3	Stable Coin.....	Nov-22
		Stand-Back Requirement.....	Dec-43

<b>Topic</b>	<b>Month–Page</b>	<b>Topic</b>	<b>Month–Page</b>
Statement of Changes in Net Worth .....	May-4	Those Charged with Governance.....	Mar-56
Statement of Financial Condition .....	May-4	Trading Securities .....	Aug-7
Statement on Quality Control Standards.....	Dec-34	Transition Plans .....	Oct-11
Stock Appreciation Rights.....	Aug-3	Transition Risks .....	Oct-3
Stock-Based Compensation .....	Jan-3, Jul-3, Aug-4	Treasury Stock.....	Aug-5
Stock Compensation.....	Jun-3	Trouble Debt Restructurings .....	Dec-6
Strategic Risk .....	Oct-3	Troubled Debt Restructuring.....	Dec-3, 6
Subrecipient.....	Jun-23	U.S. Department of Health and Human Services.....	Jun-23
Subsequent Discovery of Facts.....	Jun-47	User Authority.....	Sept-5
Subsequent Events.....	Jun-47	Vesting Rights.....	Jan-4
Summary of Significant Accounting Policies ....	Mar-9	Vintage Disclosures.....	Dec-6
Supplementary Information .....	Nov-40	Whistle Blowers .....	Sept-7
Supply Chain Disruption .....	Aug-26	Whole Disk Encryption .....	Sept-6
Sustainability .....	Jul-21, Oct-3	Yellow Book .....	Jun-23
Tax Basis.....	Mar-3	Yellow Light Disclosure.....	Jul-46
Third Party Custodian.....	Nov-17	Zoom Fatigue .....	Jan-23
Third Party Insurance .....	Sept-9		

### BY CITATION

<b>Citation</b>	<b>Month–Page</b>	<b>Citation</b>	<b>Month–Page</b>
AR 300 .....	Nov-40	ASU 2021-08 .....	Jun-5
AR-C 70 .....	Feb-26	ASU 2021-09 .....	Jun-7
AR-C 80 .....	Feb-25, Nov-40	ASU 2021-10 .....	Jun-8
AR-C 90 .....	Jan-43, May-46	ASU 2022-01 .....	Dec-3
AR-C 90.25 .....	Jan-44	ASU 2022-02 .....	Dec-6
ASC 205-40.....	Jul-49	ASU 2022-03 .....	Dec-8
ASC 450 .....	Feb-3	AT-C §100 .....	Oct-41
ASC 606.....	May-46, Jun-5	AT-C §215 .....	Oct-41
ASC 710 .....	Jan-3	AU-C 265.....	Mar-47
ASC 712 .....	Nov-3	AU-C 800.....	Mar-9
ASC 715 .....	Nov-3	AU-C §315.....	May-25
ASC 718 .....	Jun-3, Nov-3	AU-C §600.....	Dec-22
ASC 815.....	Dec-3	CECL Model.....	Feb-10
ASC 832.....	Jun-8	ERISA .....	Jul-3
ASC 842.....	Jun-7	FASB 5.....	Mar-49
ASU 2014-15.....	Feb-5	FASB ASC 450-20-05-6 .....	Feb-11
ASU 2016-13.....	Feb-10, Dec-6	FASB ASC 710 .....	Aug-3
ASU 2017-12.....	Dec-3	FASB ASC 710-10.....	Aug-3
ASU 2021-07.....	Jun-3	FASB Statement 114.....	Feb-5

<b>Citation</b>	<b>Month–Page</b>	<b>Citation</b>	<b>Month–Page</b>
SAS 122 .....	Sept-25	Topic 350 .....	Nov-18
SAS 134 .....	Aug-45	Topic 450 .....	Jan-4, Feb-3
SAS 142 .....	Sept-31	Topic 450-30-25-1.....	Feb-7
SAS 143 .....	May-30, Aug-43	Topic 505 .....	Aug-5
SAS 145 .....	May-25, 29, Sept-31	Topic 606 .....	Nov-19
SAS 146 .....	Dec-37	Topic 610 .....	Nov-21
Section 718.....	Nov-3	Topic 610-20.....	Jun-6
Section 205-30.....	Jul-47	Topic 710 .....	Feb-4, Jul-3
SOP 82-1 .....	May-3	Topic 710-10-25-1.....	Jul-4
SQMS No. 1 .....	Dec-34	Topic 712 .....	Jan-3, Feb-4
SQMS No. 2 .....	Dec-36	Topic 715 .....	Jan-3, Feb-4
SSARS 1.....	May-45	Topic 718 .....	Jan-3, Feb-4
SSARS 3.....	Nov-40	Topic 740 .....	Jan-4, Feb-4, Jul-5
SSARS 19.....	Nov-35	Topic 805 .....	Jun-6
SSARS 21.....	Nov-35	Topic 815 .....	Nov-19
SSARS 25.....	May-49	Topic 820 .....	Feb-4, May-5, Nov-20, Dec-8
SSARS 26.....	Dec-38	Topic 842 .....	Feb-3
Statement of Position 96-1.....	Feb-12	Topic 845 .....	Nov-19, 21
Topic 274 .....	May-3, 4	Topic 944 .....	Feb-4
Topic 275 .....	Feb-6	Topic 946 .....	Nov-18, 22
Topic 310 .....	Feb-10, Dec-6	Topic 958 .....	Jun-8
Topic 326 .....	Dec-5, 6		

### BY SPEAKER

<b>Speaker</b>	<b>Month</b>	<b>Speaker</b>	<b>Month</b>
Russ Madray.....	Jan-Feb, May-Aug, Nov-Dec	Kurt Oestriecher .....	Jan-Mar, May-Nov
Jennifer Louis.....	Jan, Mar, May-Dec		



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

1. According to Russ Madray, ASU 2022-01 clarifies guidance in which of the following ASC Topics?
  - A. ASC 310.
  - B. ASC 326.
  - C. ASC 815.
  - D. ASC 820.
  
2. According to Russ Madray, ASU 2022-01 renames the “last of layer” method to which of the following?
  - A. Last In First Out method.
  - B. Portfolio layer method.
  - C. First In First Out method.
  - D. First of layer method.
  
3. According to Russ Madray, ASU 2022-02 does which of the following related to the guidance in ASC 310 on troubled debt restructurings (TDRs)?
  - A. It amends the guidance on TDRs in ASC 310.
  - B. It eliminates the disclosure requirements in ASC 326.
  - C. It eliminates the guidance on TDRs in ASC 310.
  - D. It amends the incurred loss impairment method.
  
4. According to Russ Madray, ASU 2022-03 relates to fair value measurement of which of the following?
  - A. Equity securities subject to a contractual sale restriction.
  - B. Debt securities subject to a contractual sale restriction.
  - C. Equity securities subject to conversion rights.
  - D. Equity securities subject to appreciation rights.
  
5. According to Russ Madray, when does ASU 2022-03 become effective for public business entities?
  - A. Fiscal years that begin after December 15, 2022.
  - B. Fiscal years that begin after December 15, 2023.
  - C. Fiscal years that begin after December 15, 2024.
  - D. Fiscal years that begin after December 15, 2025.

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6. According to Jennifer Louis, the AICPA has created how many areas of guidance related to the Code of Professional Conduct?
  - A. Two.
  - B. Three.
  - C. Four.
  - D. Five.
  
7. According to Jennifer Louis, the new ethical interpretations will be effective for which of the following dates?
  - A. December 31, 2022.
  - B. January 1, 2023.
  - C. June 30, 2023.
  - D. December 31, 2023.
  
8. According to Jennifer Louis, the noncompliance in NOCLAR is always which of the following?
  - A. Intentional.
  - B. Unintentional.
  - C. Contrary to prevailing laws and regulations.
  - D. An act of commission.
  
9. According to Jennifer Louis, who is ultimately responsible for compliance with laws and regulations?
  - A. The auditors.
  - B. The attorneys.
  - C. Management and governance of the organization.
  - D. Shareholders.
  
10. According to Jennifer Louis, which of the following is **not** a specific documentation consideration that a member should comply with, including auditors?
  - A. What was identified.
  - B. The results of any conversations with management and/or governance.
  - C. How the parties involved responded.
  - D. The stock price at the end of the period.
  
11. According to Jennifer Louis, when will the new quality management standards and the related changes become effective for audits and reviews of financial statements?
  - A. For periods beginning on or after December 15, 2023.
  - B. For periods beginning on or after December 31, 2023.
  - C. For periods beginning on or after December 31, 2024.
  - D. For periods beginning on or after December 15, 2025.

*Continued on next page*

12. According to Jennifer Louis, SQMS No. 1 focuses on which of the following?
- A. The firm's quality management when it has a tax and consulting practice.
  - B. The firm's quality management when it has an accounting and auditing practice.
  - C. The engagement quality review.
  - D. The engagement quality reviewer.
13. According to Jennifer Louis, an important addition to the quality management standards that did not exist under the prior quality control standards is which of the following?
- A. The intention for it to be a risk-based approach.
  - B. A governance and leadership component.
  - C. Acceptance and continuance of clients component.
  - D. Monitoring.
14. According to Jennifer Louis, a new component added to SQMS No. 1 was which of the following?
- A. Control environment.
  - B. Information and communication.
  - C. Acceptance and continuance of clients.
  - D. Monitoring.
15. According to Jennifer Louis, how does SAS 146 reflect the new quality management standards?
- A. It is more firm based.
  - B. It is less engagement specific.
  - C. It is more engagement specific, specifically related to the EP.
  - D. It is network specific.



## Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to [CPLgrading@thomsonreuters.com](mailto:CPLgrading@thomsonreuters.com).

How would you rate the topics covered in the December 2022 **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
FASB Update	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Auditor’s Responsibility for Fraud and NOCLAR	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Quality Management Standards	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the December 2022 issue of **CPE Network® A&A Report** did you like the most, and why?

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Which segments of the December 2022 issue of **CPE Network® A&A Report** did you like the least, and why?

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

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How would you rate the effectiveness of the speakers in the December 2022 CPE Network® A&A Report? Rate each speaker on a scale of 1–5 (5 highest):

	<b>Overall</b>	<b>Knowledge of Topic</b>	<b>Presentation Skills</b>
Russ Madray	_____	_____	_____
Jennifer Louis	_____	_____	_____

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD  Streaming  Both

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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  \_\_\_\_\_

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**Once Again, Thank You...**

**Your Input Can Have a Direct Influence on Future Issues!**





# CHECKPOINT LEARNING NETWORK

# CPE NETWORK<sup>®</sup>

# USER GUIDE

REVISED March 11, 2022

## Welcome to CPE Network!

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 CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **Transitioning From DVDs:** For groups playing the video from the online platform, we suggest downloading the video from the Checkpoint Learning player to the desktop before projecting.
- **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), Checkpoint Learning 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 each of the 3 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.) Checkpoint Learning 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 Thomson Reuters.

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 CPE Network for your training solutions.  
Thank you for your business and HAPPY LEARNING!**

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# “Group Live” Format

## CPE Credit

All 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:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning 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 Checkpoint Learning 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 either in print or online.

- If the print 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 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 Checkpoint Learning 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 Checkpoint Learning 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 Checkpoint Learning 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 Checkpoint Learning 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

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

## Requesting Participant CPE Certificates

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

**Mail:** Thomson Reuters  
PO Box 115008  
Carrollton, TX 75011-5008

**Email:** [CPLgrading@tr.com](mailto:CPLgrading@tr.com)

**Fax:** 888.286.9070

**When sending your package to Thomson Reuters, 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 Thomson Reuters 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 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:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning 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 Checkpoint Learning 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.

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 ask 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.

### **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 print 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 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 Checkpoint Learning 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 Checkpoint Learning 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 Checkpoint Learning 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 Checkpoint Learning 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

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. It should look something like the screenshot below. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

**Alternatively, for those without a DVD drive, 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 Checkpoint Learning Network by one of the following means:

**Mail:** Thomson Reuters  
PO Box 115008  
Carrollton, TX 75011-5008

**Email:** [CPLgrading@tr.com](mailto:CPLgrading@tr.com)

**Fax:** 888.286.9070

**When sending your package to Thomson Reuters, you must include ALL the following items:**

<b>Form Name</b>	<b>Included?</b>	<b>Notes</b>
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
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 Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

**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—Print

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

- Watch the DVD.
- 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.
- Mail your completed quizzer and survey to:

**Thomson Reuters**  
**PO Box 115008**  
**Carrollton, TX 75011-5008**

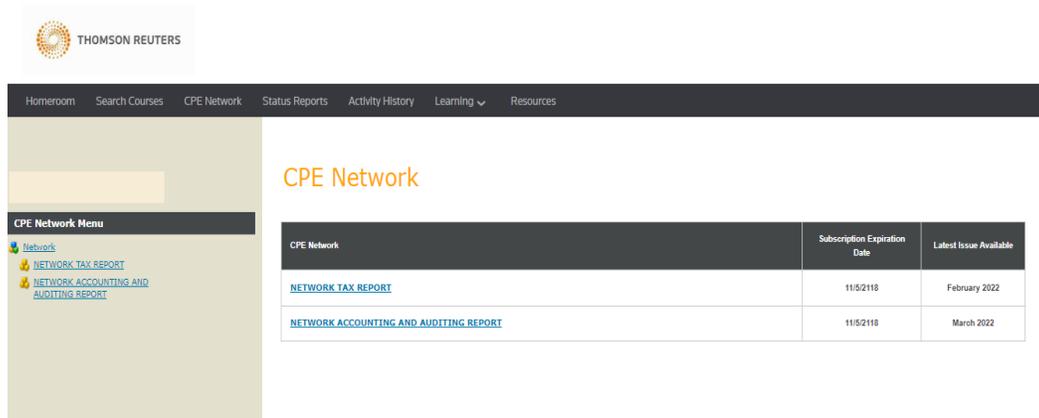
## Self-Study—Online

Follow these simple steps to use the online program:

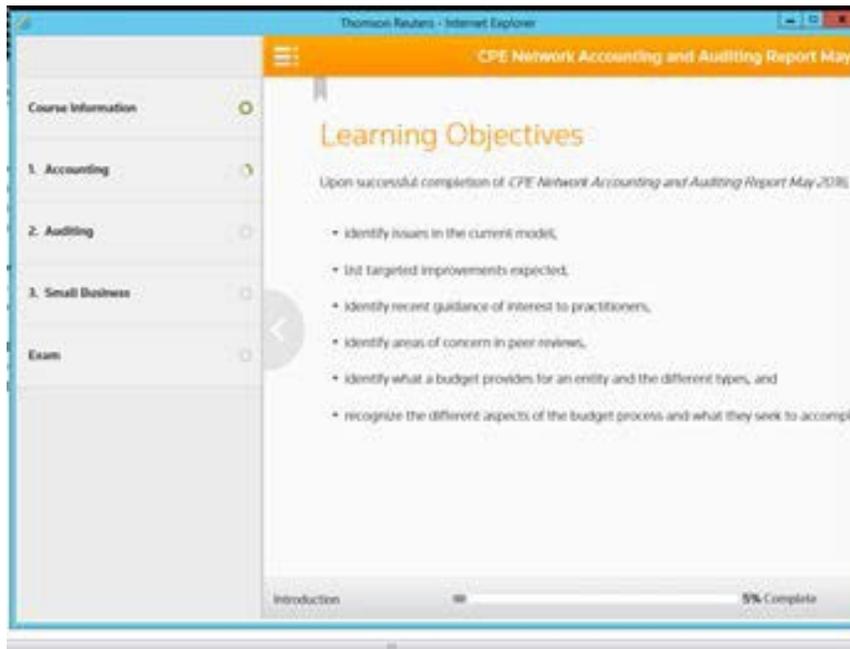
- Go to [www.checkpointlearning.thomsonreuters.com](http://www.checkpointlearning.thomsonreuters.com).
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

The screenshot shows the homepage of Checkpoint Learning for CPAs. At the top, there is a navigation bar with the Thomson Reuters logo, 'CHECKPOINT LEARNING', and links for 'Contact Us', 'Login', and 'Start earning CPE credits'. Below the navigation bar is a search bar with the text 'Search courses'. The main content area features a large banner with the text 'Checkpoint Learning CPE for CPAs' and a sub-headline: 'The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more.' Below the banner, there are three columns of content: 'Achieve your goals, your way' with a sub-section 'Stay up to date', 'Formats for every learning style and schedule' with a sub-section 'Live events' (listing Webinars, Seminars, and Conferences), and 'On-demand courses' (listing Self Study and Online Grading, Nano Courses, and Video Learning). A woman wearing glasses and talking on a phone is visible in the background of the banner.

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

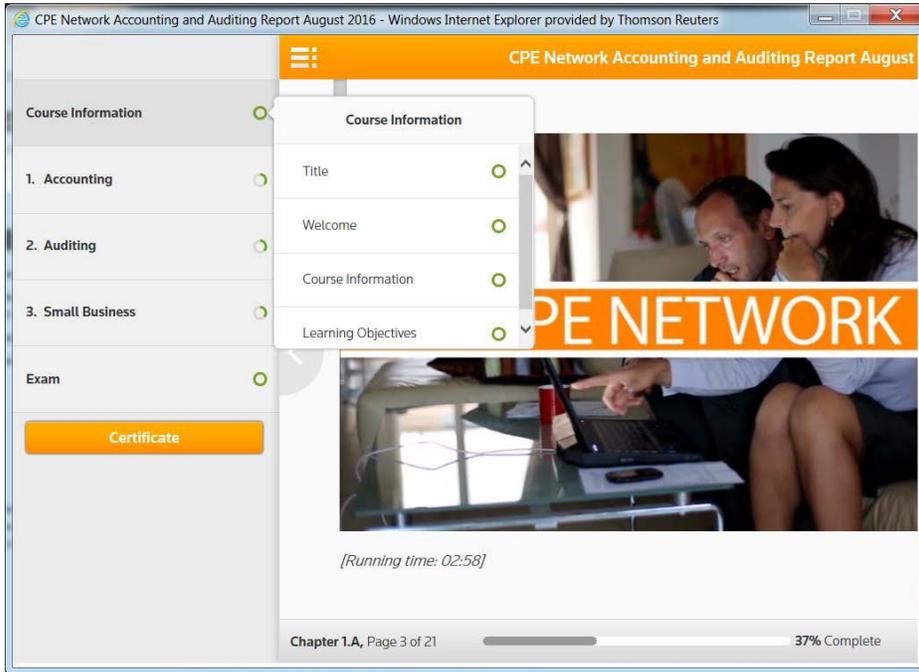


The Chapter Menu is in the gray bar at the left of your screen:

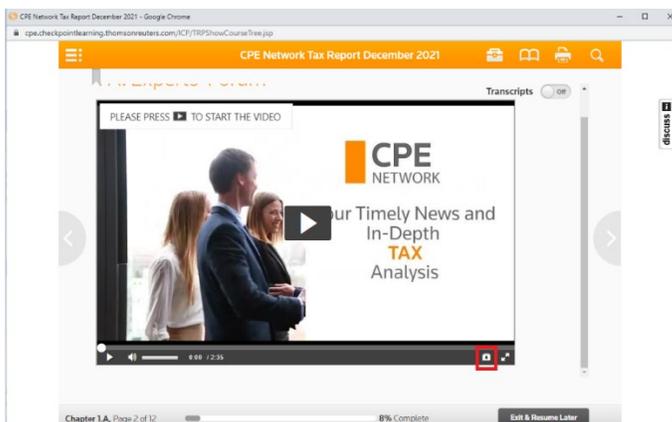


Click down to access the dropdown menu and move between the program Chapters.

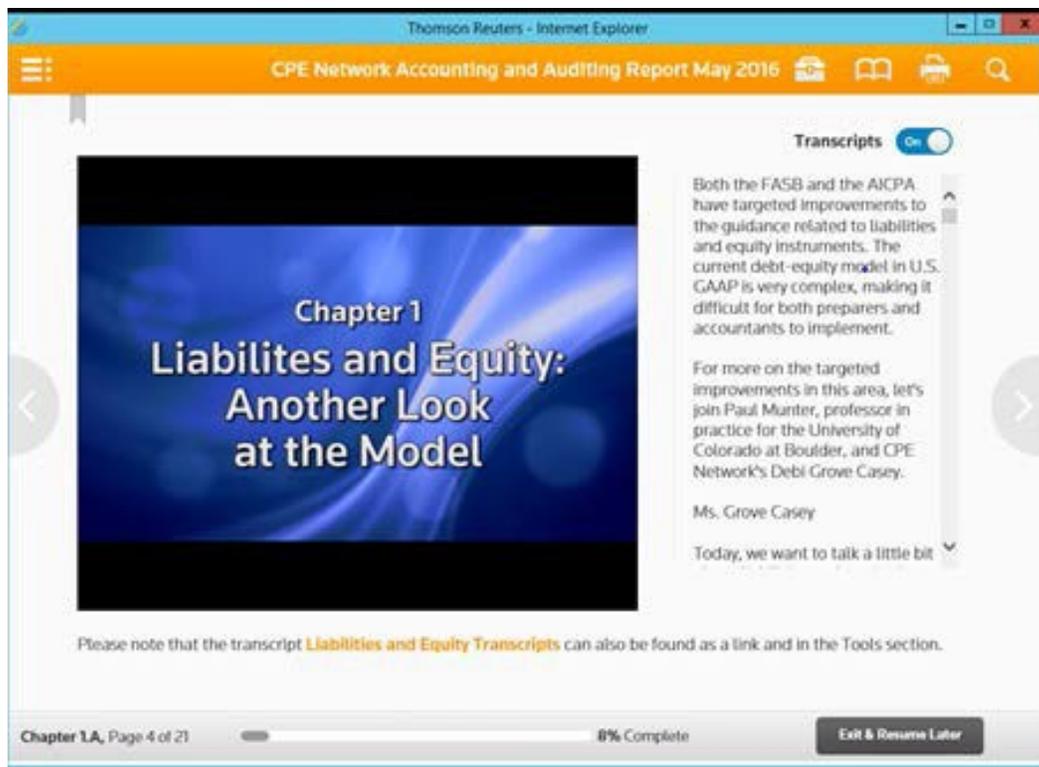
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



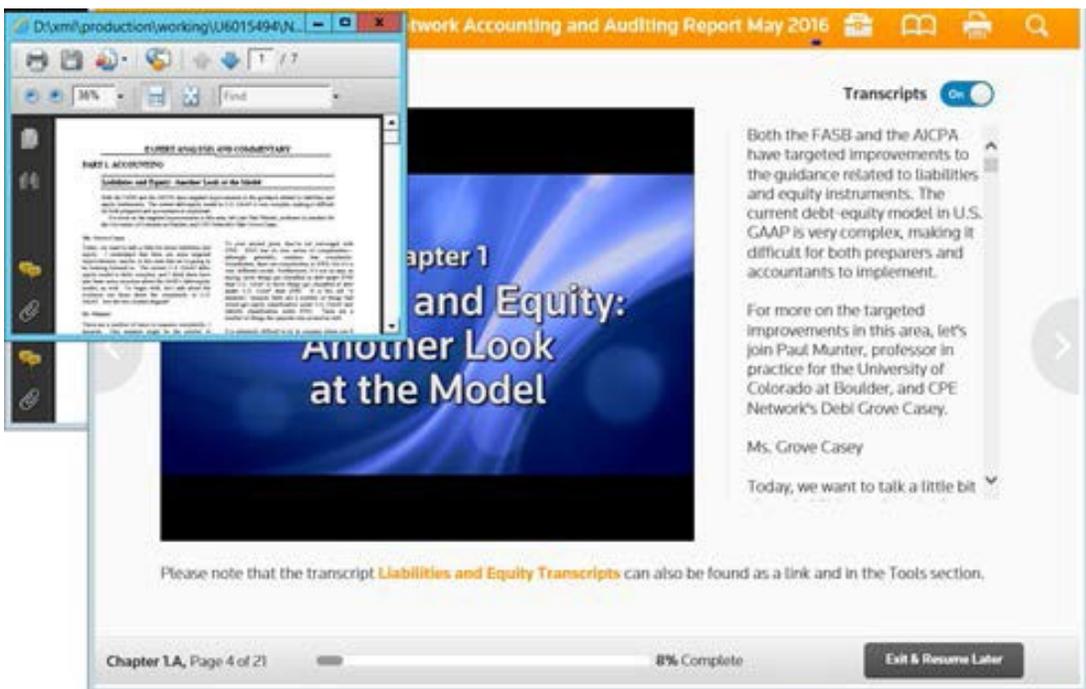
- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.



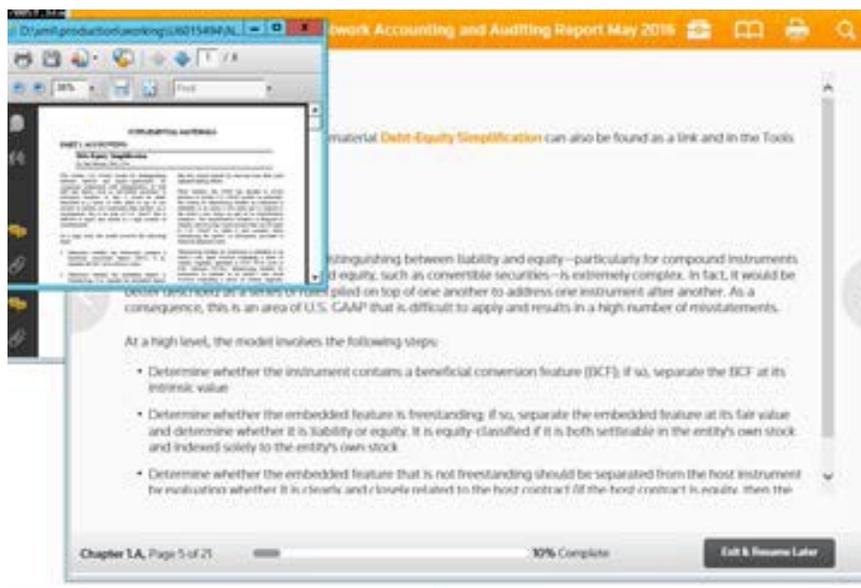
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



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. As with the transcripts, the supplemental materials are also 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 Discussion problems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.

The screenshot displays a web interface for a CPE course. The header is orange and contains the text "CPE Network Accounting and Auditing Report July 2016" along with icons for a menu, printer, and search. The main content area is titled "Suggested Answers to Discussion Problems" and contains three numbered items:

1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
  - Held-to-maturity
  - Trading
  - Available-for-sale

An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

At the bottom of the page, there is a progress bar labeled "Chapter 3.A, Page 20 of 20" and "100% Complete", and a button labeled "Exit & Resume Later".

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.

The screenshot displays a web interface for a CPE course. The header is orange and contains the text "CPE Network Accounting and Auditing Report June 2016" along with icons for a menu, printer, and search. The main content area is titled "Course Exams Completed" and contains the following text:

You have completed the exam for this course.

Please choose your next course of action by selecting on one of the buttons below.

"Review My Answers" will take you back through exam, giving you the opportunity to make changes.

[Review My Answers](#)

"Grade My Answers" will result in providing you with a final score for this course.

[Grade My Answers](#)

At the bottom of the page, there is a progress bar labeled "Course, Completed" and "100% Complete", and a button labeled "Exit & Resume Later".

- 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**

Checkpoint Learning 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.

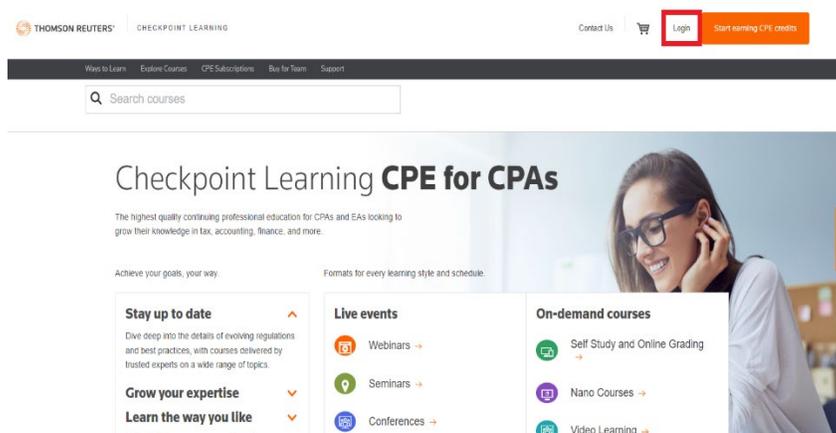
### **Print**

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**.

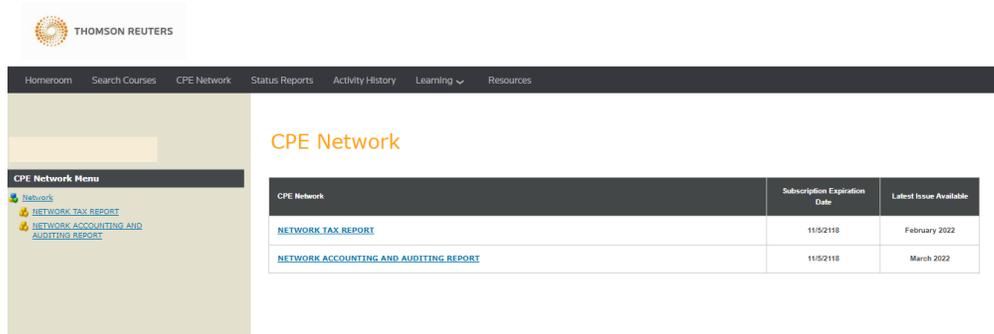
# Transitioning From DVDs

Follow these simple steps to access the video and pdf for download from the online platform:

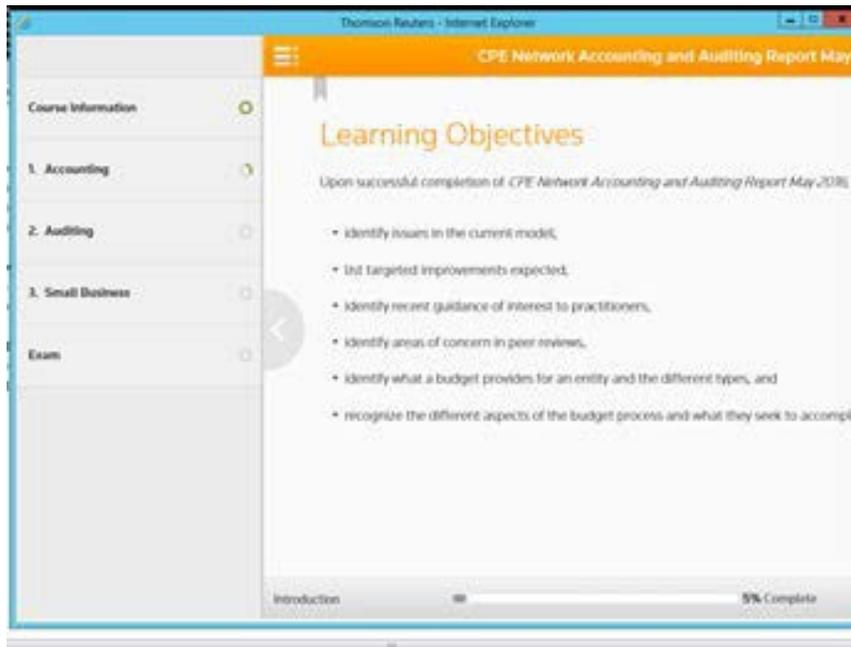
- Go to [www.checkpointlearning.thomsonreuters.com](http://www.checkpointlearning.thomsonreuters.com) .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



- In the CPE **Network** tab, select the desired Network Report by clicking on the title, then select the appropriate edition.

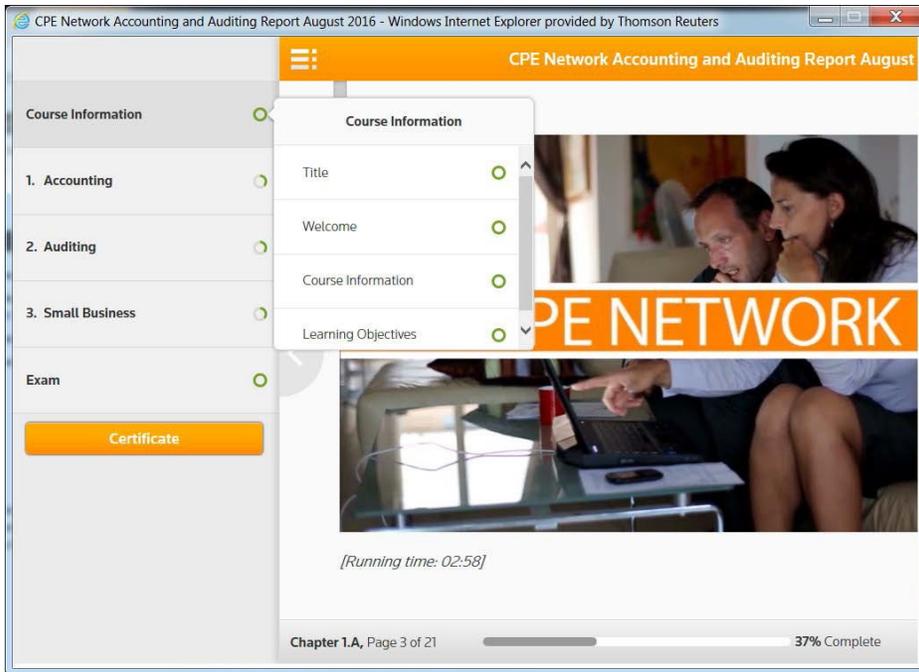


The Chapter Menu is in the gray bar at the left of your screen:



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 discussion questions.



Video segments may be downloaded from the CPL player by clicking on the download button noted above. Tip: You may need to use the scroll bar to the right of the video to see the download button.

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent by Checkpoint Learning CPE Customer Service.



# 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. Attached is a sample *Certificate of Attendance* you may use for your convenience.

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.
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.

<b>Delivery Method</b>	<b>Form Name</b>	<b>Location</b>	<b>Notes</b>
“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:

<b>Support Group</b>	<b>Phone Number</b>	<b>Email Address</b>	<b>Typical Issues/Questions</b>
Technical Support	800.431.9025 (follow option prompts)	checkpointlearning.techsupport@thomsonreuters.com	<ul style="list-style-type: none"><li>• Browser-based</li><li>• Certificate discrepancies</li><li>• Accessing courses</li><li>• Migration questions</li><li>• Feed issues</li></ul>
Product Support	800.431.9025 (follow option prompts)	checkpointlearning.productsupport@thomsonreuters.com	<ul style="list-style-type: none"><li>• Functionality (how to use, where to find)</li><li>• Content questions</li><li>• Login Assistance</li></ul>
Customer Support	800.431.9025 (follow option prompts)	checkpointlearning.cpecustomerservice@thomsonreuters.com	<ul style="list-style-type: none"><li>• Billing</li><li>• Existing orders</li><li>• Cancellations</li><li>• Webinars</li><li>• Certificates</li></ul>