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EXECUTIVE SUMMARY	1	AUDIT & ACCOUNTING PART 3	29
EXPERT ANALYSIS AND COMMENTARY	4	Identifying, Evaluating and Communicating Internal Control Deficiencies in an Audit.....	29
AUDIT & ACCOUNTING PART 1	4	SUPPLEMENTAL MATERIALS.....	40
Audit and Accounting Estimates and the Related Disclosures.....	4	Identifying, Evaluating, and Communicating Internal Control Deficiencies in an Audit.....	40
GROUP STUDY MATERIALS.....	15	GROUP STUDY MATERIALS	49
A. Discussion Questions	15	A. Discussion Questions	49
B. Suggested Answers to Discussion Questions...	16	B. Suggested Answers to Discussion Questions	50
AUDIT & ACCOUNTING PART 2	17	GLOSSARY	51
Reporting on Supplementary Information in SSARS Engagements.....	17	CPE QUIZZER	52
GROUP STUDY MATERIALS.....	27		
A. Discussion Questions	27		
B. Suggested Answers to Discussion Questions...	28		

EXECUTIVE SUMMARY

AUDIT & ACCOUNTING PART 1

Audit and Accounting Estimates and the Related Disclosures 4

Auditing accounting estimates presents unique challenges due to inherent uncertainty, subjectivity, and the potential for management bias. This program examines key concepts under SAS 143, explores common estimate areas under U.S. GAAP, and outlines effective audit planning, risk assessment, and response strategies. *[Running time: 44:46]*

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

- Identify accounting estimates and related disclosures that are subject to estimation uncertainty under U.S. GAAP and explain why they present heightened audit risk.
- Evaluate the impact of estimation uncertainty, management bias, and inherent risk on audit planning and the auditor's risk assessment process.
- Apply appropriate audit responses to accounting estimates, including testing management's process, developing an auditor's point estimate or range, and documenting significant judgments in accordance with SAS 143.

AUDIT & ACCOUNTING PART 2

Reporting on Supplementary Information in SSARS Engagements 17

In this session, Kurt Oestrieher explains how users of financial statements often request information beyond what accounting standards require. This course clarifies the distinction between supplementary information and required supplementary information and explains the specific compilation and review reporting responsibilities accountants must follow under SSARS to ensure transparency and compliance. *[Running time: 44:41]*

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

- Distinguish between supplementary information (SI) and required supplementary information (RSI) and identify when each applies under SSARS and U.S. GAAP.
- Determine appropriate compilation and review reporting responsibilities for supplementary information, including when information is compiled, reviewed, or not subjected to any procedures.
- Apply proper reporting modifications for required supplementary information, including omissions, departures, and unresolved doubts, in both compilation and review engagements.

AUDIT & ACCOUNTING PART 3

Identifying, Evaluating and Communicating Internal Control Deficiencies in an Audit..... 29

Communicating internal control deficiencies is a critical auditor responsibility that extends beyond issuing an audit opinion. This course explains how auditors identify, evaluate, document, and report control deficiencies, significant deficiencies, and material weaknesses in compliance with AICPA auditing standards. *[Running time: 44:52]*

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

- Define and differentiate control deficiencies, significant deficiencies, and material weaknesses in internal control over financial reporting in accordance with AU-C 265.
- Evaluate identified control deficiencies using likelihood and magnitude criteria to determine appropriate classification and reporting requirements.
- Apply proper communication and documentation requirements for internal control deficiencies identified during an audit, including timing, content, and recipients of communications.

ABOUT THE SPEAKERS

Kurt Oestrieher, CPA is a CPA and partner with Oestrieher and Company. He is in charge of accounting and auditing services, and is also involved in litigation support and small business consulting engagements. In addition to his client responsibilities, Kurt has served as a discussion leader for numerous accounting and auditing courses. He has served on the AICPA Accounting and Review Services Committee, and is currently serving a three-year term on the AICPA Council.

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

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

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AUDIT & ACCOUNTING PART 1

Audit and Accounting Estimates and the Related Disclosures

This segment provides an in-depth discussion of auditing accounting estimates under SAS 143. It explains why estimates differ from objective transactions, identifies common estimate areas such as revenue recognition, credit losses, impairments, and pensions, and examines how estimation uncertainty and management bias elevate inherent risk. The program outlines audit planning considerations, internal control evaluation, and appropriate audit responses, including testing management's process, using subsequent events, and developing independent estimates. Emphasis is placed on professional judgment, communication with governance, and robust documentation to support audit conclusions.

Mr. Oestrieher

Hello, and welcome to the CeriFi presentation in our accounting and auditing series related to auditing, accounting estimates, and related disclosures, and of course disclosures themselves that could be subject to estimate.

And why did we have this standard issued? And it was SAS 43 that was effective back in 2023. And the reason we needed the standard is because an estimate by its very nature means that there is not going to be a specific invoice or a specific third-party document that the auditor can examine or do other types of audit procedures to corroborate management's assertion and say, well, we know this is correct. By its very nature, the estimate was made by management.

Now, certainly in some cases, management may have had employed a specialist, such as for pension obligations, for defined benefit pension plans to come up with that number, but again it is management's estimate. And that inherently for obvious reasons, and we'll discuss them in more detail, makes this difficult to audit because I have to express an opinion as to whether or not the financial statements are fairly stated. When I am corroborating or obtaining evidence that corroborates management's assertion and things are an absolute, it's easy to see how I can form an opinion.

But now if management is just telling me, this is my estimate and it's not a specific criteria, maybe there's criteria on how to develop the estimate, but there's obviously not specific criteria on what the estimate is, that's problematic for the auditor.

We all know that financial statements for quite some time now have had within the summary of significant accounting policies, a very specific disclosure that says use of estimates. And it lets the reader know that financial statements in accordance with U.S. GAAP require certain estimates. And so that puts the leader on alert that not everything is an absolute.

I have served as an expert witness from time to time, not very often, in matters that involve whether or not an auditor did his or her job. And often it comes down to these areas of estimates. And I will tell you sometime legal counsel and other people, even juries or judges, quite frankly, are surprised. You mean you can come up with a number, but somebody else might come up with a different number, but they both could be acceptable if they're within a certain range. Well, the answer is yes.

So, we thought you CPAs were nerdy type people and you were bean counters and everything was counted to the very penny. It's either right or wrong. It's binary. And I say, no, no, we're not engineers. That's how engineers work. And that's how I want engineers to work when they are building the bridges and the airplanes, bridges that I drive across or airplanes that I fly on.

But no, they're acceptable ranges. So not only are there estimates, in my 40 years in practice, there are many more things that are now subject to estimate than when I first got into practice. We had a few things that were subject to estimate. I think the most common is depreciation expense. That was probably the first time I realized, whenever I was taking accounting classes, it's like, wait a second. So you're saying this vehicle is going to become exactly worth or lose 20% of its value for exactly five years to get down to its salvage value?

Anyone old enough there to remember when we used to have salvage values and appreciation? Which by the way, that's an estimate itself. And the professors and we quickly learned and we accepted it as accounting students, as all of you out there that, okay, yeah, this makes sense. We can't be exact, but there needs to be some systematic rational methodology for reducing the value of assets.

Now, I still never have gotten, if I buy a building, I know it's going up in value, why I depreciate it, and I know why we do for tax returns, but I never have figured out why we do that for GAAP, but we do.

But in 40 years, it's grown way beyond just things like depreciation. We're going to get into various items or elements of the financial statements that require us to talk about the various challenges.

Let's look at some key definitions that are part of the standard because I will be discussing those throughout this course. And it's important to understand what we're dealing with and what these very specific definitions will cause very specific action by the auditor.

So, the first thing, let's talk about what is an accounting estimate. That's what this audit standard addresses. And it is a monetary amount for which the measurement is subject to estimation uncertainty.

So, I love that, it's kind of a roundabout definition. If I were writing this definition, I would have said an accounting estimate, something that is never going to be exact could vary from auditor to auditor or management to management, but it is a reasonable estimate of the amount that is trying to be measured. That's probably how I would have defined it. But estimation uncertainty, again, the word uncertainty is redundant. To me, every one of us knows that when something is estimated, there is a certain amount of uncertainty.

And then management point estimate. This is an important one. So that's actually the amount selected by management that they have said, well, we have estimated this is what this asset should be measured at, or this is what the liability or how the liability should be measured, or how the amounts that are in the disclosure should be disclosed or the monetary value to which they've been disclosed. So that is the management point estimate.

The auditor's point estimate or auditor's range. We will see that both of those terms used within this standard. And the definition is an amount or range of amounts developed by the auditor in evaluating management's points estimate. And that gives us our first clue that within this standard is not going to be just a matter of taking management's estimate and trying to obtain evidence to say, hey, their inputs were reasonable or their mathematical calculations were reasonable.

This definition leads us to understand that maybe we should independently develop some of our own estimates compared to what management has. That would be another way to look and obtain sufficient appropriate audit evidence.

Estimation uncertainty, that is another definition and it is defined as the susceptibility to an inherent lack of precision in measurement. So, I think we knew what it was, but it's just folks, it's inherent. It is in fact an estimate.

Now, this next one's important. Management bias, and we're going to talk about risk assessment. But we have to understand that if I am management and I am trying to make these financial statements look better than maybe economic reality was.

Well, there are certain things that I really can't change, but it's obvious fraud if I do. I you can always change anything, record a transaction incorrectly or not record a transaction that occurred or recorded transaction that didn't occur. But those are obvious areas where fraud would be involved. So I don't really want to go to jail as management, but there are these other areas where I can estimate things and I'm going to be on the side of that estimate or in that range of that estimate that truly benefits the company so I can get the better loan, so I can get a loan, so I can get a bonus, whatever.

And so management bias is a lack of neutrality by management in the preparation of information. Just as we have to be independent in order to issue an audit opinion, we have to understand that by definition management is never independent. And we almost have to accept the fact that management cannot be objective that management believes their company has done better, and that management is typically motivated to, again, be on that range of the estimate that benefits the company.

It doesn't mean that they're horrible people. It is just that management bias does exist, and we have to account for that when we're determining risk, which will then determine our response in order to get sufficient appropriate audit evidence.

So, the outcome of an accounting estimate. It's the last one I want to talk about is the actual monetary amount that results from the resolution of transactions, events, or conditions addressed by the accounting estimate. Meaning, and we'll talk about this, some things may be estimated, but then eventually we know, hey, this was the actual exact amount. And again, a very good example of that, we get into, we're going to talk about various examples, but the allowance for doubtful accounts, well, we're estimating that now, but four years from now, I can tell you exactly which of those accounts were written off and which weren't, which accounts weren't. And so we can look back and say, hey, on this date, we reserved X amount, but now four years later, we either collected it or absolutely written it off. There's nothing left in the subsidiary. Those four years ago and we can compare it. So that would be the outcome.

And that is something we can do to measure over time to say, okay, how reasonable have managements estimates been in the past in a certain area? If they're continuing to have estimates in the future in this area.

And of course, your allowance or now we call it current expected credit loss. That would be a great example.

So, I've given you a couple of them. Let's look at some different areas now in GAAP. And I'm going again refer to U.S. GAAP. I know that we have accounting frameworks that are tax basis, but you follow the tax code. And again, on the accrual basis, yes, there might be some estimates, but I'm going to just keep this discussion on audited financial statements where the underlying applicable financial reporting framework is United States GAAP. And typically that will be FASB, which is for-profit and not-for-profit, or GASB, which will be governmental entities. And in both cases, we're going to have examples of where accounting estimates are inherent in the preparation of financial statements.

Let's talk about revenue recognition first. Obviously, we're talking about U.S. GAAP here. While there could be some estimates for governmental, ever since Topic 606 was applied and it was what, 2014 when the standard was first issued, it took five or six years to finally implement the standard. But think of all the estimates that are involved in revenue recognition.

Now, the contract with the customer isn't really an estimate. In some cases, maybe there could be for oral contracts, but in most cases, that's not the case. But once you look at the contract with the customer, identifying the performance obligations.

Sometimes it's very straightforward that there's just one performance obligation, but sometimes estimates are used to determine how many performance obligations are there. The allocation of the revenue, once you have multiple performance obligations, then determining, okay, well, how much of the revenue goes to the various performance obligation. If the revenue is recognized over time, now there are estimates built into, okay, how have we progressed toward that ultimate recognition of the revenue, will it be 40% there. What do we use to develop that particular estimate?

Even determining the price of some of these, when you're talking about the amount of revenue that is going to be allocated to a performance obligation, if they cannot be sold separately, then you have all these different models and methodologies that are included in the standard. So, revenue recognition obviously is the main thing.

Forty years ago, the biggest estimate was what was it earned at the end of the year. There are some weird issues maybe related to cutoff. I've already talked about depreciation. And again, I know typically we think of tax depreciation and no residual values and things like that. Of course, you can still have that within U.S. GAAP. Your current expected credit loss, that is a huge estimate that's involved with financial statement preparation under United States GAAP.

Now, again, depending on the entity, depending on how consistent their customers have paid in the past. We can get pretty close on these, but it's there.

Impairments, now that's where we have a big one. Goodwill, measuring goodwill impairment. By definition, almost all your goodwill when you're looking at that impairment testing, no one's out there trading and it's not on an active market. So what are you using? You're using level three inputs to determine that fair value.

So it could be goodwill, could be any other long-lived asset. So impairments are going to be subject to estimate. First of all, the first estimate is, is there an impairment? That's an estimate in and of itself. And then the amount of the impairment is another estimate.

Fair value, mainly in your level three fair value, but even sometimes in your level two fair value, when you're trying to determine if a market is active or inactive, or if it is identical or if it is a similar asset. Now, in most cases, that's very clear, but there are instances out there where you have to come up with an estimate to determine, am I classifying this between level one or level two?

And probably the biggest, or I guess the type of estimate that I've become aware of, or that I'm aware of, and most of you all, that can have the biggest swing on the multiple impact at the end. In other words, when we talked earlier about the definition of the outcome of an accounting estimate.

Well, allowance for doubtful accounts is pretty close, but folks, when you get into defined benefit pension plans, first of all, it's really hard to peg and say, was the actual amount? Because you almost have to look 40 years later where everyone that was in the plan is now dead. So you know exactly how much they've paid out. That's going to be pretty hard to do. In fact, I can't imagine any point in time in a plan, a defined benefit plan, when you can look back and say, okay, everyone that was in that plan has either wasn't covered by the plan or was covered by the plan, it's now deceased and there are other beneficiaries. I'm sure there's some points you can go back depending, but that's a long time.

And when you look at the estimates for defined benefit pension plans, and of course, actuaries get involved here, if you're doing any of this for governmental entities in accordance with the GASB 68, especially what the market has done the last five years.

Most of these plans assume an actuarial rate of return of between 6.75% to 7.25%. Well, these plans that are invested heavily in equities have done a lot better than that over the last five years. And so what used to be a defined benefit obligation is now overfunded plans in some cases.

Now, for many of your state and local governments, unfortunately, they're still very much underfunded, but they're underfunded by less now. The estimates of how long people are going to work, service lives, all those things can change. So I think we have the widest range of estimation uncertainty in the defined benefit plan compared to the other items that we've discussed that are subject to estimate.

And again, that is not considered an all-inclusive list, but these are just some of the areas that we have.

Now, from a disclosure standpoint, again, we tend to think of estimates are those are those items that run the general ledger. They're an asset or the liability, and we're going to make an adjusted journal entry. However, estimates are sometimes inherent in your disclosures.

Outcome of pending litigation. Many of y'all have been involved in financial statements where there's current litigation out there. And so how do we know if we accrue it or disclose it? Well, if the amount is probable, or the amount can be reasonably estimated, and it's probable that there will be a negative outcome. Well, how do I know? And first of all, how do I get my defense attorney or my attorney to say, yeah, we're probably going to lose this case and the range is going to be between \$6 to \$8 million.

In most cases, they'll say, no, I think we got to fight in chance there. Now you may have made an offer to settle. That doesn't mean you're probably going to lose, but trying to determine if we are in the probable, reasonably possible or remote for actually realizing that contingency.

That in and of itself is an estimate. And remember, contingencies are disclosed. So this is something that is not in the balance sheet or income statement or statement of cash flows. It's an estimate in the notes.

Non-monetary exchanges, we're estimating the value of that non-monetary exchange. A lot of times it can be close. We had some clients in the broadcast industry and there's a lot of swapping where, hey, we'll give you a couple of ads, but we get to use cars or you're going to outfit our weather person in our sports anchor and all these people and we'll give you a little mention at the end or a little 15 second ad or something like that. So those would be examples out there of nonmonetary changes.

So obviously the first step that you have to have in determining whether or you're going to apply the standard is are there accounting estimates in the financial statements? And I can tell you for 100% of the audits I've been involved in the answer is yes. For all those things I mentioned up there. Sometimes you don't have the more complex one.

But I cannot think of a single audit that we've ever been involved in where you did not have an accounting estimate. In fact, the only financial statements I believe that wouldn't have estimates would be just pure cash basis financial statements, you could have those subject to the audit, generally does not happen.

So now that we recognize that pretty much every audit out there is going to have estimate, let's talk about audit planning. How does that impact our audit planning? Well, we know that standards require us to obtain an understanding of the entity and its environment. So what environment, what type of industry are you in? What are the specific services or expenditures, revenues, whatever of this entity? And what are the transactions that this entity incurs that would be subject to estimates?

Folks, if it's a construction contractor, I think we all have at the very top of our list of that is, okay, how do they determine their percentage of completion? How do they determine if they are 30%, 40%, or 80% complete? Now, obviously, this is subject now to 606, but for the entire 40 years I've been in practice before we had 606, construction contractors, how did you come up with that estimate, okay? You look at your reporting framework, and again, I'm going to use the premise that our discussion here, we're going to limit it to United States GAAP, which would be the FASB or GASB.

What are their requirements as it relates to elements of the financial statements or the disclosures that are subject to estimate? Are there regulatory requirements? Many of you all may have seen over the years, my sister and I have presented on various topics through video online. We presented together with many things. And Anne, after she served her eight years, I believe in a big eight firm, that's how old we are, she worked for a big eight.

But actually she was there when they went to eight to six. She was with Touche Royce and then eventually worked with Deloitte and Touche. And she mainly audited smaller community banks. And then when she left Deloitte and Touche, she went to work for a pretty large regional bank called Hibernia Bank in Louisiana, which Capital One eventually acquired.

But Anne would give me, I won't call them horror stories, but she would brief me on discussions that she would have when she was in business and industry with their auditors and with their regulators on the biggest estimate they have, which is of course their allowance for credit losses or allowance for loan losses back then and how they came to it. So regulators would sometimes put undue pressure, which is interesting that they would say, well, this is how we interpret GAAP. Well, I thought management got to make those determinations, but ultimately it was their responsibility.

But trust me, there's always a feel out, if you will, of the regulatory issues out there. And then what type of accounting estimates and related disclosures are in the financial statements? So from a planning standpoint, that's at the higher level. Once we obtain that understanding of where estimates are inherent within these financial statements, our next question as auditors, okay, what internal control has the entity either designed, well, hopefully designed, and then implemented as it relates to those accounting estimates?

And the smaller the entity, the more likely they don't have internal control. And that doesn't mean they're bad people. That does not mean we cannot do the audit. But what it does mean is we can't be that internal control and we cannot make that estimate ourselves and then issue an audit opinion on that. This is another big change over 40 years. It used to be that we would just go in and make the estimate and it seemed reasonable to us, so we would give an unqualified opinion.

So if there is no internal control, well, management still has to come up with that number. I'm thinking off the top of my head, a construction contractor that we have, and what are there? There are three big areas of estimation. The revenue recognition that I've already discussed, allowance for loan losses, and appreciation. Well, this entity is it's large enough to have an in-house CPA but it's not big enough to, like the bank that my sister used to work, where you had an audit committee and specific internal controls. And then even within the accounting department, when an estimate was developed, there were internal controls put in place to have oversight, have review.

Quite frankly, there were internal controls to lock down the spreadsheet so that a formula wasn't actually written over. was one of their internal controls they had told me was that their spreadsheets that they used and had formulas, because they had some pretty complex formulas, that they were locked down because they had had instances in the past. And again, we're going back to the 1980s now, where instead of Excel, you had Lotus 1-2-3, where accounting errors were found because someone had actually replaced a formula with a hard number.

And then that, of course, impacted the rest of the calculations, and they had incorrect calculations. So, what internal controls do they have? Again, it's going to go from very sophisticated to regulated entities and public-contracted companies to very unsophisticated.

Now, that doesn't mean that for the unsophisticated entities, such as my small construction clients, that estimates weren't made and that the estimates weren't appropriate. It just means that there was no internal control. Therefore, control risk, of course, is at maximum. Even if the entity has internal controls over it, unless you're going to test those controls, it's going to be at maximum.

Obviously, for public companies, you're going to have those internal controls in that you're probably going to test to rely on those internal controls.

Are there specialized skills needed? Okay, so let's talk about the pension plan. I don't have a single governmental entity that could have made the calculations for a multi-employer defined benefit plan. Now, they have actuaries that do that, and quite frankly, the plan itself then has these schedules that are audited. Then the information from those audited schedules are used by the individual governmental entity to actually make the calculations, record their pension expense and pension liability in accordance with the standards and then have their footnotes. And then of course there's also required supplementary information.

So, what specialized skills are needed? And of course then if it's a specialist, use a specialist, okay? What is the entity's risk assessment process? And again, a larger company is going to have a very good risk assessment process. A smaller entity, they don't assess risk. So again, that's another thing that drives control risk up to maximum.

This is a key one. What type of information is the entity using to make their accounting estimate, whatever it might be? And then how accurate is the information coming out of that information system? So, if the key element in using or determining your credit losses is an aged accounts receivable, okay, how good is that information? Have you recalculated everything?

Folks, I have seen something as simple as that when you put in a new customer for many different types of software, there's also a certain number of days that you put in to say, okay, they're due net 30 or due in 30 days. And then the aging schedule, the zero to 30 isn't how old the receivable is, it's how old is it, is zero to 30 past due. So just understanding that nuance when you're looking at the aging is that how old the receivable is or how long is it past due, depending on the software can be different.

That's all we want to obtain an understanding of the entities information system. Any other control activities that might be there and then is there a management review of accounting estimates and if there is, is that independent of the actual estimate itself. So anytime you have accounting estimates, which is again, it's going to be in almost every entity, at some point in your planning process, you're going to talk about and address that in the internal control.

Now, the internal control, as we all know, is just part of your combined RMM, which is the risk of material misstatement. So your risk of material misstatement is the inherent risk times the control risk. We just talked about controls. It is my belief, and this is Kurt's opinion here, okay, but most people would not argue with me on this one, that the more an account classification or an account class is subject to estimate, the higher your inherent risk.

In fact, that is one of the key elements that drives up inherent risk for many of the account classes on the entities that we audit. If the asset or liability or whatever it is, maybe it's an income or expense, is just based on historical cost and it's not subject to estimation uncertainty, well, that's one of those things that's going to lower inherent risk but if something is subject to estimation, then it is going to increase.

But there's levels. Like depreciation, even though it's subject to estimate, there's really not a high inherent risk there that the financial statements would be materially misstated because we generally don't see a lot of variations in the methodology used to estimate depreciation with estimated class lives or the methodology used. And, even though I've never seen anyone use the sum of the year digits, we know that it's out there. Most people use straight line for both depreciation.

When you get into revenue recognition, when you get into your credit losses, those are the areas that drive up inherent risk. So, in your smaller audit, the fact that generally there's going to be fewer internal controls, if any, and if they do have internal controls, you're probably not testing them. So control risk is at maximum. The only way you can get rid of high inherent risk is if you do not believe that the estimates would drive up inherent risk.

But in most cases, you're going to believe it is. And in some cases, when you get to management bias and potential fraud, you might even, and in many cases, you will have a significant risk, which is going to increase your audit procedures because you have identified not only is there high risk of material misstatement, which means you need to achieve low detection risk, you may have also identified a significant risk. And as we know, there's an assumption on revenue recognition that there is a fraud risk, which by definition is a significant risk and it has to be addressed.

Now, again, we know revenue recognition, if for whatever reason you believe that, revenue recognition is not a fraud risk, then you can document and reduce that, then you wouldn't have a significant risk. But in most of our audits, we are going to have a significant risk. And as we know under 606, we are often subject to estimate.

Now, you might have a very clean type of entity where there is, the revenue is not subject to estimation. I will think of an example. I have a small restaurant, okay? Folks, it's obviously the revenue is at a point in time, the time someone has served and eats their meal, and there's no estimates involved on the revenue, because if I charge someone 80 bucks for a meal, that's what I'm going to get. So there, of course, are some examples where you're not going to have a lot of estimation in revenue recognition, but for many entities, there may be some estimation there.

That is what you're going to do from a planning standpoint. And, how much is this estimate subject to uncertainty? The more it's subject to uncertainty, the higher that inherent risk is going to go. How complex is that estimate?

So again, let's go into pension plans. Very, very complex calculations involved. In fact, many of us, if you haven't recently sat for the exam, have even forgotten how to calculate net periodic pension costs, that's why we have actuaries, okay?

Now, selection and application of the methods and data used in forming the estimate, okay? That's going to help with our issues to consider, and we can generally understand that very well. How does management select their estimate, in other words, the management point estimate? Let's make sure we identify any disclosures, estimates that are subject to disclosure, and then again, those significant risks outside of just the fraud risk, but there could be significant risks that are not fraud risk that we need to consider.

So, once we have performed our planning and have identified the risks, now we can start concerning about or being aware or document, whatever you want to call it, our response to that. Because we've always known that auditing estimates was difficult, but now with SAS 143, we have more specific guidance to say these are the things that you should do.

Some of the responses, the auditor's response, first of all, what about evidence of things that have happened between the balance sheet date and the date that we're doing this audit procedure, which will typically be fairly close to the audit issuance date. So again, if we're talking about things like allowance for doubtful accounts, if we're talking about the outcome of litigation, often we might know the answer now. So our estimate, well, it's an estimate as of, let's say, December 31st.

We now have tremendous audit evidence to say, yes, but this was ultimately the outcome. So if we have that, in my opinion, that is the best form of evidence we have because now we're not going to have that estimation uncertainty. We now know the answer.

Next thing we can look at is testing how management made the accounting estimate. So, we're going to look at their calculations. Now it's not just a matter of taking the spreadsheet or whatever the client came up with and going, yep, think that's right. No, I want to have a discussion with management.

First of all, how did you determine that this model was the most appropriate? And you think about that and you think, okay, are there things that I would have done differently or is there maybe a better model? So that's one of the first things you want to think is understand the modeling that we use. Second thing you want to think about is inputs to that model. Anytime you have a modeling for revenue recognition, allowance for credit losses, whatever it might be, there are inputs.

Where are you getting this data? Are you getting the appropriate data? Is there additional data that might be better? Are there any internal controls over that? It gets back to our understanding of internal controls. So where did you get that data? Again, in most cases, the auditor is going to determine that, okay, yes, this is the appropriate data. This is the data is correct. They're getting the right timeliness. In words, they're not looking at data from last year. They're looking for data, a data in the current year under audit. So that's good.

Once we know that model and the inputs, mathematical accuracy. I'm going to go back to that example that my sister noted many years ago where there's an error in the spreadsheet. Folks, recalculation is a powerful tool that CPAs have at their disposal. We can't just look at the number at the bottom of an Excel spreadsheet compared to the general ledger and say, oh, well, we talked about the inputs and this is the output. The output agrees with the general ledger. Therefore, it must be correct.

No, we're going to want to mathematically test that because errors can happen. Depending on the precision, you might have a percentage in there that's not rounded properly if you're not using the @round function.

Now again, in most cases, that's not going to come up with something material, but you want to make sure that all the formulas are appropriate, they're locked down, and that you're getting the appropriate output based on the expectation of management when they develop their model and they have inputs into that model.

So that's testing the actual estimates. So, we can look at the events that occurring after the date. If that doesn't happen, that's too specific testing on how management came up with the calculation. But one of the procedures that was introduced with 143 that certainly people might have done in the past, I think became part of our collective conscious a little bit better was let's come up with our own Auditor's Point Estimator range of what we believe this number should be.

And that's the one that's a little bit tricky because if I as an auditor try to do this after I've already seen management, what they came up with, trust me, most humans and auditors are human, audits aren't done by AI, they're done by people like you and I, we're going to be biased. We talked about management bias. Well, heck folks, there's auditors bias.

Because I like management, I trust them, I haven't had an adjustment in this audit in seven years. And if they say their current expected credit loss is \$187,465, well, yeah, that looks right to me. And so when I'm sitting there doing my independent model, it's almost like I'm fudging my inputs because I want to come up to that number.

So if you're going to do this, if this is going to be one of your audit procedures, it is best if the person on the audit team that is coming up with that estimate, does not know the number of management. They don't know what management did. And that's going to be hard, especially for firms our size, because of what we've already had our risk meetings. So we've already looked at the comparatives from the prior years. Maybe they haven't remembered them. I don't know.

Maybe they're aware of the model. But to the extent you can, let's have someone that is not deeply involved in this audit, if there's a significant estimate to come up and say,

How would you do it? And it may not be a number. Maybe it is rev-rec.

So management has come up and said, these are our four performance obligations, or our three performance obligations. So coming up with your estimate, you go talk to somebody else that maybe is not on that audit engagement team. Maybe they're not even with your firm. It's just an auditor that you know, that you trust. And you explain this new entity that you have. And this is, probably a procedure on initial audits.

And say, look, if you were in this industry and this was the type of contract and these are the elements of the contract, don't ask a leading question. Don't say management thinks there are three performance obligations. Do you agree? Don't ask that leading question. Say, how many performance obligations do you think are inherent in this particular contract? That's someone that really doesn't have any bias on it. Again, whether they're with your firm or with somebody else, because now they come up with three performance obligations.

And that's what management would come up with. Now you feel pretty comfortable that yeah, three's right. That maybe these, there were two other things, maybe there could have been five, but you look at those extra two and you go, no, really they're part of the middle. You know, if you have a performance obligation A, B and C, you have B1, B2, B3, not B2 and B3 should be D and E type deal if you followed the little logic that I had there.

So all of those can be used and the other issue with estimates when you're looking at evaluating and let's say you come up with this estimate range and you come up with a different number. The next question you have to ask yourself is, if management had said \$185,000 and I'm thinking it's \$310,000, if my math is correct, that's \$125,000 difference. And let's say that's material, we believe that that would again, we don't go back to our initial materiality calculations. I just say, hey, this is an amount that would influence a user.

That's the first criteria I use in determining whether something is materially misstated, would it influence a user's conclusions? And if I say, yes, can I say that there's a material departure at this time? I'm not ready to be there yet. First, I'm going to go back and say, okay, let's look at the precision of my estimates. Let's look at this. Did we add something or do we multiply something? And then ultimately now I've got to talk with management and say, okay, you came up with an estimate of \$185,000.

We came up with an estimate of \$310,000. Now let's say this is either a liability that's being accrued for something or the current expected credit loss or whatever it might be. And now you look at the precision of the two independent models. Now, if you're looking, let's say you're just looking at how management made their estimate and they had a mathematical error or they took input and just put in a number wrong in their Excel spreadsheet where they, you know, someone put in the amount of accounts receivable over 90 days was X when it was really Y. At that point, management really can't argue with you because it's their model. They just had incorrect inputs or incorrect calculations.

But if you independently develop something, it doesn't necessarily mean a departure exists. It just means that, hey, let's discuss the ranges. Now, ultimately, the CPA firm may come, no, I like my number. I think my number is there. Especially when you look at maybe the reason why management chose a lower number was part of that management bias.

Remember, we cannot force the client to make that adjustment. It's their financial statements. All we control is our opinion. So that's when we might tell the client, okay, we're going to modify our opinion, or we're going to qualify it. At that point, they might disengage you. They might go pick up another auditor. And by the way, that's why we have rules that the predecessor, excuse me, the successor, has to communicate with the predecessor. Say, is there a disagreement in the application of GAAP?

And you say, yep, and then you consult with your ethics to make sure you don't disclose any confidential client information. And of course, the client has given you the ability to communicate with them. But we've all, that's called opinion shopping and there are ranges.

I was recently actually working on a case that dealt with estimates involving revenue recognition and some of the background and basis of conclusion on the particular standard that FASB even acknowledges that different CPAs or different accountants or practitioners, can't remember exactly how it was worded, but different people can come up with different estimates and both be correct and both be within the correct range.

So that's what we have when we're dealing with estimates. So ultimately that's what the auditor has to make that decision. But it's just a different animal when you come up with a difference in your number versus the client's number when it's an estimate versus when I can go to the client and say, look, this invoice is recorded for this amount, the invoice is actually this amount, you've unrecorded, you this liability is understated by \$17,000 for legal expense, we need to make the adjustment. Well, they're not going to argue with you on that, it's an absolute. Very interesting when it comes to the way you approach the discussion with management when you're proposing an audit adjustment on something that is an estimate, okay?

If there are significant estimates out there, we have those disagreements again. Let's always remember that we do have requirements under 260, AUC 260, to report to those charged with governance when we have these disagreements with management. For audit documentation, so anytime you have your auditing estimates, 143 says there's specific things that need to be documented.

The key elements of your understanding of estimates, accounting estimates, that are inherent within the financial statements. That's generally going to be in your general file understanding the entity and its environment. The linkage of any further audit procedures that you have performed as it relates to increased risk because of accounting estimates. And how do we do that?

If you're using a third party practice aid, almost all of them now automatically, when you put in a high risk area, it says these are the extended audit procedures and it links back to your risk assessment.

That's one of the things that we have with these various automated audit tools. They make us more efficient, takes less time, but sometimes we don't even realize the linkage is there. And then of course that's with revenue recognition. There's just an automatic assumption there and it's in all of your audit programs that it links back to that significant risk, okay?

What are your responses to the audit? You need to document when management has not taken the appropriate steps to address estimation uncertainty. Meaning they don't have internal controls. Well, your response almost always is increased testing. So, if your response was, I'm just going to assign a first-year staff person to audit the current expected credit laws and if the math works, we're good with it. In my opinion, that is not an appropriate response. When there's higher risk, how do you address that higher risk? Generally, it is assigning more experienced personnel.

Indicators of management bias. So that's going to be part of your risk assessment, your overall risk assessment. Generally, will be part of your discussion and specifically potentially the fraud discussion. But again, we have that overall discussion of risk and then how you responded to that. We just talked about some of the responses and then any significant judgments that are required by the applicable financial reporting framework as it relates to those audit estimates.

So, on your actual audit documentation on those specific accounts that lead to or that have inherent estimates, generally, we have a tick mark like on revenue recognition. Is the estimate reasonable? So for all of our construction audit clients, when we're looking at the percentage of completion where management said this project is 70% complete, we always have a tick mark on the selected jobs. We don't test 100%, but on the selected jobs, was this estimate reasonable? So there needs to be something in your audit documentation on the specific accounts that acknowledge that there's an estimate.

It acknowledges that the auditor looked at that estimate and acknowledges that the auditor believes that that is appropriate in the circumstances. So, this audit standard has now been out for audits for periods beginning after December 15, 2023.

But again, a lot of these things that we have done as auditors, we were doing them before the standard came out. Fortunately, now it's within the auditing standards. Specifically, this is what you do. So if you're not very familiar with the standard, the next time you're performing an audit where there are inherent estimates, and again I think that'll be most audits, review this to make sure that you're performing the appropriate procedures and you have the appropriate documentation.

So, I appreciate you all attending this CeriFi discussion of auditing accounting estimates and hope to see you in a future CeriFi presentation.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why do accounting estimates fundamentally challenge the audit opinion?
2. How does estimation uncertainty influence inherent risk and audit planning?
3. Why is documentation critical when auditing accounting estimates?

B. Suggested Answers to Discussion Questions

1. Why do accounting estimates fundamentally challenge the audit opinion?

Accounting estimates challenge the audit opinion because they lack objective precision and rely heavily on judgment, assumptions, and models rather than verifiable transactions. Unlike historical-cost items supported by invoices or contracts, estimates are inherently uncertain and may fall within a range of reasonable outcomes. The auditor must still opine on whether the financial statements are fairly presented, even though equally competent professionals might arrive at different acceptable estimates. This complexity is compounded by management bias, as management is incentivized—often unintentionally—to select estimates that portray favorable financial performance. Auditors must therefore balance skepticism with professional judgment, recognizing that disagreement does not automatically indicate misstatement. SAS 143 reinforces the need for deeper risk assessment, evaluation of estimation uncertainty, and appropriate responses, including independent estimates and enhanced documentation.

2. How does estimation uncertainty influence inherent risk and audit planning?

Estimation uncertainty is a primary driver of inherent risk because it increases the likelihood that a material misstatement could occur without regard to internal controls. The more subjective, complex, or forward-looking an estimate is, the higher the inherent risk becomes. For example, defined benefit pension obligations rely on actuarial assumptions spanning decades, making them far riskier than depreciation estimates using standardized methods. During audit planning, auditors must identify where estimates exist, evaluate their complexity, and assess the susceptibility to bias or error. High uncertainty often necessitates assigning more experienced personnel, performing expanded substantive procedures, and possibly identifying significant risks. SAS 143 emphasizes tailoring audit responses to the level of uncertainty rather than applying uniform procedures.

3. Why is documentation critical when auditing accounting estimates?

Documentation is critical because auditing estimates involves significant professional judgment that must be clearly supported and defensible. Unlike objective testing, estimate evaluation requires demonstrating how the auditor understood the estimate, assessed risks, evaluated management's methods, and determined whether conclusions were reasonable. SAS 143 explicitly requires documentation of the auditor's understanding of estimation uncertainty, identified risks, responses to those risks, indicators of management bias, and significant judgments made. This documentation protects audit quality, supports peer review and regulatory inspection, and provides evidence that the auditor exercised appropriate skepticism. In disputes or litigation, well-prepared documentation is often the primary defense demonstrating that the auditor followed professional standards and applied reasonable judgment.

AUDIT & ACCOUNTING PART 2

Reporting on Supplementary Information in SSARS Engagements

This segment provides detailed guidance on identifying and reporting supplementary information and required supplementary information in compilation and review engagements. It explains definitions, common examples, and the rationale behind reporting requirements under SSARS. Special emphasis is placed on required supplementary information for governmental entities and common interest realty associations, including handling omissions and departures. The program outlines proper report modifications, highlights frequent peer review deficiencies, and reinforces the importance of clear communication to users regarding the level of service performed and assurance provided.

Mr. Oestriecher

Hello and welcome to this CeriFi presentation in our accounting and auditing series on supplementary information, required supplementary information, and how we are to report on those issues when we're performing either a compilation or a review engagement in accordance with SSARS.

And the reason why this has become such a topic, if you will, or has been a topic for many years is that the users of financial statements, let's call it stakeholders, clients, bankers, whoever it might be, often for whatever reason request that information above and beyond the financial statements be presented. And anytime you have information that is not in accordance, a statement if you will, or a schedule, that is not required by the applicable financial reporting framework, then it is just supplemental information.

Now, required supplemental information is when such a framework, if it is a GAAP framework, says in addition to the financial statements and the footnotes, there is required other information that we are going to call supplemental information. So that's the required supplementary information. It has special reporting issues for both compilations and reviews and we will cover those in this entire, in this course.

But we first want to focus on just supplemental information, that information that is just thrown in there, shouldn't say thrown in there, but included because some other party requested it. And the underlying premise, and the reason that we have to worry about this, because I understand how some practitioners might say, hey, if it's not required and is thrown in, why do we have to worry about reporting on this? Why can't it just be there? Why do I get slapped around in peer review? Why is this even an issue?

Well, the reason is there's a basic premise that the compilation or review report will only cover the financial statements and the footnotes that are required to be presented by your applicable financial reporting framework. And that if there's any additional information presented, if we don't have separate reports or separate paragraphs in our compilation or review report that clearly describes the level of responsibility that we have taken, well, maybe there can be some misunderstood attachment to that supplementary information that we did the same thing we did in the compilation.

And often we're going to find out that we did. In other words, we might have compiled financial statements and subjected the supplementary information to that compilation standards. We might find that with reviewed financial statements, there is included supplementary information that was subject to those review requirements, inquiry, and analytical procedures.

But the underlying compilation review standards don't actually require that or mandate it. In other words, I can have a compilation that has supplementary information that was not derived from any of the information that we used to compile a financial statement. So it's out there. So that would be one of those examples where I did not compile supplementary information. Remember, compile doesn't mean put together. Compile means the information is subject to the compilation procedures. So that is the reason why I'm reporting, and I agree, it is an absolute nuance, but when you're dealing with standards and reporting in multiple third parties or stakeholders, nuance is important.

So by understanding that premise, we can now begin to realize why the Accounting and Review Services Committee of the AICPA, that is the committee that writes the SSARs, decided, hey, we need to report on what is presented. So let's begin our discussion with supplementary information and just in how we're going to deal with that and what is supplementary information and then how we deal with this in both a compilation and a review.

Now, supplementary information is not just what maybe you and I think supplementary information would be. Supplementary information is clearly defined in both ARC 80 for the compilation standards and ARC 90 for the review standards. And I'm going to read this verbatim to you to make sure that I don't leave anything out.

But supplementary information is defined as information presented outside the basic financial statements, excluding required supplementary information. So, this is where supplementary information said, hey, RSI is a whole different animal. That is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. Such information may be presented in a separate document containing the either compiled or reviewed financial statements or be separate from those financial statements, meaning that, it's somewhere else.

Now, this is where it gets a bit confusing. If we put together a compilation or review report in my firm and the supplementary information is part of the table of contents that's included in there, then it's subject to our report. If we take a review or compilation and provide it to the client, and then they give it to a banker with some additional information that the client puts together with it. Okay, that's not our responsibility.

We cannot help what other people might include in an overall loan package or something like that. So we're obviously only concerned about the things that we put together in the financial statements. And of course, the underlying premise on all of this, whether it is a review or a compilation, is that the financial statements are the representation of management.

So, when you look at the definition and it talks about information that is not considered necessary for the financial statements to be presented in accordance with the applicable financial reporting framework, what that means is whatever framework you're using, and I will use as an example United States GAAP, it is going to tell us in the accounting standards codification everything that has to be presented, how the things that are presented are measured, it's called measurement GAAP, and all of the disclosures.

And I can tell you that nowhere in the accounting standards codification does it tell you that you have to have a separate schedule of general and administrative expenses if your income statement just lists general and administrative expenses in total. It's not in there.

But a lot of people want to see more detail so that additional schedule would be presented. That would be a classic example of supplementary information. And I'm going to give you some more examples later on. But the way that you know it is supplementary information is it is not required by the standard setter, yet it is in there.

So, some of the more common supplementary information that we have been privy to, I guess, our firm when we have compiled financial statements or reviewed some financial statements, I've already mentioned one of them. Anytime we have a schedule that breaks down either general and administrative expenses or cost of goods sold, in detail, that would be supplementary information.

Now, an area of supplementary information that people think is required, but it's actually not. If it is a construction contractor, we always have the schedule for the calculations in individual jobs for jobs in process and completed jobs at the end of the year. And this shows how we come to the totals for the accrual for revenue. And then our asset and liability accounts for, I always say this backwards, but it's cost and estimated earnings and excessive billings and billings in excess of cost and estimated earnings. So those calculations are almost always shown separately as supplementary information.

A lot of times an entity that may be one legal entity, but it has separate operating divisions, possibly geographic divisions. And so, we have the balance sheet in the income statement for the entire entity. But then management also says, I want to see this breakdown of what Division A, Division B, and Division C, how have they performed, and then maybe even have a total column that then compares that to, the total column will of course equal what is represented in the income statement. That is supplementary information.

I have seen, unfortunately, where some people refer to that overall financial statement as consolidated. Well, it's not consolidated because it's just one legal entity with separate divisions. So, all of that divisional information, that would be considered to be supplementary information.

Now, in the non-governmental world, the most common supplementary information we have in our compilations is a budget versus actual. As we will learn in the governmental world, that is actually required supplementary information. You are required in governmental reporting to show budget versus actual. However, under the FASB, no such requirement exists.

However, for many of our clients, especially our write-up clients, our back office accounting, consulting, whatever you want to call them, if we prepare a budget for them or a quote unquote assist them in preparing a budget, if we're trying to maintain our independence, they want to see that budget versus actual.

So that is going to be the supplementary information. The budgetary information is the supplementary information. And almost always in our firm, the presentation is always a balance sheet and an income statement. And then as supplementary information, we have budget current period for showing monthly or quarterly, and then year to date budget versus actual.

If you just happen to show one income statement with four columns, budget for the, let's say, month to date or, yeah, for the month budget versus actual and then year to date and it's all on one statement, still the budgetary columns are going to be considered as supplementary information. So, you will report on that supplementary information because, again, the budget is not considered required by the framework.

Sometimes, and this could be either in regulated entities or for governmental entities, and we have this in Louisiana, you might have statute that requires certain supplementary information. In Louisiana, for every governmental entity out there, we have lots of smaller governmental entities that don't have to have audits based on their revenues. They can either have review engagements or compilation engagements. Regardless if it's an audit, review, or compilation, in Louisiana, the level of compensation and other expenditures for the highest executive in that entity has to be presented as supplementary information, which unfortunately in Louisiana, some people call that required supplementary information because they say, well, it's required by law, so it must be required.

No. Remember, when we get to the definition of required supplementary information, that is going to be supplementary information that is required by a recognized GAAP standard center. Sorry, Louisiana legislature is not a recognized GAAP standard setter. They are a legislative body. So that information, what we call the Act 87 disclosure for various funds that are paid through or received through agency funds in Louisiana, that is going to be supplementary information.

I have also seen accounts receivable subsidiary ledgers. Just for whatever reason, management wants that. And rather than sending that out separately, the CPA firm decides to put that as part of the report.

Hey, that's fine, but it is supplementary information and you need to comply with the reporting requirements that we're about to discuss. I have a nonprofit entity that along with their financial statements, they want a copy of the bank reconciliation for the month and the check register. Why? I don't know. They just want to see it. That information, at least in the check register, in the general ledger, but they want it. So as part of their basic financial statements, they get those items.

Now again, if you send those items separately, that's fine. You don't have to report on it. But if it is part and attached to the financial statements that have the compilation report, then we need to make sure that we are reporting on it.

So we talked about what is supplementary information. Well, what is not supplementary information? Because I think that's important also. I have seen where entities want, hey, we're going to show you the balance sheet in the income statement for the current period. And then our software, maybe it's QuickBooks, maybe it's Sage, prints out a whole other sheet of paper that shows comparative to last month or the last year to date and the same month in the prior year. And the practitioner presents this as supplementary information. It's not. We call those comparative financial statements because all you're showing is financial statements for two years.

If that's the case, modify your first sentence in the report to include a reference to the comparative financial statements, whether it be a compilation or a review. And the discussion I've had with this in various CPE courses is they say, Kurt, our basic financial statements are just the current year. The comparative only is the income statement. So I'll only get a compile the current year balance sheet and income statement and the comparative to last year wouldn't make sense because my compilation report only covers one period.

Well, no, your compilation report should cover both periods. And even if you have one year balance sheet, but two-year income statements, that's fine. Just make sure that your compilation report only refers to the single year balance sheet, but both years or both periods in the income statement.

So, hopefully that has helped you identify what is and what is not supplementary information. Now, when you determine, oh, we have supplementary information, how do we handle this in a compilation? The reporting requirements for this are at ARC 80.34 to 36. That means it is three paragraphs, paragraphs 34, 35, and 36. What do those reporting requirements tell us to do?

First of all, we must either have, include a paragraph in our report, in our compilation report that identifies and refers to the supplementary information and it tells us the level of responsibility we take. In other words, the level of service we provide, which can never be an audit or a review. You can never provide a higher level of service on supplementary information that is included in a compilation than the actual level of service you provided on the compilation. But there can be a lower level of service.

And you say, well, Kurt, what could be lower level than compilation? Well, the answer is that you didn't do anything at all, that you did not compile it. So your compilation report will identify the supplementary information either by page number, by schedule number, some sort of identification. It might be an in a table of contents. And then describe the level of service that you did, meaning you either compiled it or you did not compile it.

Now you have an option rather than including a paragraph in your compilation report, you can actually have a separate report. We're seeing this less and less. Typically, when we see this, it is when we have a review engagement, but the supplementary information was not subject to the review engagement. That is when practitioners want to have a separate report because they want to let the user know, hey, you are now past the basic financial statements that are covered by our review report.

You have now entered into another realm. You're in the realm of supplementary information. And here's our report that said we did not audit or review it. That's generally when I see the separate report. It is very rare to see a separate report in a compilation because ,why? Why would you want to have two reports? Just let's go ahead and include all the required reporting elements in our compilation report in a separate paragraph.

Now that paragraph, and let's assume this is what most people want to do, and I've already touched on this, you'll indicate the level of service provided which says you compiled it or you did not compile it. Either way, whether you compiled or did not compile, that paragraph will include a statement that says that no assurance was provided. We did not audit or review or compile and no assurance was provided, or we did not audit or review. No assurance is provided that has to be an affirmative statement.

The next question that a lot of people might have here, and it's a very good question, is, well, Kurt, how can you have something that is supplementary but it is not compiled? Because what do compilation standards tell us we have to do? We have to read the information and then compare it to the framework and then based just on our limited knowledge that's required in a compilation of understanding the framework of the entity and their accounting policies is that apparent that there is some sort of a departure.

Well, sometimes we have supplementary information that isn't even part of the framework. An example is many years ago, we had clients in the broadcast industry and they wanted the ratings that were sent out every so often and how often ratings were issued, I can't even remember how now, I'm pretty sure it's monthly.

Those ratings were included in there. Well, obviously we did not compile them because part of a compilation is understanding the framework. Well, there's no framework for that. It's outside financial reporting frameworks. Therefore, it cannot be subject to the compilation because there's nothing we did to it. We literally took this document that came from a third party and included it as part of the financial statements as uncompiled supplementary information at the request of management because again, it is their financial statements and we assisted them in putting it together.

Now in between this very obvious thing of a ratings for a broadcaster or something that is extracted from the general ledger, such as a detailed cost of goods sold or cost of general administrative expenses, let me give you an example of something kind of in between. This was back in the day when we did some work for entities that were in the horse racing industry.

The key element on every race is what's called the tote or the handle. It is the amount that is bet on a race and handle is usually more referred to rather than the tote. It's AutoTote is actually the name of the company. Well, this handle was used to derive things that were in fact reported in the financial statements such as the revenues or commission expense of the racing entity and other purses and other information that was very relevant.

So, it's kind of part of the financial information and the financial reporting process, but it actually doesn't come from the actual financial or general ledger itself. So therefore, we did not compile that either. So every time we included such information, again, this handle information, in our racetrack compilations, which are done on a quarterly basis, we would always say we did not compile that information. Therefore, we did not provide any form of assurance on it.

So, again, in a compilation engagement, the steps are: identify if supplementary information is presented, determine if you are going to report on that supplementary information in a separate paragraph in your compilation report or in a separate report. And again, most people are going to say, I'm just going to put a paragraph. Make sure that paragraph states that you either compiled or did not compile that supplementary information. Make sure that paragraph specifically identifies where the reader can find that supplementary information. And then you must, on either instance, whether you compile or did not compile, indicate to the reader that no assurance was provided on that supplementary information.

Let's talk about supplementary information in review reports. And it's going to go pretty much the same way we just talked about in compilation, with obviously a couple of nuance issues because on a review, you could have either reviewed, compiled, or not performed any procedures on the supplementary information.

You can also have either, again, a separate report if you wish or include a paragraph in your review report. Most people include that paragraph. And you have to, first of all, state that it is presented for purposes of additional analysis and it's not a required part of the basic financial statement. So we put that in there.

Supplementary information is the responsibility of management. So whatever is there, whether it came from the accounting records or not, it is the responsibility of management and was either derived from or directly relates to underlying accounting or other records used to prepare the financial statements. So that could be anything out there. Kind of the total, the handle information I described earlier. Now, if you subjected, the supplementary information to the review procedures.

Again, far the most common example I have of this is we have some construction contractors and we perform review engagements and we have all sorts of supplementary information. We have a summary of the revenue schedule that ties back to revenues on the income statement, schedule of general and administrative expenses, schedule of cost of goods sold, and that schedule of jobs for either the jobs that were completed during the period or the jobs in progress.

So we might have four to five different types or individual instances, if you will, specifically identified supplementary information. In all those cases, we subjected that information to our review procedures because we performed inquiry and analytical on that supplementary information. And if we are aware of any modifications, which again, if we became aware of modifications, we would have talked about it with management.

So, let's say there was some weird thing where on the schedule for revenues, they were not complying with GAAP and so that required a modification to the review report. Then we would also talk about how those supplementary schedules would have been modified also because they related directly to it. Now that's very close to some of the discussion we're going to have an RSI, but it is a little bit different because remember the supplementary information supports stuff that is required to be in the basic financial statements.

As we're going to learn a little bit, RSI is stuff that is outside the basic financial statement or the basic footnotes. We will also include a statement that we did not audit the supplementary information and so we do not express an opinion. Remember in a compilation, we're going to say we did not express an opinion or a conclusion because a conclusion refers to what we do in a review report. But if you subjected the supplementary information to the review procedures, then of course you will say that we did not express an opinion, but it would be incorrect to state you did not express a conclusion, because you do in fact express a conclusion, because you did not become aware of any departures that supported, again, the basic financial statements that would have been included in the supplementary information.

You may also have that instance where you did not review it, you could have either compiled. Now, I have argued with a lot of my friends, and believe it or not, guess accountants can argue about this sort of thing, but it is my opinion that if it is information that just does not relate to the financial statements, you really can't compile it or review it, because again, it's not compared to any criteria within that applicable financial reporting

So, in that case, this would be supplementary information that was not audited, reviewed, or compiled. And again, you can have that in a review engagement, then that's when you would say that no opinion or conclusion was formed.

So that is the information, or that is the requirements that are separately stated in both ARC 80 for compilation engagements for review engagements in ARC 90, paragraphs 126 through 128. In both compilation and review, there are three paragraphs within the standards that specifically tell us what we need to do as it relates to supplementary information.

Now let's talk about this relatively new animal, meaning relatively new, I guess, going back about 20 years or so, when we first started to differentiate within our standards the difference between supplementary information and required supplementary information.

So, when you look at the definition of required supplementary information, it says information that a designated accounting standard setter requires to accompany an entity's basic financial statements. The definition goes on to say that supplementary information is not part of the basic financial statements. However, the standard setters believe that the information is an essential part of financial reporting and it helps place the basic financial statements in context.

If I am a designated standard setter, you know, for purposes that we're talking about here is the FASB and GASB. Now, yes, I know it could also be International Accounting Standards Board if you are looking at international standards, it's so anytime you're in a special purpose framework such as modified cash basis, such as income tax basis, you can't have required supplementary information.

Required supplementary information only applies when it is GAAP financial statements and that designated standard setter says, hey, you're going to do this. If you are the GASB or FASB and you think that this information is important, why didn't you just put it in a disclosure?

Because remember, those designated standard setters, tell us, we'll talk about GAAP here. Here's our measurement GAAP. Here's how we measure things. Fair value, cost basis, whatever it might be, measurement GAAP. Presentation GAAP. These are the four basic financial statements, and this is how we want it ordered. We want current assets and current liability. That's presentation.

Then disclosure GAAP. This is all the footnotes, all that information we have about long-term debt or summary of significant accounting policies, our pension disclosures, our fixed asset disclosures. Why in the world would they say, well, here's additional information that we believe is important, but we are not going to anoint it as something as important to call it a footnote. Instead, we're going to have kind of a quasi. This is the redheaded stepchild of footnote, and we're going to call it, we want it to be supplementary information. But because we're requiring it, it is required supplementary information. Again, kind of odd, but that's what it is.

And as you see when we go through this discussion, there are expanded reporting requirements because unlike just supplementary information where you're not comparing it to what the standards tell us has to be included in here, you can actually have a departure from required supplementary information.

You cannot have a departure from supplementary. Now, I know I said earlier on a review you can have a departure, but that's because my supplementary information supports the numbers that are required to be in the basic financial statement.

RSI has its own set of rules and criteria. So that's where you can have this various departure. So interesting little nuance there. So you might say, okay, Kurt, when you're looking at reporting on supplementary or required supplementary information, how much of that is out there?

First of all, under FASB, so if you were talking about nonprofit entities and for-profit companies, so things that aren't governmental that's covered by GASB, there's only one type of required supplementary information, and that is for common interest realty associations. They have several disclosures relating to schedule of repairs and maintenance and betterments and escrow amounts and things like that. That's under Accounting Standards Codification 972-235-50-3.

So unless you're, if you were doing, compiling or reviewing a common interest realty association, otherwise known as a homeowner's association, any other entity under FASB other than that, folks, you cannot have required supplementary information. So just, we're good there, okay? But if it is a common interest realty association, then you have RSI.

And by the way, as you're going to learn, might say, well, Kurt, I compile, I've got four or five homeowners associations and they don't put that in there. So that's fine. I don't have to report on it. No, believe it or not, if it's omitted, there's an expectation that it should be in there. So you've got to add a paragraph to your compilation report that says it's omitted and your paragraph that says you're omitting substantially all disclosures does not cover it because RSI is not considered to be a disclosure. Again, it is its own animal.

Okay, so that is a very common peer review deficiency. So common realty associations, common interest realty association, homeowners associations, that's where you have to worry about.

Ladies and gentlemen, in the governmental realm, we have all sorts of required supplementary information. And again, my firm has some of these small governmental entities and we perform monthly compilations for them. And then you've got another firm does the audit.

So in these monthly compilations, we have to modify our compilation report if the RSI is not included and generally it's not included. The first thing is your management's discussion and analysis. The GASB requires with governmental entities that that be presented. Folks, we even have some audit clients, some smaller governmental entities and they don't mess with that MD&A. So that's fine, it doesn't affect our audit opinion on the financial statements.

We have to include a paragraph that says, hey, this is required, we didn't do it. Well, we'll get to that reporting a little bit, okay?

Budget versus actual, mentioned this earlier. In non-governmental areas, this is just, if it's included as supplementary information, report appropriately. If it's not included, no big deal. But budget versus actual is required for governmental entities. So whether the entity reports a budget versus actual or not, you're still going to address it in your report.

There are certain defined benefit plans or information so if you have the governmental entity as part of a defined benefit plan, there's four or five pages of footnotes, all sorts of stuff. That's a GAAP. But once you get past the footnotes, there's required supplementary information. It's basically up to a 10-year schedule that gives certain data related to that benefit obligation. The same thing for OPEBs (other post-employment benefits), which are other post-employment benefits.

There's a lot of footnote requirements, but in addition to all those footnote requirements, there's also required supplementary information on various actuarial and unfunded issues related to the OPEB. So, for off the top of my head, at least three or four of our governmental audit clients that I could think of, there are four different areas of required supplemental information. The MD&A, budget versus actual, certain defined benefit information, defined benefit retirement plan and certain OPEB information. All those have to be addressed. Again, in the FASB there's only one that is that Common Interest Realty Association.

So now that we understand what is RSI, well, what are our responsibilities under the compilation review standards? Again, same guidance up there under 80.37 and .39.

And you have to have a statement that whatever framework, and let's just use the example of U.S. GAAP, because again, whether it's GASB or FASB is going to be U.S. GAAP, requires that whatever that supplementary information is, and usually you will refer to it like in schedule one or schedule two, has to be presented to supplement the basic financial statement. So an affirmative statement that, hey, that's what it is.

And then another statement that says that although it is not part of the basic financial statements, the standard setter requires it to be an essential part of financial reporting. And it helps place things in historical, economic, or operational context. The next thing you have in a compilation is a statement that you did not review or audit. And in some cases, you may not even compile the supplementary information. And therefore, you did not express an opinion or conclusion or provide any assurance on the information. And again, that statement will always be modified based on whether or not you compiled it or not.

Again, if it is a compilation, you will never have audited or reviewed the RSI. The highest level of service you could have performed is a compilation. In just the very nature of required supplementary information, I can tell you with a great deal of certainty that you will always at a minimum compile it because again, it is something that is required by the standards setter so you have read it, you have looked at it, in most cases you have compiled it.

Now, because management might just say, you know what, I understand the GASB wants a budget versus actual, but we don't want to put that in our monthly financial statements or all those RSI requirements for our defined benefit plan, our OPEB, our MD&A. So we're just not going to do that. So you're omitting it, okay?

You have to add a paragraph in your compilation report that says management has omitted the required supplementary information and describe what that is. And again, you cannot use the same paragraph, and it is not included in the paragraph and not covered by the paragraph where you say that management has elected to omit substantially all disclosures. RSI is not a disclosure. RSI is RSI.

So, the premise is an informed user looking at a common realty interest association. They're expecting to see a balance sheet, an income statement, a statement of cash flows, and this required RSI. And if it's not there, you have to tell them it's not there, just like you told them in another paragraph, that the footnotes are not there.

The next thing that we have to be concerned about in RSI, if the recognized GAAP standard setter describe certain required supplementary information. They're also going to describe how it should be measured and presented. If you are aware of a departure from what is presented, from what is required by the standard setter, then you have to disclose that departure just as you would disclose a GAAP departure if there is a departure in the basic financial statements.

Now again, this would be very rare because if management went through the trouble of including the RSI in the financial statements, meaning you went through the trouble of including it in there, you probably got it right. But for whatever reason, if the information is wrong, you know it's wrong. And remember, supplementary information can't be wrong. RSI could be wrong.

In most cases, you're going to fix it. It doesn't even require an adjusting journal entry. It just means changing the information to be required or to match up with what the required elements are.

So, again, I can't imagine a scenario where there would actually be a departure and management would not want you to fix it. But if there is, at least there is a mechanism within the reporting that says this is how you handle it, okay?

Now, the last thing that they have is that if you have unresolved doubts about whether the RSI is measured and presented in accordance with the guidelines, you have to include in your paragraph a statement of those unresolved doubts.

I'm not sure how that could happen because as an accountant, I think we have the ability to read what is required by the standards setter for RSI and then compare what is presented with this, you know, calculation or this with the requirements within the standard and look and see if it's wrong or not. So I have never been able to find a practical example of when the accountant may have unresolved doubts, but there is a mechanism for reporting should you encounter such a situation.

So that is how you will handle it in a compilation. You will describe the supplemental information and where is it presented. You will let the reader know that it is required to be presented to put the financial statements in context. You will let the reader know that you either compiled or did not compile that information. But again, in most cases, I believe you have compiled it.

If there are departures from what is presented and what is required to be presented, you will inform to the reader. And then if there are unresolved doubts, you will inform the reader. If the information should be there and it's just omitted, then you will have that separate paragraph that says it's omitted. Now you're not describing where it is in the report because it's not there, but you will just say that this information is omitted.

So now let's talk about the review reporting requirements on RSI. So you're going to have an other matter paragraph and you're going see that this is along the same lines that we have in a compilation. So you have this other matter paragraph. You are going to include a statement that the RSI is included, that it is required by a standard setter. But in this case, the only thing you could not have done is audit it. You may have reviewed it. You may have compiled it. You may have neither reviewed or compiled it.

But for the same reasons I stated in the compilation, RSI by its very nature is closely related to the basic financial statements because there's criteria that have been established by the GAAP standard setter that says this is what I want you to have. So except in the case of the most unusual circumstances, you will have reviewed this information. In other words, it will be subject to your inquiry and analytical procedures and you will have read this information.

So in the vast majority of cases, this separate other matter paragraph will state that you reviewed the required supplementary information and that you did not provide an opinion because again, you're not auditing it, but obviously there will be a conclusion on it. Now, rare event that you did not review it, that you just compiled or didn't do anything with it, then in that case, you would say that you did not draw an opinion or form an opinion or a conclusion, but that would be very, very rare.

The next step. Let's say that required supplementary information is included, but you become aware for whatever reason that the RSI is not in accordance with what the framework requested and management did not want to change it. Now you have a departure. And again, it does not affect your review conclusion on the financial statements, because the financial statements and footnotes stand alone. It's just this separate stuff up here where you say you did become aware of a departure and you describe that departure.

Now, if that information is omitted, again, if you have a governmental entity that depending on your jurisdiction and in almost all states say, look, you're a governmental entity and you're below a certain amount of revenues, you don't have to have an audit, but you have to have a review or compilation. In those cases, they're not going to want to include a management discussion and analysis. So you'll have a paragraph that says you omitted.

But in almost every case, those entities do in fact show their budget versus actual, because remember that's required for a governmental. So we will have that paragraph that sometimes that paragraph will have multiple paragraphs that describe first of all the budget versus actual where it's included, and then we did not become aware of departure, so we provide a conclusion. And then we'll have another paragraph that talks about the omitted management discussion and analysis.

And then if they have pension or OPEB, usually that's also going to be omitted for interim financial statements or even for annual financial statements. And generally, for your reviews, this can be annual. I have seen interim reviews, not very rare though, excuse me, not very common, they're very rare, is usually year-end reviews. So all those things that we described earlier on a compilation are also applicable in a review.

The main takeaway for required supplementary information is if you are either compiling or reviewing financial statements and the recognized GAAP standard setter says, hey, you need to have that, which will be any governmental entity. Any governmental entity at a minimum has MD&A, most likely has budget versus actual also. May not have the pension and OPEB. So any governmental entity, if you're compiling or reviewing, you better have a paragraph or multiple paragraphs, depending on if things are omitted or not, that describes what happened with RSI.

If it's not a governmental entity, but it is a homeowner's association, in other words, a common interest reality association, then whether you do a compilation or review, you better have a paragraph in that compilation or review report either discussing that information if it is presented and that's that schedule for repairs, betterments and other items related to deferred maintenance, if you will, or a paragraph that says it's omitted.

So it's very common misconception is that, hey, this is just a disclosure that's omitted and so my compilation paragraph covers that.

So I hope you've enjoyed this presentation on reporting on either supplementary information or required supplementary information in either compilation or review engagement.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why is it important to distinguish between supplementary information and required supplementary information?
2. How do compilation reporting requirements differ for supplementary information versus required supplementary information?
3. Why is required supplementary information considered neither a disclosure nor part of the basic financial statements?

B. Suggested Answers to Discussion Questions

1. Why is it important to distinguish between supplementary information and required supplementary information?

Distinguishing between supplementary information (SI) and required supplementary information (RSI) is critical because each carries different reporting responsibilities and user expectations. Supplementary information is optional and provided at management's discretion, often to enhance understanding or satisfy stakeholder requests. Because it is not required by the applicable financial reporting framework, accountants may or may not subject it to compilation or review procedures, but must clearly disclose the level of responsibility assumed. RSI, by contrast, is mandated by a recognized GAAP standard setter and is considered essential to placing the financial statements in proper context. Its omission or misstatement can mislead users even though it is not part of the basic financial statements. SSARS therefore impose stricter reporting requirements for RSI, including mandatory explanatory paragraphs when RSI is omitted or departs from prescribed guidelines. Failure to distinguish between the two is a frequent peer review deficiency and can result in noncompliance with professional standards.

2. How do compilation reporting requirements differ for supplementary information versus required supplementary information?

In a compilation engagement, supplementary information requires the accountant to identify the information and state whether it was compiled or not, along with an explicit statement that no assurance is provided. The accountant has flexibility in reporting, either through an additional paragraph in the compilation report or a separate report. Required supplementary information, however, has more prescriptive reporting requirements. The accountant must affirmatively state that the information is required by a designated standard setter and that it is essential for understanding the financial statements. If RSI is omitted, the accountant must include a separate paragraph describing the omission, which cannot be covered by the standard disclosure-omission paragraph. Additionally, if the accountant becomes aware of departures from RSI requirements or unresolved doubts, these must be disclosed. These distinctions underscore the heightened importance regulators and standard setters place on RSI compared to optional supplementary information.

3. Why is required supplementary information considered neither a disclosure nor part of the basic financial statements?

Required supplementary information occupies a unique position in financial reporting. While it is mandated by standard setters, it is intentionally excluded from the basic financial statements and footnotes. This distinction exists because RSI often provides broader contextual or trend-based information—such as budget-to-actual comparisons or pension funding schedules—that enhances understanding but does not directly affect measurement or recognition. Standard setters view RSI as essential for informed decision-making, yet separate from the core financial statements to preserve clarity and comparability. As a result, RSI is governed by its own reporting rules under SSARS. Accountants must explicitly address its presence, omission, or departure in compilation and review reports. Treating RSI as merely another disclosure would obscure its importance and eliminate critical user alerts when required information is missing or misstated.

AUDIT & ACCOUNTING PART 3

Identifying, Evaluating and Communicating Internal Control Deficiencies in an Audit

This segment provides practical guidance on identifying and communicating internal control deficiencies during a financial statement audit. It explains the definitions of control deficiencies, significant deficiencies, and material weaknesses, and outlines a structured evaluation process based on likelihood and magnitude. The program emphasizes timely written communication to management and governance, proper documentation, and consistent application of professional judgment. Real-world examples illustrate common pitfalls and best practices, helping auditors meet AU-C 265 requirements while minimizing regulatory and litigation risk.

Mr. Oestrieher

Hello and welcome to this CeriFi presentation for communicating internal control deficiencies when you're performing an audit in accordance with AICPA auditing standards. My name is Kurt Oestrieher. I've had the pleasure of presenting many of these quarterly CPE requirements for CeriFi over the years and we cover a lot of different topics.

This is one that keeps coming up because of the relative importance in the audit process and the auditor's responsibilities, which we know primarily are to provide an opinion as to whether or not the financial statements are in accordance with the applicable financial reporting framework, which is usually United States GAAP. So that's what we're there to do. But we have ancillary responsibilities also that sometimes, depending on the client, and especially in the governmental world, the stakeholders tend to focus more on, what did you find? What are they doing wrong? What do you write them up for?

So we're going to look at where the authoritative guidance is and exactly what we're supposed to do. And remember, there's a little bit of other enhanced standards here when you talk about yellow book standards for governmental, but it all goes back to the base requirements that we have in the AICPA standards.

And why is this important? Well, first and foremost, it is important because we as licensed CPAs take on the obligation to follow all of the auditing standards when we perform an audit. So, anytime we're talking about following standards, that's the primary reason. We accept that obligation. We understand the standards. We're going to develop quality management policies within our firm to ensure we comply with those standards, and we're going to do our job. But also, the very obvious reasons are if we do not do this well, maybe peer reviewers will have an issue with it. Maybe your regulator, which could be your state board of accountancy. It could be the legislative auditor in your state. It could be the PCAOB. And then of course, opposing counsel, which is always the dreaded thing where all of a sudden something is internally identified that causes great loss to your client. And it is later determined through discovery and other parts during a lawsuit. And yes, I've been involved in pre-trial panels and other legal proceedings regarding this very topic where it was very obvious that the auditor became aware of control deficiencies, but did not properly follow the steps of identifying, evaluating, and communicating.

So that's what we're going to spend the next 45 to 50 minutes of your life discussing to make sure we understand those standards and we consistently apply all of our procedures within our firm evenly throughout every audit so we have consistency within our firm. And obviously the smaller the firm, the more likely that you're going to be consistent.

Now, before we even get into this, I want to make sure we all understand, and it is stated as such in our engagement letter, that the objective of our audit is not to identify control efficiencies, it is not to evaluate or perform an opinion or to form an opinion on the internal controls of an entity. That's not our objective. But because there are audit steps that are directly related to our understanding of internal control, and in some cases we may even test those controls, it is obvious that the auditor does become aware of some issues. And that is what we need to understand. Where are our obligations when we stumble across these things as part of our audit planning?

And how does that expand? Maybe we're just obtaining an understanding of internal controls. We're not going to test them. Well, does that alleviate us under our responsibilities under 265? And the answer is no. Once you become aware of it, whether you're going to test those controls or not, you still have responsibilities.

So our two primary objectives or tasks, we have to evaluate identified control deficiencies, identified through the normal course of performing or audit procedures. We're not trying to be super auditors. We're not going to expand the scope of what the requirements say to really take a deep dive into their internal controls unless our planning requirements say, hey, you better take a deep dive. And then once we evaluate them based on that evaluation, if we determine that some of these control deficiencies are either material weaknesses or significant deficiencies, then we have communication requirements.

So based on what I've just told you, there are three key definitions that we're going to go through throughout this course. And when our firm better understood those definitions, and by the way, when SAS 112 came out to make the definitions that we were using at the time in United States standards to be parallel to those in international auditing standards and then we had another standard later on, 115, that kind of cleaned that up a little bit. Those definitions gave us clarity within our firm because even though we're in a small firm here, there were inconsistencies as to what some people were identifying as something that needed to be communicated.

And by the way, we used even businesses 12, 15 years ago now that these definitions changed and we were just, we were, I don't want to say all over the board, but in some places Dale may have evaluated, and he was a partner in the firm at the time, have evaluated something in a different manner.

If we really pay attention to the definitions, I think you will get much more consistency within your firm, and now you're going to better comply with the standards. So that first thing that we have to do is evaluate control deficiencies that we identified during the audit. So we have to know what a deficiency in internal control is. If we do not know that definition, then we have a problem.

And remember, we're talking about internal controls over financial reporting. So maybe when we're talking to a client and obtaining information, they go off on a tangent about internal controls related to compliance with Department of Transportation rules related to the number of hours a trucker can be on the road or weight limits for vehicles.

Okay, that's internal control over compliance with the law or regulation that maybe there's a stretch there and you say, there could be some unrecorded liability for fines because they don't have good internal controls, but probably not. That's an internal control over compliance. We're not concerned about that.

Now, internal control over compliance over federal awards, yes, now we're back into a different area here under the single audit, but we need to make sure that we're focusing on the internal controls over financial reporting. Federal awards are some other internal control that is related to the financial statements that we are auditing. So, once we understand the scope of what internal controls we are concerned with, now we can look at that definition of what is a deficiency.

And I'm going to say it kind of quickly, and then we're going to hit some highlights. And the definition states, and this is in the standards, that a deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect incorrect misstatements in a timely basis.

Okay, so that's a huge mouthful. That's a good word salad. Let's focus on some things here. First of all, I've already pointed out control over financial reporting. And it exists when either the design or the operation, we're going to look a little bit further what those are, but in general that means that, hey, you don't have a design. There's a control that should be there and it isn't there at all, or you have a design control but it really is not effective in whatever objective you're trying to achieve. So it could be a design problem or an operation problem. That's where you have a control properly designed but no one's doing their work. So it could be either a design, or an operation issue.

And it doesn't allow management or employees. So those are people internal to the organization. Remember, these are internal controls. So management or employees. Now, in some cases, if an entity is outsourcing a large part of their accounting department and those people that are performing those functions are expected to adhere to the controls, I would include that group of people in there. They use the term management employees. I would also put in subcontractor if the accounting function has been subcontracted out. So those are the people, not the auditor. We're someone different.

If we're part of their internal controls, we got a bigger problem because independence is impaired. So it's people internal to the organization. In the normal course of performing their assigned functions, we're not looking for superheroes here. We're just looking for people doing what they're supposed to do every day. And if they are conscientious and do their jobs appropriately, that's the level of care that we're looking for. Not superheroes, just doing your job.

So normal course of performing their assigned functions. If they cannot either prevent a misstatement, because that's the first thing we'd like a control to do, is to prevent a misstatement from ever entering into the client's accounting records, which is typically your general ledger. So just on the top of my head, a very good example of that would be if your software that you use for your accounting system. You have your accounts payable process. And one of the things that you have to do is enter a vendor invoice. And you'll have all the approval process, but one of the things that your IT system does is if you enter an invoice that has already been entered for that vendor, your software will say, uh-uh, you can't use this invoice. It has already been entered. That is preventing a duplicate invoice and a duplicate payment. That is an example of a preventative control.

And most of our controls, we want to prevent things. Because once something happens and gets entered into your general ledger, well, it's sometimes a little bit harder to detect and correct. So we want to prevent them. But we know we can't prevent everything. So the second thing we want an internal control to do is if we weren't able to prevent a misstatement, then we will be able to detect and correct it.

So these are your post reviews. These are your monthly reviews or quarterly reviews, however often or maybe once something is posted, there's one follow-up procedure. Again, in the normal course of business, I think most internal controls are designed for prevention, but you absolutely have detection and then correct it in a timely basis. So a timely basis means before the financial statements are issued, but I would even say one step further back from that before it gets to the audit firm.

Because remember what we receive from the client in theory is supposed to be a set of financial statements that are already written with all of the footnotes. We never get that at the small business level. Certainly the larger firms with more sophisticated accounting departments for their audit clients, they're going to maybe give you a set of financial statements. At best in a firm my size, we get a trial balance that we hope to have no adjustments. So I would say that a timely basis is that all measurement misstatements have either been prevented or detected and corrected before that trial balance gets to the auditor.

Folks, one of the key indicators that we have in our firm where there could be deficiencies in internal control is if we have material misstatements and we have material adjustments that we are proposing as a result of the audit. Because if we find a material misstatement, what has happened? There has been an error.

That it's entered into their financial reporting system that was neither prevented or detected and corrected because we had to do it. And again, we can never say, well, we caught it before the financial statements went out. Therefore, they had internal controls to detect and correct it on a timely manner. Please don't ever document that because if you do, then you have said, I am part of the internal controls and your independence is impaired.

If we ever have in our audit, I look at every audit that goes out of this firm, if we have adjusting journal entries that are material, and that happens sometimes, sometimes it doesn't. If we do not have a control deficiency, that audit manager or partner has to justify to me why a material adjustment was detected by us, why it wasn't detected by the client, and why there is no deficiency in internal control that needs to be evaluated.

And as you'll find out later on, this will almost always be a material misstatement when we look at those definitions. So that's clue number one is that you should have probably in a likelihood of material misstatement if you're proposing material adjustments to your client's financial statements prior to issues to the audits. So now that we know what a deficiency is, general one, let's look at a little bit of more of a breakdown and talk about design deficiencies, okay?

Design deficiencies are when there's just a control that's absent. And a very common one would be that there is no approval process for vendor invoices. They just don't have a process, they just say, look, we're pretty sure they're right. We'll let the auditor catch anything. Okay, that's an improper design. Or they say, we're going to reconcile all bank accounts by the end of the year. Okay, well, you have the reconciliation, which is a good control.

But it's not in a timely manner because if you go past 30 days, any misstatements or any errors that were in the bank statement probably cannot be corrected at the bank level. So it's design could be absent of control, the timeliness, a lot of those things can be considered a design deficiency. When you look at deficiency in operation, that is when there is a properly designed control. However, based on our audit, we determined that people are not doing what they're supposed to do.

In other words, they have a very well-designed internal control to approve accounts payable before the accounts payable is even entered into the accounting system. So whatever they have a two or three step process, they might have purchase orders that are matching up. But once we start doing our audit, we become aware that, hey, that they're not doing this. That is an operational design. Let's think for a minute the way most small business audits are performed.

In most small business audits, we assess control risk at maximum, meaning we're not going to rely on the control, meaning we're not going to test the effectiveness of controls. And if that's the case, it is somewhat rare that we would even become aware of a deficiency in operation because at no point did we ever test the effectiveness of those controls. Typically, we will only become aware of deficiencies in operations when we say, you know what, we're going to rely on their controls.

Therefore, we are going to test controls. As long as we pull a sample of 40 and there's no deviations, then we can assess control risk at low. And that might hit the classification, the cutoff, assertional management, whatever it might be. And we link all that. And then the tests we have related to cutoff, we can reduce sample size or reduce the scope of certain tests because we're relying on their internal controls. We don't do that often in small business audits.

So in most small business audits, it is not going to be deficiencies and operations that we're going to become aware of. It is going to be design deficiencies. Well, where do we become aware of design deficiencies? It is when we are obtaining an understanding of the client's internal control over financial reporting. And we're interviewing people and we're asking about new processes that have happened this year.

What do we know about small business audits? A lot of information that we obtained last year we can carry forward this year, not just electronically by updating and rolling forward files, but also we're going to read that as part of the current year audit, what are they doing in the past, and then I'm going to interview people and find out, maybe there's something new that's been added. This is when we have to have a heightened sense of alertness as an auditor that as I'm reading through this and I'm creating flow charts, updating flow charts, however you document these control design things in your control, the design of the internal controls in your obtaining and understanding of the entity, its environment, including internal control. And there's lots of different ways to do this. However you're doing it, that's where you need to be aware of, wait a second, I just got through talking to someone about cash and nowhere did they say that they deposit cash on a daily basis.

Why not? So, I might follow up and go, yeah, we just deposit cash whenever we can. Where do you keep that cash until it's deposited? Over there in that filing cabinet. We're supposed to lock it. No one does. Well, why do you know you're supposed to lock it? Is there a written policy somewhere? No, we were just told to and sometimes we do, sometimes we don't. Well, okay, yeah, leaving a pile of cash in an unlocked filing cabinet and there's no control over that. There's no written policy.

Folks, you just have identified something that I believe meets that definition of a control deficiency and needs to be evaluated. And by the way, that example I used from a governmental client of ours, I said, yeah, it fits below a certain amount. We ain't got time to run to the bank every day.

Well, it's tens of thousands of dollars. And by the way, in this particular entity, some of that money was stolen. Gee, what a shock. In one particular case on another governmental audit, the chief entity, the highest elected official, did not want that money deposited at the end of the day because it turns out when the FBI investigated, he would use that money to finance his drug dealing overnight. He would take the money, go buy the drugs and go sell them and then whatever his profit was, he would keep and he'd put the seed money back in to be deposited the next day. Gee, that's always an interesting thing to find out. So, yes folks, there are people even that are elected officials, this may shock you, that will take advantage of money out there.

This is when we have to have that heightened sense of awareness in our audits. So, you send a first-year staff person out to update your documentation of internal control. Please make sure that that person understands the definition of a control deficiency and does just doesn't do a poor job of updating last year's work papers. Now, when we talk about deficiency in operation, when we're doing our walkthroughs, remember, even though we're not testing controls, maybe when we're just doing a walkthrough and looking at approval of vendor invoices, we become aware of the fact that, gee, you had this control, but when I do my walkthrough, it's not operating effectively. And that has absolutely been discovered by smaller firms. But what they say is, well, they weren't doing it, but that's OK, because we were going to assess control risk at maximum. But folks, now you have documentation in your file that you, in fact, are aware of a control deficiency.

And if you do not later evaluate that and then based on that evaluation communicated, you kind of hung yourself a little bit there. So, we need to make sure we're doing our job, make sure we document. And then once we get to the end of the audit, we now evaluate all these control efficiencies and we get into these other definitions. So how do we evaluate this? And again, different firms will use different processes, different third party practice aids. But what we like to do in our firm is when you value or when you determine that there's a control deficiency, stop. Fill out your management point development worksheet, whatever it is that you use in your firm at that point. Don't wait till the end of the audit and try to go back through all of your audit documentation to remember where did I identify control deficiencies? No, no, that should be done at that moment.

Remember, these things are out there. It's like walking through a West Texas desert area. Rattlesnakes are everywhere. And you ain't necessarily looking for them. In fact, you're hoping to avoid them. Now, in our audit, we're not looking to avoid them, but we're not looking for them either. But if you become aware of one, and now that we know what one looks like, because we now know the definition of a control deficiency, put it in your bag if you're catching them. I would just probably run away or shoot at one of those two, but you just, you want to remember, there's a snake there. Okay, let's don't walk there anymore or let's corral it somewhere where we know what to do with it. That's the analogy I use. Control deficiencies are rattlesnakes. You find one, you got to do something with it. You got to deal with it, deal with it at that time.

So, the way we perform the audits in our firm, at the end of your audit procedures, your general audit procedures, no matter what third party agent you're using or internal audit program, I'll bet you toward the end it says evaluate control deficiencies identified in the audit. So that's when we go to that file. And again, that file could be Word documents that you have in your firm. It could be third-party, third-party checklists that are management point, whatever they are.

And the very first thing we do is aggregate similar control deficiencies. We may have found in three different areas where there's lack of segregation of duties. We may have found lack of segregation of duties in the collection of cash.

We may have found lack of segregation of duties in the payment process. We may have found lack of segregation of duties in the final recording, the end of month bank reconciliation and recording journal entries. Very, very common on small business audits that you have one person sitting over there that handles all of that and there's lack of segregation of duties all along. We're not going to sit there and evaluate each one of those separately. Hey, there's three or four items. We're going to evaluate all of those as lack of segregation of duties.

And then we'll evaluate another one where maybe they are, they do not, very common we have is that in fixed assets, there's no tagging, there's no internal control. They just have a depreciation schedule that lists seven computers. But if I go to that client's office, I can't figure out which computer ties to the depreciation schedule because they're not tagged. So, there's a lack of internal control there. And again, how do I find that out? I wasn't looking for it. It's just when I obtained an understanding, they said, yeah, we just buy a new computer. We tell somebody they put it on the depreciation schedule.

So how do you know that that computer in your desk is part of that depreciation schedule? Well, I don't. OK, so now we've got a completeness issue because maybe there is a computer that was purchased and got put in office supplies or repairs and maintenance or technology costs when it should be fixed assets because they have no control over what goes there and how are things tagged. So that would be a separate one. And maybe there's two or three things we may have found there.

We aggregate all of those together. Once we have them aggregated and I'm evaluating them, the next step on the evaluation process is to determine if this thing that you have identified as a control deficiency is a material weakness.

A lot of people do this backwards. They say, control deficiency is just a control deficiency. You don't report it. The next most serious thing is a significant deficiency, and then the most significant is material weakness.

So, they try to go from the bottom up. No, no, no. Once you come up with a control deficiency, then you say, first, is this a material weakness? In order to do that, you have to know the definition of a material weakness. It can't be something that you just think, that's serious. No, we have to look at the very, very specific definition of a material weakness. And when you look at the definition of a material weakness, and this is coming straight from 265, it is a deficiency or a combination of deficiencies, hence that's why I aggregate, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement will not be prevented or detected and corrected on a timely basis.

So, there's two thresholds that have to be met in order for this to be a material weakness. The first one is the likelihood test. How likely is it that this control deficiency would lead to misstatement? And they use reasonable possibilities. So remember, the likelihood of anything can be between zero and 100%. It cannot be less than zero. It cannot be more than 100%. And it's interesting that within our auditing standards, it kind of overlaps on some things with GAAP when we're evaluating things such as contingencies. We use the same terms. It can be remote, reasonably possible, or probable.

And so if you have a control deficiency that is either reasonably possible or probable, that a misstatement can occur, you have met that threshold. So what percent would you apply to that? If you look on the spectrum of 0 to 100%, this is the way I look at it, anything between 0 and 10% is remote.

Now, I've talked to people, say, no, no, Kurt, we say less than 5% is remote. Remember, this is subjective, but we're talking about way at that end of the spectrum. One of the things that I don't believe, and I haven't met many CPAs, they will divide it between thirds. In other words, there's three possibilities. There's remote, reasonably possible, probable. So they anything between 0 and 33.33 % is remote, between 33.33 and 66.67 is reasonably possible and 66.67 to 100 is probable.

I don't like breaking it up in thirds. I think remote is way down on this other end, somewhere between five and 10. Probable, this is the way I look at probable, stay with me here. If I take a coin, a quarter, and flip it 100 times, I'm probably going to get heads 50 times, probably going to get tails 50 times.

In likelihood because of deviation, it might be 47/53. I've always felt if something is probable to happen, it is more likely than not. So I put probable at 50%, it will probably happen. So now that I've defined probable as everything between 50 and 100, and remote as anything between 0 and 10%, the first question I ask myself, when I'm determining what is the likelihood, said, it probably going to happen? Is there a greater chance that if that's the case, it'd meet that test. If it doesn't meet that, if I don't say, no, it probably won't happen. But it's not remote, it could. It's less, you know, it's probably in between that 10 and 50%. I'd check a box and I don't I'm going show you how we document this later, but I have just met the first test because there is a reasonable possibility. And the way I would define that is something between five or 10 % to 50%, okay, or 50 to 100, because remember, it's at least reasonably possible. So how do I sum this up? Anything that is greater than a 5 to 10% chance of not allowing this misstatement to go through the likelihood test, I've got the likelihood test met. And again, most of the things that we're going to identify are probably going to be, I just used the word probably, is going to fall in that range of either reasonable, possible, or probable, okay?

So that's the likelihood test. The next part of this definition is the magnitude test. Look at the definition again. A deficiency or combination of deficiencies in internal control such there is at least a reasonable possibility that a material misstatement will not be prevented or detected. So it has to be a material. That is the magnitude test. Folks, if you are having, if you are debating an internal control over petty cash because you determined that there's a policy that petty cash be counted and reconciled on a weekly basis and you find that no one's doing it, is there at least a reasonable possibility that a misstatement is occurring?

Yeah, it's not being recorded correctly. But is it going to be material on a \$200 petty cash account? No. So you don't have a material weakness. And it doesn't, I know we're dealing with cash here, folks. And this is where there's a disconnect because there's some people that go, oh, once you're dealing with cash, everything's a material weakness. No, not if it's not material.

But now if you're talking about cash disbursements and any disbursement and you could have individually significant items that are being paid out and you do not have proper design of controls and it's a material amount of the financial statement, now you have, you've met both tests, it's at least reasonably possible that a material misstatement can occur. So you have to meet those two criteria. So that is how we want to evaluate if a control deficiency is a material weakness by putting those two tests on.

So once you determine that it is a material weakness, you now have your answer and we're going to talk about reporting later. But if you say, you know what, this isn't a material weakness, it did not meet either both those tests or maybe it did meet either one of them. And remember, if it only meets one of those two tests, it is not a material weakness. So it fails both the likelihood test and the magnitude test. Now you do a separate evaluation to say, is this now a significant deficiency?

We've determined it is not a material weakness, is it a significant deficiency? What is the definition of a significant deficiency? A significant deficiency is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. So we're admitting, hey, it wasn't a material weakness, but you know what? That petty cash thing, we're going to let you know about it.

Okay? Or the fact that bank accounts were reconciled. It was your policy is five days. We found two or three times that was done in seven or eight days. Okay? Because now that is a, so there is a design issue, excuse me, not a design issue, but an operational issue because it wasn't done in a timely manner. What is the likelihood that a material misstatement would occur?

It's probably remote because they're doing it on day six, seven, or eight, but they're still finding errors in the general ledger and correcting them on that day. It's just three or four days after their policy. So, while it's not going to lead to a material misstatement not being detected, it's probably something that would warrant the attention of those charged with governance because their policies are not being followed. So those are the things that I would define as a significant deficiency. But if you don't even believe whatever this control deficiency that you've identified, it does not meet those two criteria for material weakness. You also believe it does not warrant the attention of those charged with governance. Then now you just have a plain old control deficiency that does not have to be reported because as we get into the reporting area of this, you will see that we only have to report material weaknesses and significant deficiencies.

The final thing that you're going want to do is a prudent official test. And I'm going to show you our documentation when we look at documentation, how we do all this. But it's kind of that stand back. We have so many things that are auditing standards now, are that stand back and you say, okay, this is how we evaluated it. Would a prudent official having the same knowledge that we have of both what we found and the knowledge of the definitions that are appropriate, which we've gone over, and that is the definition of a significant deficiency, a definition of a material weakness and the definition of a control deficiency. We have to know all three of those.

If that person would say, you know what, I still think it should be communicated, then bump it back up to a significant deficiency and then maybe go back and reevaluate your first step, which was the material weakness. But again, in most cases, it's my opinion that prudent official test is going to go more toward significant deficiencies, even though it is the likelihood part when you're looking at a material weakness.

You might want to that prudent official there also and say, what would they say the likelihood would be? Maybe it would be above that, at least reasonably possible. So once we've done this work, now if any of those things that we had identified initially as control efficiencies, have, believe meet the requirement of either a material weakness or a significant deficiency, you see 265 says we have to communicate this. And we're going to communicate it to management and those charged with governance. Well, those charged with governance and then sometimes in small business audits, that's also management, okay?

And what are the key elements of this communication? First of all, it must be in writing, okay? You can't just say, had it in oral communication. It must be in writing. It's made again to those charged with governance. If you believe it is appropriate that certain members of management be aware of this, then yes, you'd communicate it to them. And again, this is in small business audits.

The line is blurred because typically your board of directors is also the CEO, COO, president, whoever it might be, because the owners and shareholders of small business, owners and shareholders who are the same people in small business, are typically also their board of directors and key members of management. But in a nonprofit organization, that's where we see a very distinct line drawn between the board of directors, which is those charged with governance, and then the executive director which is obviously management, maybe a CFO, that type of person.

So in many cases, you could address them to all. Within this communication, you must define a control deficiency. You have to also define material weakness, but you only have to put in the definition of a significant deficiency if you in fact are going to communicate significant deficiencies. If everything that you're communicating is a material weakness, you can only, you will only have the definition of a control deficiency or a material weakness.

And I can tell you there was some confusion about this because some of the guides that came out, especially in the governmental audit from the AICPA when 112 and 115 were issued, they left in there the sample communication, the definition of a significant deficiency, even on examples where there were no significant deficiencies reported. And I've actually been involved on some ethics cases on this and in eventually, the AICPA conceded, yes, you do not have to have that definition. They were saying that the guide was more authoritative than the standard, and the standard says you only put in the definition of a significant deficiency when relevant, and relevant means you're reporting one.

So please make sure you have those definitions in there and do not include any definitions that are not required. So once you have that base part of your communication, now you're going to communicate your issues that you have found. And again, in governmental audits, there might be non-compliance issues. We're talking about just 265 here. 260 is when you have other issues, AU-C 260. So how you do this, governmental has a more specific format on Yellow Book. Here we're talking about AICPA standards. So how you do it, you have more flexibility under the AICPA standard. I recommend numbering them.

If it's 2025 audit, 2025-01, 2025-02. Actually, for governmental audits in Louisiana, it has to be three digits after the year. It has to be like 2025-001, 2025-002. So the first thing you have is what is the significant deficiency or material weakness, whichever one it is, what did you find? And be descriptive, okay?

Then you will also have, by the way, I should have mentioned this earlier, in the body, also, the first part of the communication, you're going to tell people again, hey, this is like bonus for you. Yeah, that's the Louisiana term you use. The objective of our audit was not to find these things, but we found them. So we're telling you about them anyway, okay? And we didn't give you an opinion on them, and we're not going to identify all control deficiencies, okay? And we're restricting this to those people that are used, but we're going to now tell you what those things are. So then you're going to have that description of it.

You're going to have, depending if it's governmental or not, you're going to say what is the condition, what is the potential effect of this condition, what is management's response, any follow-up. In other words, you want to have as much information in there as possible so that management or those charged with governance can understand what the issue is and what potential corrective action may happen. Or, in the case of many of our small governmental audits, management's response is we're aware of this deficiency, this lack of segregation of duties. However, we cannot have or we do not have the budget to afford to add \$200,000 of payroll and benefits to add more people to maybe catch \$30,000 a year in fraud and waste

So, it is a cost benefit. You don't spend \$200,000 to maybe prevent or detect \$30,000 a year in waste. Therefore, we're just going to monitor this situation as best we can and we'll have language in there where maybe they will have someone come in on occasion or maybe the top elected official will examine the bank reconciliations. But remember that means not just to flip and look. Really look, what are these outstanding items? Question it. So that is how the response might be.

And you may have these things go on and on and on. For our governmental clients that have a lack of segregation of duties, this is something that is just repeated year after year after year.

So that communication is important. Now, documenting your assessment. When you're looking at documenting, and I'm going to do a quick share here for you.

So, you can see what's going on here. And I'm going to pull up what we do within our firm.

This is, let me make this a little bit bigger so everyone can see it. This is just a simple Excel worksheet that we've used now for at least 15 years, I guess, as long as whenever SAS 112 and 115 were issued. First of all, we will look at the management point reference. So if we had combined three or four management point references, and again, this is as soon as we find that rattlesnake, we stop and document the control deficiency. So we reference it back, and then this could be CD2. So this is, we've combined three or four items.

So this is control deficiency number two, could be control deficiency one, whatever, however you're going to label it, okay? Like I said, the first thing we're going to do is the likelihood test. If it's not at least reasonably possible, okay, then I'm going to go to part two because once it is there, if it's at least reasonably possible, then I complete part three, okay, because it has to meet both those criteria. So if it's not at least reasonably possible, it cannot be a material weakness because it does not meet both those criteria.

So if it's not at least reasonably possible, we're going to do the warrant attention of those charged with governance. If it is at least reasonably possible, so I met criteria one, I go down to criteria three. What is the magnitude? If the potential departure is material, I click this box yes, and now I have a material weakness because it has met both those criteria. If it is not a potential then I answer the question below does it warrant the attention of those charged with governance with yes, it is a significant deficiency if no, it is not reported, so again, if I go back up here, if it is at least reasonably possible it goes down here. If it doesn't warrant the attention of governance because I don't now it's only met one of the two criteria if it does not meet the attention of those charged with governance. I don't report.

Up here, if it's not at least reasonably possible, again, I ask it, does it warrant the attention of those charged with governance? So I have to first determine, does it meet both those criteria for material weakness? If not, when I go to 'No', I then say, does it warrant the attention of those charged with governance? And I always have this place here where we document our reasons for our likelihood assessment, for this assessment. And then we have the prudent official test here where we would discuss how we believe a prudent official.

So, once we have this completed, now we can demonstrate to anyone that we have knowledge of the definitions, that we have appropriately evaluated all control deficiencies identified. And then let's say at the end of our audit, we had 11 control deficiencies. We were able to consolidate three or four of them into lack of segregation of duties and a couple of other ones were consolidated. But ultimately I had five control deficiencies that I evaluated and two of them turned out just to be regular old control deficiencies. This is where it stops in this documentation. One of them was a material weakness. Two of them were significant deficiencies. Now I have the documentation I need to prepare that communication and communicate to those charged with governance, the one material weakness and the two significant deficiencies and I'll properly document it.

I think what I see when I talk to people out there, and I'm going to stop sharing now, when I talk to various folks out there and they say, yeah, we don't document it like that. We just at the management point development worksheet, we just kind of, I don't want to say wing it, but we just use our experience based on what we think that management may want to determine if it's material weakness or a significant deficiency. Remember, what management wants really isn't in place those charts of governance. And even then, that has nothing to do with material weakness. Material weakness is likelihood and magnitude.

So, once our firm started really looking at the definitions and using that flow chart, we became much, much more effective in determining, documenting, and communicating control deficiencies. One final thought to remember, this must be communicated within 60 days of the report release date.

In reality, typically these are going to be released at the same time that you're releasing your audit report. If it is a Yellow Book audit, obviously this is going to be included within your overall audit report, so it's going to be released at the same time. But when we do audits of nonprofits that don't get grants or for whatever reason don't, no one requires those audits to be in accordance with Yellow Book standards. When I am presenting the audit to the Board of Directors, that is the same time that I will do this communication. There's just no reason to delay.

So I hope this presentation has been helpful to you and I look forward to seeing you in future presentations on A & A topics with CeriFi.

Identifying, Evaluating, and Communicating Internal Control Deficiencies in an Audit

Introduction

The AICPA Auditing Standards Board issued SAS 112 in 2007, which was later updated and amended with SAS 115, then eventually re-codified as AU-C 265 when the clarity standards were adopted by the Auditing Standards Board. The required communications which began with SAS 112 was one of the first steps in bringing back many required communications with those charged with governance and management. This course will focus on both the requirements to discover internal control deficiencies and the communications.

Requirements

Procedures performed by the Auditor

AU-C 265 does not require the auditor to perform any additional procedures beyond those embodied in AU-C 315 Understanding the Entity and Its Environment, Including the Entity's Internal Control. AU-C 265 requires that at any time an auditor *becomes aware* of a deficiency in internal control, the auditor is required to evaluate the deficiency in internal control. If the auditor concludes that a deficiency in internal control is either a *material weakness* or a *significant deficiency*, then the auditor is required to make certain communications to those charged with governance and management.

Relationship of the Auditor and Management

The auditor performs his or her audit procedures independent of management. It is management's responsibility to design, implement, and monitor internal controls, and the auditor's responsibility to gain an understanding of all five elements of internal control, including monitoring. In no way is it intended that these required audit procedures cause an independent CPA to become part of the internal control system of the client. Care should be taken to ensure that notations in the audit documentation do not imply that audit procedures performed by the CPA are considered to be a substitute of either the monitoring or information and communication elements of the entity's internal control.

Definition of a control deficiency

Because the standards require an entity to evaluate control deficiencies identified in an audit, it is important that the auditor understand how a control deficiency is defined in AU-C 256.

Deficiency in internal control – A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is

missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

In order to gain a full understanding of the requirements, a further discussion of the following concepts within the definition are necessary.

Design or Operation

This element of the definition makes it clear that deficiencies in internal control are not only operational deficiencies, but also include a deficiency of control by either poor design, or omission of a control. The second half of the definition further explains what the standards imply when discussing design or operational issues.

A deficiency in *design* exists when

- a. A control necessary to meet the control objective is missing
- b. An existing control is not properly designed so that even if the control were operating as designed, the control objective would not be met.

A deficiency in *operation* exists when a properly designed control does not:

- a. Operate as designed
- b. The person performing the control does not possess the necessary authority or competence to perform the control correctly.

Management or employees

This element of the definition limits the responsibility of the operation of controls to management or employees. While not specified, if management outsources components of internal control to contractors, these contractors would fit within this definition.

Normal course of assigned functions

Management or employees may occasionally stumble onto issues that would alert the entity to potential misstatements in the financial statements. The definition of deficiency in internal control makes it clear that if the design of a control will not alert management to potential misstatements in the normal course of business, a deficiency exists.

Prevent

The best possible course of action is to design controls so that all material misstatements are prevented from occurring. This is typically the first objective addressed when designing internal controls. However, because of the cost/benefit relationship, not all misstatements can be prevented.

Detect and correct

Because it is typically not cost effective to design internal controls to prevent every possible material misstatement from occurring, the internal control activities of a company will typically include detection controls. A key element of this portion of the definition is that misstatements that are detected must also be corrected.

Timely basis

While not specifically defined, it is obvious that “timely basis” means before the financial statements are either issued by management, or presented to a third party for audit. Because the auditor is not “management or employees”, they cannot be part of the internal control structure of the entity. If financial statements are considered “complete” by management, and a misstatement is present, the internal controls in place did not detect and correct the misstatement in a timely manner.

Based on the understanding of the definition, it is most likely that the auditor will become aware of a control deficiency during two phases of the audit: (1) when obtaining an understanding of the internal controls related to financial reporting and (2) testing of such controls, if the auditor intends to rely on the controls.

It is common in small business audits to assess control risk at maximum, thus eliminating the need to test controls. Because this testing focuses on the operation of internal controls, it is rare that operating deficiencies are identified for the simple fact that the auditor has not performed any procedures to determine if the controls are operating properly.

However, because audit standards require the auditor to obtain an understanding of internal controls, design deficiencies are often identified by the auditor, with the most typical design deficiency being the absence of some controls, such as segregation of duties. It is possible the auditor may also determine operating deficiencies during this phase of the audit when the auditor is performing the required “walk-through” procedures.

Evaluation of Control Deficiencies

AU-C 265 requires that the auditor evaluate identified control deficiencies to determine whether or not those control deficiencies are considered material weaknesses or significant deficiencies. If the auditor determines that material weakness or significant deficiencies exist, those deficiencies are required to be communicated to those charged with governance and management. The following chapter discusses this communication.

The evaluation process should be performed near the conclusion of the audit and consists of the following steps:

- Consolidate all identified control deficiencies into categories that are homogenous
- Evaluate aggregated control deficiencies to determine if it is a material weakness

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- For control deficiencies that are not deemed material weaknesses, evaluate to determine if they are a significant deficiency
 - Document the assessment

Step 1- Consolidate identified control deficiencies

During the course of an audit, many control deficiencies may be identified that are similar in nature. These control deficiencies may be treated as one deficiency during the evaluation process. Examples of these types of deficiencies are:

- Lack of segregation of duties
- Reconciliations not performed in a timely manner
- Lack of proper approval of transactions
- Pre-numbered documents not used when required

Step 2 – Evaluate to determine if a control deficiency is a material weakness

In order to perform this procedure, an auditor must understand the two qualities that are required in order for a control deficiency to be considered a material weakness. These two qualities are in the definition of a material weakness, and two tests are extrapolated from this definition. The first test is a likelihood test, and the second test is a magnitude test.

Likelihood Test

The definition of a material weakness contains the following phrase: “such that there is at least a reasonable possibility”. This phrase is the basis of the likelihood test. In applying this test, Auditing Standards first referred the auditor to legacy accounting standards SFAS 5, Accounting for Contingencies. This standard described “reasonable possibility” as being between remote and probable. While no exact percentage is provided in the standard in general practice, many auditors apply a percentage range of 10% - 50% as reasonably possible. If the auditor that is evaluating a control deficiency uses this range, he or she will assess whether or not the possibility of a control deficiency not preventing, or detecting and correcting a misstatement is greater than 10%. If the auditor believes the likelihood is greater than 10%, the likelihood test is met. If the auditor believes the probability is less than 10%, the control deficiency is not considered to be a material weakness, however the control deficiency must be further evaluated to determine if it is a significant deficiency in step 3.

Magnitude test

If the auditor assesses the likelihood of a misstatement is at least reasonably possible, the magnitude test must be performed. In performing this test, the auditor must determine if the misstatement that was not prevented, or detected and corrected, would be material to the financial statements. Auditor judgment is extremely important in this test, and many factors will influence this decision. AU-C 265.A6 provides the following guidelines in assisting the auditor:

- The financial statement amounts or total of transactions exposed to the deficiency
- The volume of activity (in the current period or expected in future periods) in the account or class of transactions exposed to the deficiency.

If the auditor believes the magnitude of the potential misstatement is material, the magnitude test is met, and the control deficiency is considered a material weakness. If the magnitude test is not met, the auditor must evaluate whether or not the control deficiency is a significant deficiency.

Step 3 – Determination of a Significant Deficiency

When an auditor concludes that a deficiency, or combination of deficiencies, is not a material weakness, the auditor must determine whether or not the deficiency, or combination of deficiencies, merits attention by those charged with governance. If that auditor concludes that attention is merited, the deficiency or deficiencies are considered significant deficiencies, and must be communicated to those charged with governance.

This determination is solely based on the judgment of the auditor. Many factors may influence the decision, including the following:

- Structure of governance within the entity
- Prior experience with the client
- Nature of the control deficiency
- Regulatory or legal requirements
- Potential litigation

The process of determining whether or not a control deficiency merits attention by those charged with governance has led to discrepancies in the types of deficiencies reported, especially in the governmental realm. Because of this issue, many practitioners have stated a preference for the Auditing Standards Board to provide an absolute list where common control deficiencies are defined by the standards as either a material weakness or a significant deficiency. Not only has the Board decided that this is not appropriate, they have “watered down” language that had been contained in SAS 112 that had implied certain control deficiencies were classified as either material weaknesses or significant deficiencies within the standard.

Prudent Official Test

When an auditor determines that a control deficiency, or a combination of control deficiencies, is not a material weakness or significant deficiency, the auditor should then consider whether prudent officials, having knowledge of the same set of facts and circumstances, would reach the same conclusion. If the auditor believes that a prudent official would reach the same conclusion, then the control deficiency is not considered a material weakness.

Step 4 – Document the Assessment

AU-C 265 requires that audit documentation provide evidence that the audit was planned and performed in accordance with GAAS and applicable legal and regulatory requirements. While AU-C 265 is silent on specific documentation requirements, most firms use either PPC or other third-party forms and checklists to guide the documentation process. The documentation is actually a two-step process: (1) documenting the control deficiency, and (2) documenting the evaluation of the control deficiency or combination of control deficiencies.

Documentation of control deficiencies identified

Because control deficiencies can be identified at any time during the audit, this is an on-going process. Most firms have a standard form that requires the auditor that identifies the control deficiency to document the following:

- Description of the deficiency
- Type of deficiency (design or operational)
- Accounts or items affected
- Audit procedures that were being performed when the control deficiency was discovered

The aforementioned information will be useful in the evaluation process, which is usually one of the concluding steps in the audit. Appendix A contains a sample documentation form for control deficiencies.

Documentation of the evaluation of control deficiencies

Standardized forms have been used by most firms to document the evaluation of control deficiencies. Whatever documentation process is chosen by the auditor, the evaluation should include the auditor conclusions on magnitude, likelihood, and the reasons why the control deficiency would warrant the attention of those charged with governance.

Communication of Significant Deficiencies and Material Weaknesses

Communication Requirements

AU-C 265 requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. This includes significant deficiencies and material weaknesses that were communicated in previous audits if they have not yet been remediated, and those that were remediated during the audit.

While not specifically defined in AU-C 265, those charged with governance and management were previously defined in SAS 115 as follows:

Management – Means the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.

Those charged with governance – Means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting and disclosure process.

In many smaller entities, those charged with governance and management may be the same person or persons. In this case, one communication to that party will be adequate to comply with this standard.

Content of Communication

The written communication regarding significant deficiencies and material weaknesses identified during the audit of financial statements should include the following:

- Include the definition of the term *material weakness* and, where relevant, the definition of the term *significant deficiency*.
- A description of the significant deficiencies and material weaknesses and an explanation of their potential effects
- Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor should include in the communication the following:
 - The purpose of the audit was for the auditor to express an opinion on the financial statements.

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- The audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal control.
 - The auditor is not expressing an opinion on the effectiveness of internal control.
 - The auditor’s consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

An appropriate alert, in accordance with section AU-C 905 *Alert that restricts the Use of the Auditor’s Written Communication*

Timing of Communication

AU-C 265 requires that the communication be made no later than 60 days following the report release date. Common practice is to provide the communication very near or on the report date. For practical purposes, governmental entities will be provided with the communication in conjunction with the issuance of the financial statements in order to comply with yellow book requirements.

Nothing precludes an auditor from orally communicating material weaknesses or significant deficiencies to management or those charged with governance during the course of the audit. However, the oral communication will not suffice as the only communication, and the written communication is still required.

Summary

In order to comply with AU-C 265, an auditor must have sufficient understanding of the relevant definitions of a control deficiency, material weakness, and significant deficiency. The audit team should be alert at all times during the audit of potential control deficiencies and properly document the deficiencies for further evaluation. The final step is drafting the appropriate communication and delivering in a timely manner to management and/or those charged with governance.

OESTRIECHER & COMPANY
AU-C 265 Internal Control Worksheet

Management Point Reference

CD-2

Part I

Likelihood of this control deficiency not preventing or detecting a GAAP Departure

Not at least reasonably possible

Complete Part II

At least reasonably possible

Complete Part III

Reason for assessment of likelihood

asdfgsadf

Part II

Warrant attention of Those Charged with Governance

Does this warrant the attention of
Those charged with governance?

No

Not reported

Yes

Significant deficiency

Reason for assessment

dff

Part III

Magnitude of potential misstatement not prevented or detected

(Complete this section only if the likelihood is at least reasonably possible)

Is the potential departure material?

Yes

Material Weakness

No

Answer question below

Does the CD warrant the attention of
those charged with governance?

Yes

Significant deficiency

No

Not reported

Reason for assessment of magnitude

Part IV Prudent Official Test

Document whether or not a prudent official would agree with your assessment and why.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why must auditors evaluate internal control deficiencies even when not testing controls?
2. How do likelihood and magnitude interact in determining a material weakness?
3. Why is written communication of control deficiencies critical?

B. Suggested Answers to Discussion Questions

1. Why must auditors evaluate internal control deficiencies even when not testing controls?

Auditors are required to evaluate internal control deficiencies because awareness of deficiencies arises naturally during audit planning and substantive procedures, even when controls are not tested for reliance. AU-C 265 makes clear that once an auditor becomes aware of a control deficiency—whether through inquiry, walkthroughs, or audit adjustments—the auditor has an obligation to evaluate and classify it. The audit objective is not to assess internal controls; however, auditors gain sufficient understanding of controls to plan the audit, and this understanding can reveal design flaws or ineffective practices. Ignoring such information would violate professional standards and expose the auditor to regulatory, peer review, and legal risks. Importantly, failure to evaluate and communicate significant deficiencies or material weaknesses can mislead governance and deprive them of critical information necessary to address risks. The transcript emphasizes that auditors are not “super auditors,” but once a deficiency is identified, it must be addressed systematically and consistently.

2. How do likelihood and magnitude interact in determining a material weakness?

Determining a material weakness requires meeting both a likelihood test and a magnitude test. Likelihood assesses whether there is at least a reasonable possibility that a misstatement could occur due to the control deficiency. Magnitude evaluates whether that potential misstatement could be material to the financial statements. Both criteria must be satisfied; failing either means the deficiency cannot be classified as a material weakness. The transcript explains that likelihood is not evenly divided but exists on a spectrum, with “reasonable possibility” beginning well above remote likelihood. Even highly probable errors do not constitute material weaknesses if the potential impact is immaterial. Conversely, material accounts do not automatically imply a material weakness if the likelihood of misstatement is remote. This structured approach promotes consistency, reduces subjectivity, and aligns auditor judgment with professional standards.

3. Why is written communication of control deficiencies critical?

Written communication of control deficiencies ensures accountability, clarity, and compliance with auditing standards. AU-C 265 requires that material weaknesses and significant deficiencies be communicated in writing to management and those charged with governance. Oral communication is insufficient because it lacks permanence and audit evidence. Written communication documents what was identified, why it matters, and how management may respond, creating a formal record that protects both the auditor and stakeholders. The transcript highlights that such communications are frequently scrutinized in peer reviews, regulatory inspections, and litigation. Additionally, written reports help governance understand systemic risks and make informed decisions regarding corrective actions. By clearly defining deficiencies and their implications, auditors fulfill their professional responsibility while maintaining independence and transparency.

GLOSSARY

Accounting Estimate—A monetary amount subject to estimation uncertainty due to lack of precise measurement.

Auditor's Point Estimate/Range—An amount or range independently developed by the auditor to evaluate management's estimate.

Compilation Engagement—An engagement in which the accountant assists management in presenting financial information without providing assurance.

Control Deficiency—A failure in the design or operation of a control that prevents or detects misstatements timely.

Design Deficiency—A control that is missing or inadequately designed to achieve its objective.

Estimation Uncertainty—The inherent lack of precision in measuring an estimate.

Management Bias—Lack of neutrality in management judgments that may influence estimates.

Material Weakness—A deficiency with a reasonable possibility of resulting in a material misstatement.

Operating Deficiency—A properly designed control that is not operating as intended.

Other-Matter Paragraph—A report paragraph used to communicate matters not presented or disclosed in the financial statements but relevant to users' understanding.

Outcome of an Estimate—The actual result when the uncertainty underlying an estimate is resolved.

Required Supplementary Information (RSI)—Information required by a recognized GAAP standard setter to accompany financial statements.

Review Engagement—An engagement providing limited assurance through inquiry and analytical procedures.

Significant Deficiency—A deficiency important enough to merit attention by governance but less severe than a material weakness.

Supplementary Information (SI)—Information presented outside the basic financial statements that is not required by the applicable financial reporting framework.

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

1. Which is the *best* audit evidence when evaluating an accounting estimate?
 - A. Subsequent events that resolve the estimate
 - B. Management representation letter
 - C. Auditor-developed model
 - D. Prior-year estimates

2. Why should an auditor developing an independent estimate ideally *not* know management's estimate?
 - A. To reduce audit time
 - B. To comply with independence rules
 - C. To minimize auditor bias
 - D. To eliminate the need for documentation

3. Which estimate typically involves the *widest range of uncertainty*?
 - A. Straight-line depreciation
 - B. Allowance for doubtful accounts
 - C. Defined benefit pension obligations
 - D. Revenue recognized at a point in time

4. What is the auditor's responsibility when management lacks internal controls over estimates?
 - A. Design and calculate the estimate
 - B. Increase substantive audit procedures
 - C. Issue a qualified opinion automatically
 - D. Disengage from the audit

5. When auditor and management estimates differ materially, the auditor should first:
 - A. Require management to record the auditor's estimate
 - B. Modify the audit opinion
 - C. Report the issue directly to regulators
 - D. Evaluate the precision and reasonableness of both estimates

Continued on next page

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6. When supplementary information is included in a compilation report, the accountant must:
- A. Express an opinion on the information
 - B. Perform audit procedures on it
 - C. Identify the information and state the level of service performed
 - D. Exclude it from the report
7. Which entity type most commonly has required supplementary information?
- A. For-profit corporations
 - B. Sole proprietorships
 - C. Partnerships
 - D. Governmental entities
8. Under FASB standards, which entity may have RSI?
- A. Manufacturing companies
 - B. Common interest realty associations
 - C. Nonprofit organizations
 - D. Financial institutions
9. If required supplementary information is omitted in a compilation, the accountant should:
- A. Ignore the omission
 - B. Modify the opinion
 - C. Add a separate paragraph describing the omission
 - D. Treat it as omitted disclosures
10. Which statement best describes RSI reporting in a review engagement?
- A. RSI is audited
 - B. RSI never affects reporting
 - C. RSI is treated the same as supplementary information
 - D. RSI may be reviewed and requires an other-matter paragraph

Continued on next page

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11. When is an operating deficiency most likely to be identified?
- A. When controls are tested for reliance
 - B. During planning only
 - C. When control risk is assessed at maximum
 - D. During analytical procedures only
12. A material weakness requires which two conditions?
- A. Fraud and management involvement
 - B. High likelihood and immaterial impact
 - C. Reasonable possibility and material magnitude
 - D. Significant deficiency and governance concern
13. If a control deficiency does not meet material weakness criteria but warrants governance attention, it is classified as:
- A. Control deficiency only
 - B. Operational weakness
 - C. Significant deficiency
 - D. Reportable condition
14. Which internal control issues must be communicated in writing?
- A. All identified control deficiencies
 - B. Only material misstatements
 - C. Only deficiencies involving fraud
 - D. Significant deficiencies and material weaknesses
15. What is the required timing for communicating internal control deficiencies?
- A. Before audit fieldwork begins
 - B. At the next audit cycle
 - C. Within 60 days of the audit report release
 - D. Only upon request by governance

Subscriber Survey

Evaluation Form

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

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

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Session 1	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Session 2	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Session 3	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

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

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

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

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

	Overall	Knowledge of Topic	Presentation Skills
Mr. Kurt Oestrieher	_____	_____	_____

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

Were the stated learning objectives met? Yes No _____

If applicable, were prerequisite requirements appropriate? Yes No _____

Were program materials accurate? Yes No _____

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

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

Were the supplemental reading materials satisfactory? Yes No _____

Were the discussion questions and answers satisfactory? Yes No _____

Specific Comments:

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

Welcome to CeriFi CPE Network!

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

This User Guide has the following sections:

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

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

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

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

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

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

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

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Email

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

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

grading-cpedge@cerifi.com

Self-Study—Online

Follow these simple steps to use the online program:

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

The screenshot shows the CeriFi CPEDge website homepage. At the top, there is a navigation bar with the CeriFi CPEDge logo on the left, and links for "Contact Us", a shopping cart icon, and a "Login" button on the right. Below the navigation bar is a search bar with the placeholder text "Search courses". A blue banner below the search bar reads "Checkpoint Learning is now CeriFi CPEDge!". The main content area features a large heading "CeriFi CPEDge CPE for CPAs" and a sub-heading "The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more." Below this, there are three columns of content: "Achieve your goals, your way." with sub-sections "Stay up to date", "Grow your expertise", "Learn the way you like", and "Upskill your organization"; "Formats for every learning style and schedule." with sub-sections "Live events" (Webinars and Virtual Conferences, Seminars, Conferences) and "On-demand courses" (Self Study and Online Grading, Nano Courses, Video Learning, On-Demand Webinars). A woman wearing glasses is visible in the background on the right side of the page.

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

The screenshot shows the CeriFi CPE Edge website interface. At the top, there is a navigation bar with links: Homeeroom, Search Courses, CPE Network, Status Reports, Activity History, Learning (with a dropdown arrow), and Resources. Below the navigation bar, the page title is "CPE Network". On the left, there is a "CPE Network Menu" with a "Network" link and three report options: "NETWORK TAX REPORT", "NETWORK ACCOUNTING AND AUDITING REPORT", and "GOVERNMENTAL NONPROFIT ACCOUNTING REPORT". To the right, a table lists the reports with their subscription expiration dates and latest issue availability.

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

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

The screenshot shows a browser window displaying the CeriFi CPE Edge website. The browser title is "CeriFi CPE Edge - Google Chrome". The address bar shows the file path: "C:/xml/production/working/mohan.katpelly/nt0825/ebook/frameset.htm". The page title is "CPE Network Tax Report August 2025". On the left, there is a gray bar containing a "Course Information" link and a "Chapter Menu" with four items: "1. Individuals", "2. S Corporations", and "Exam". The main content area is titled "Learning Objectives" and contains a list of objectives. At the bottom, there is a progress bar showing "Introduction" and "10% Complete".

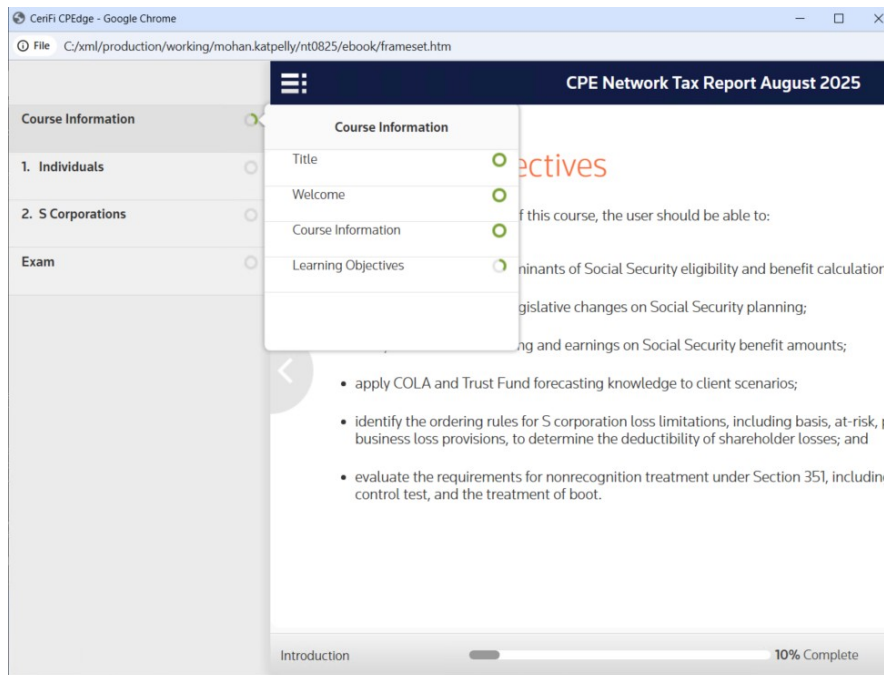
Learning Objectives

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

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

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

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



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



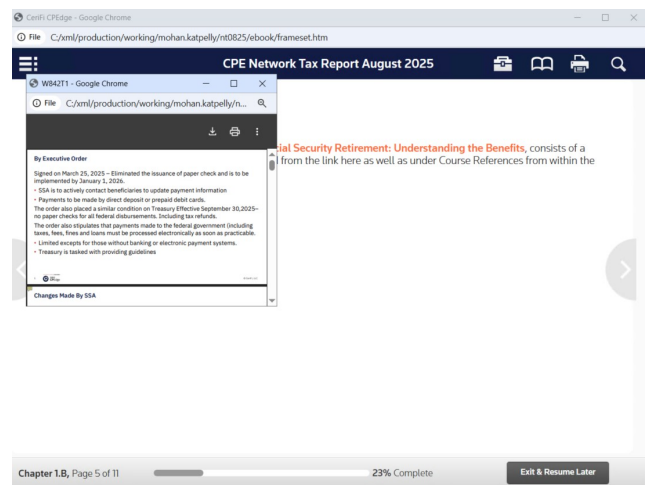
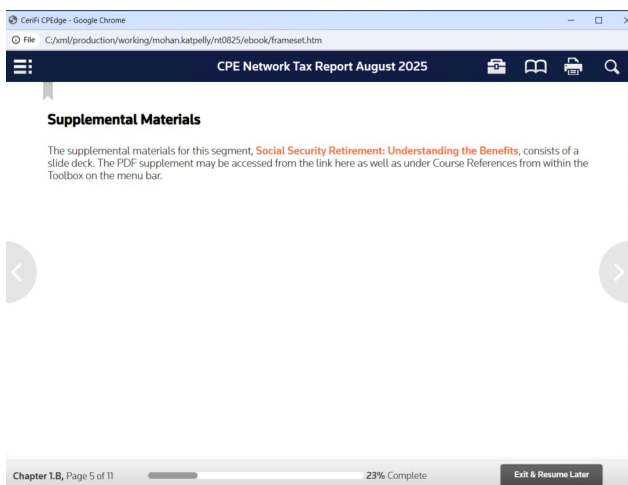
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

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

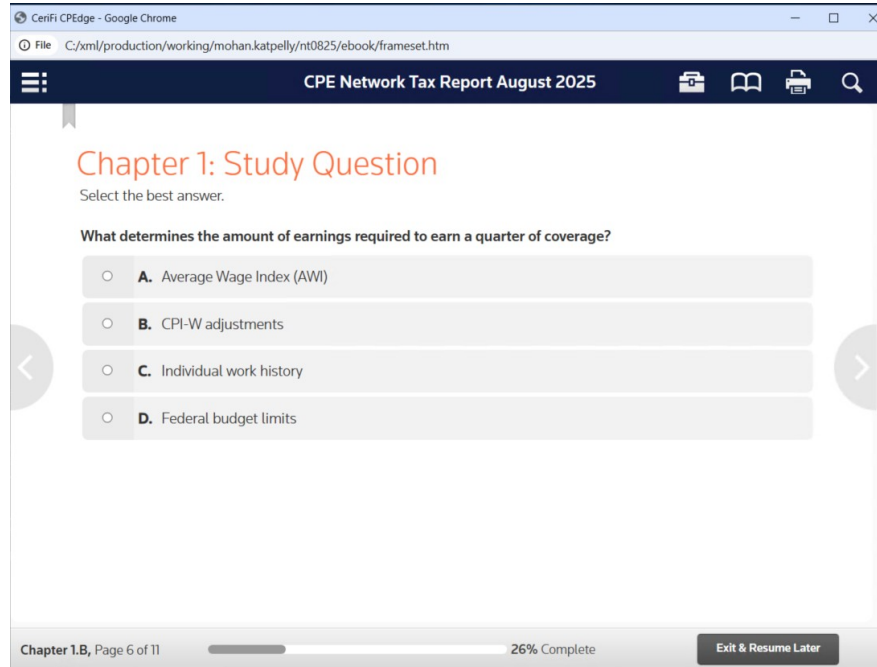
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.



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



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

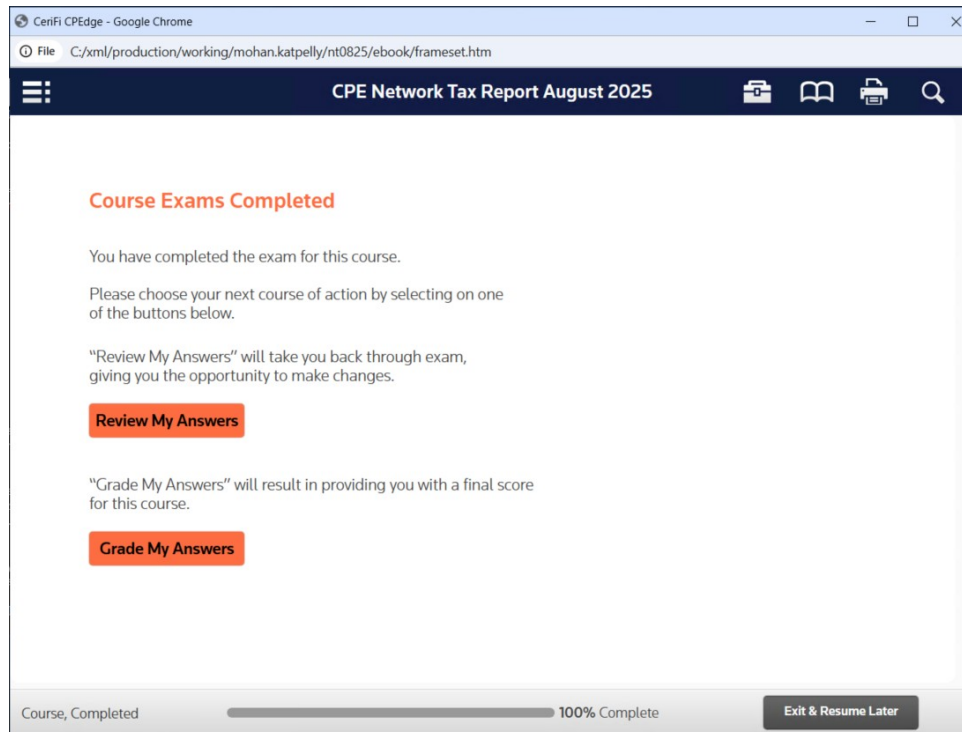


The screenshot shows a web browser window with the following elements:

- Browser Title Bar:** Cerifi CPEdge - Google Chrome
- Address Bar:** File C:/xml/production/working/mohan.katpelly/nt0825/ebook/frameset.htm
- Page Header:** CPE Network Tax Report August 2025
- Section Header:** Chapter 1: Study Question
- Instruction:** Select the best answer.
- Question:** What determines the amount of earnings required to earn a quarter of coverage?
- Options:**
 - A. Average Wage Index (AWI)
 - B. CPI-W adjustments
 - C. Individual work history
 - D. Federal budget limits
- Navigation:** Left and right arrows on the sides of the question area.
- Footer:** Chapter 1.B, Page 6 of 11 | 26% Complete | 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**.



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

Additional Features Search

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

Search Results are displayed with the number of hits.

Print

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

Determining CPE Credit Increments

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

Program Presentation

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

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

Disclose Significant Features of Program in Advance

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

Monitor Attendance

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Awarding CPE Certificates

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

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

Seminar Quality Evaluations for Firm Sponsor

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

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

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

Retention of Records

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

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

Appendix: Forms

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

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

Getting Help

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

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