



**CPE NETWORK**

# ACCOUNTING & AUDITING REPORT

**JULY 2025**

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## EXECUTIVE SUMMARY

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### PART 1. ACCOUNTING

#### **Did You Know? Making Sense of Recent ASUs: SSARS: Client Information ..... 3**

Susan Longo, CPA, explores how properly gathered and documented client information forms the foundation for high-quality compilation and review engagements under SSARS. You will gain practical insight into the accountant's role in evaluating the appropriateness of financial reporting frameworks and significant accounting policies—always with the reminder that financial statements are the responsibility of management, not the preparer. This course emphasizes a user-focused approach to financial statement preparation, showing how thoughtful documentation supports disclosures, risk assessments, and professional judgments. You will also learn to identify when omitted disclosures may mislead users and how to respond when information is incomplete or incorrect. Whether working with general or special purpose frameworks, this training will strengthen your ability to meet SSARS obligations and deliver value through compliant, well-supported engagements. *[Running time: 52:54]*

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

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

### PART 2. AUDITING

#### **Best Practices for Effective and Efficient Auditing: Evaluating and Concluding, Part Two ..... 37**

Susan Longo, CPA, continues her discussion by picking up where we left off in June 2025 on best practices for effective and efficient auditing: evaluating and concluding, building upon the foundation established in Part One, as we continue with this comprehensive and highly practical session, delving further into the critical final phase of the audit cycle—commonly referred to as the "wrap-up"—with a sharp focus on increasing efficiency, ensuring completeness, and enhancing audit quality. Part Two of our discussion focuses on the critical final stages of the audit process, where conclusions are formed, estimates are evaluated, and documentation is finalized. We will emphasize the importance of independent auditor expectations, proper workpaper documentation, and evaluation of management's accounting decisions, including bias and disclosure adequacy. You will explore best practices for reviewing fair value estimates, assessing internal controls, and performing meaningful final analytics—not simply repeating prior procedures. Designed for auditors at all levels, this discussion highlights common documentation pitfalls, clarifies peer review expectations, and offers strategies to improve audit quality through thoughtful planning and structured review. Whether you are a preparer or reviewer, you will gain tools to conclude engagements with greater accuracy, compliance, and confidence. *[Running time: 58:38]*

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

- Develop audit strategies for selected financial captions.
- Summarize and evaluate audit results.
- Document concluding procedures.
- Perform effective and efficient work paper review.

## ABOUT THE SPEAKERS

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

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

(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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### PART 1. ACCOUNTING

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#### **Did You Know? Making Sense of Recent ASUs: SSARS: Client Information**

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Welcome, everyone, to our first session on the A and A portion of this month's program. This instructional session titled "*Did You Know? Making Sense of Recent Standards—SSARS: Client Information*", is designed to sharpen your understanding of how client information shapes the nature and quality of compilation and review engagements under the Statements on Standards for Accounting and Review Services. This program provides a comprehensive overview of how to appropriately gather, document, and evaluate the financial information that forms the basis for reliable, transparent, and standards-compliant financial reporting.

At the heart of this course lies a critical message: financial statements are the responsibility of management—not the accountant. This foundational principle drives the procedures discussed throughout the training. You'll learn how to document management's acknowledgement of responsibility before an engagement can even be accepted, as well as how to assess the appropriateness of the financial reporting framework and accounting policies adopted by your client.

With a strong user-centric perspective, this course emphasizes the importance of clearly documenting client information—not as a checklist, but as a narrative that informs risk assessments, supports disclosures, and guides judgment. You'll explore how different types of financial statements—general purpose vs. special purpose—affect your approach, and how omitted disclosures must be handled with care to avoid misleading users.

For compilation engagements, we'll examine the depth of understanding needed to fulfill professional responsibilities without providing assurance, including handling omitted disclosures, recognizing unsatisfactory information, and appropriately withdrawing if necessary. For reviews, the course expands into identifying and assessing risks of material misstatement, understanding industry norms, and evaluating going concern.

This course offers a detailed, practical roadmap for meeting today's increasingly complex standards for financial statement preparation. Whether you are seasoned in SSARS or new to its evolving landscape, this course equips you with the clarity, structure, and professional skepticism needed to enhance your work and protect your clients.

Now let's join our expert, Susan Longo, who will lead us as we explore today's accounting topic, Making Sense of Client Information.

#### **Ms. Longo**

Hello, my name is Susan Longo and in this self-study we're going to be discussing client information, how we accumulate it, how we document it, and how it leads directly to the kinds of procedures performed in a compilation and in a review.

So, let's talk about the general requirements, which is a reminder, you know, which is sometimes difficult for accountants to remember, is that the financial statements belong to the entity. Unfortunately, after we do 50 adjusting journal entries and draft the financial statements, we tend to forget that. But it is the requirement that management actually acknowledge its responsibility with respect to the presentation of the financial statements.



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Okay. It is a requirement that management acknowledge that responsibility and, by the way, it is a requirement that that be acknowledged before you can accept the engagement. So, be very careful. There are new standards out on quality management that reminds everybody that that acknowledgement occurs and it has to be written. And once they have acknowledged, then you can go through the client acceptance procedures that you utilize in your practice, and then you send out the engagement letter, but not before the other two steps have been performed and documented.

So, we actually look for the documentation that shows the engagement letter follows the acknowledgement of management's responsibility and the client acceptance procedures.

It's important to understand the basic terminology so that we can document on the client information form the appropriate responses to the questions. So, the basic financial statements will exclude supplemental information. So, we often forget that, and the result is that there's information in the, in the supplementary information that is not included in the basic financial statements and that is a violation of our basic financial statement presentation rules.

So, if you, if you do supplemental information such as adding some percentages and that sort of thing, that's one thing, but if the supplemental information is designed to augment what you have, then you have to remember that that must also sit in a footnote in the financial statements.

Now, that's particularly important when we are looking at things that would indicate that there is some, some issue with respect to regulations and there's been noncompliance and you might report the noncompliance on some sort of supplemental disclosure, but that doesn't help you got to stick that in the basic financial statements in the footnote notes as well.

The generally accepted accounting principles are those that have been promulgated by designated bodies. And so, we, you know, we, we in this country have a private system that issues GAAP standard, but actually it's because the government agency tasked with doing so has designated the FASB as its, as its agent.

The applicable financial reporting framework can be GAAP or it can be a special purpose framework. It is adopted by management and those charged with governance, and it is how we determine that there is fair presentation.

So, what you have to be careful here is if I were to look at the PERM file, is there anything that indicates the adoption of an applicable financial reporting framework? I mean, there's an assumption and that's because you prepared the financial statements year after year after year, but do we have the documentation, and can I evaluate the appropriateness of that financial reporting framework as the client information form would require you to do?

So, we often times don't see that, and we certainly don't see it when it comes to the adoption of new GAAP standards. So, we see the adoption footnote that, that's fine, but if I go to the PERM file, where is the written documentation from management that says, "We're adopting the lease standard and, oh, by the way, here are the options, elections and practical expedients that we want to adopt that as part of that GAAP standard." And we don't do that. And that's, you know, because the accountant forgets it's the entity responsible for the financial statements, not us.

The financial reporting framework is how we determine measurement, recognition, presentation and disclosure rules. And it is important that, again, we have compliance with that framework which requires that management explicitly acknowledges that the appropriate disclosures, and it explicitly acknowledges that if there is a departure, there's going to be a, a resulting disclosure with respect to that of that that departure.

Now, the financial statements are historical information. They are at a point in time or a period of time, and a complete set of financial statements is determined by the applicable financial reporting framework. So, generally from a GAAP perspective, a complete set of statements is a statement of financial position, some sort of income statement or operating statement, a statement of cash flows and the required accompanying footnote, but sometimes there are adjustments to that.

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For instance, in the nonprofit world, there is a statement of functional expenses, which can be a separate statement or it can be a footnote, but in any event, the contents are part of the complete set. So, it is an understanding of both the business and the entity that would determine what is a complete set of financial statements. And so, I sort of posed to you a question. Do you know if you are going to do a set of financial statements or you're going to complete a set of financial statements for a contractor? Is the WIP schedule a part of the complete set of financial statements or is it considered supplemental information, or do you not need to include it at all? And you would need to know the answer to that, and you would need to document that in the client information.

So, it is the applicable financial reporting framework that determines the presentation structure and content of the financial statements and what constitutes a complete set, GAAP or something other than GAAP.

General purpose financial statements are those that are prepared using one of the approved frameworks, financial statement frameworks, and it is designed to be the kind of information and wide range of users would use. The important thing in all cases is please remember it is, it is the users that are the focus when we try to accumulate information that would then be included in the financial statements.

So, we have to take a user's focus, not an accountant focus, not a client focus, but a user focus. The client in its financial statements is telling the story. When you tell stories, you have an audience. It's up to management to understand the needs of that audience.

In general terms, we usually utilize historical financial information. There are times, again based upon that framework, that we will include current financial information that, and we will have adjusted the financial statements to an appropriate framework that identifies, for instance, current value and, and that sort of thing.

Now, special purpose framework, for special purpose financial statements are in a, using a special purpose framework. It, those that terminology used to be called OCBOA, an "other" comprehensive basis of accounting. Now we call it a special purpose framework and that is cash basis, tax basis, regulatory basis, contractual basis and it is really limited to the recognized special purpose frameworks. It's not creative financial reporting by any means.

So, we want to look at, given that appropriate vocabulary, what is the difference between what we need to know and document about the client in a compilation and what we need to know and document in a review.

So, for a compilation, the first thing is we have to understand the applicable financial reporting framework. And generally when the client information form asks about the applicable financial reporting framework, it doesn't say "may" at all. It doesn't, it doesn't say "may." It asks the accountant to evaluate the appropriateness of the financial reporting framework.

So, when we're talking about appropriateness, you have to recognize that appropriate means based upon the client's business and industry. It means based upon the requirements of the user, and the requirements of any laws and regulations. And so, the answer to that question is not GAAP or is not tax. You are asked to evaluate the appropriateness of the financial reporting framework, which may be fairly simple.

If you are preparing for, for instance, on a tax basis, then what you need to be able to say is based upon contracts that may include debt and equity, there's nothing that precludes them from reporting on a tax basis.

There aren't any agreements, there aren't any shareholder agreements, there aren't any debt agreements that say you can't use tax bases, but it's important that when you say it's appropriate, that you have a way of documenting how you came to that conclusion.

Now, the second piece of it is that you have to understand the significant accounting policies. What that does not mean is that the client information form has a copy of Footnote Number 2 significant accounting policies attached to it. That is not the, the appropriate answer to that.

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And it's important to understand the sequence in the client information form because what it's really asking is now that you know that, that the framework is appropriate, are the accounting policies appropriate for the reporting framework. So, significant accounting policies are again evaluated based upon the framework. So, it's not done in, in, in random order. It's based upon the framework.

Now, understanding the policies adopted allows you to understand whether or not the information in the financial statements is incorrect, incomplete or otherwise unsatisfactory. If you don't understand the two, you can't come to that. You cannot perform the compilation because you can't answer the question.

Significant accounting policies are always adopted, and they're always adopted by those charged with governance. So, the question you have is, "Where's the documentation in your, in the perm file of the adoption of all the accounting policies?"

As an example, the lease standard is fairly new. If I looked in your perm file, is there communication from those charged with governance as to all the options, elections and practical expedients that the client is using with respect to the lease standard? The financial statements are those of management. What we're doing is assisting, but we're not making management decisions.

And so, the options, elections and practical expedients, we have to know what management has decided. Can you help them make that decision? Absolutely. Could you even give them a template that they could sign off on and say, "We want to do this, this, this and this?" Absolutely, but do you have to have that in your perm file? Yes, you do.

And what you will find is that there are a lot of things that have been going on for years and years and it's the way we've always presented the financial statements to that client, but there is no documentation of the adoption of those policies. And, and it just, it, it covers the whole gamut of the financial statements.

You know, inventory is no longer the low, the, the, the lower of cost or market, it's the lower of cost and net realizable value. Did management adopt that, and did they adopt it for inventory taken as a whole or for particular inventory segments?

Again, the accountant can't prepare the financial statement unless management has elected the, the significant accounting policies and you need to document that, and that's what that question is asking. It is not asking to preprint or copy parts of the financial statements. It's asking for what management has done.

Now, you can assist management when you're in a compilation. Not a problem, not a problem; however, you can't make management decisions. Then you're not independent.

Now, in a compilation, you don't want to be independent. That's okay. At that point, what you can do is just add the paragraph to the report that clearly says you're not independent, which is perfectly okay, but please remember that line of demarcation.

You do not have to corroborate the information supplied by management; however, that's a, there's a caveat to that. It is not one of, "Well, it's a compilation and I don't have anything to do." It does not mean that at all, because you have a direct association with the financial statements.

So, you still have to meet the standard which is, "Is the information incorrect, incomplete or otherwise unsatisfactory." So, no, you don't have to corroborate the property, plant and equipment by looking at the invoices of the additions for the year. However, if you were to look at the financial statement and there was no depreciation or the depreciation number was the same as it was last year when you know there are additions to property, plant and equipment, then you would have to recognize that it's not a case of performing other procedures. It's a case of knowing that the information is incorrect and incomplete or otherwise unsatisfactory.

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So, to begin with, you have to have a basic knowledge of the framework and the accounting policies. You have to understand the accounting principles and practices utilized by management, and you have to understand industry norms to know whether or not those policies conform or do not conform, because if they do not, then there is a report modification that will occur.

Now, if you become aware that the information is incorrect, incomplete or otherwise unsatisfactory, and that may happen because you did accounting services, because you know the client or because you understand the form and content of the financial statements based upon the business and industry, then you have to request information and correction for management and if they refuse, the option is only to withdraw.

Now, it's important to recognize that we have a new standard or compilations that omit substantially all disclosures. So, first of all, let's define "Omitting Substantially All Disclosures." It does not mean you omit all the disclosures. The only way you'd have no disclosures is if you, you look at the financial statements and on the debit side you had cash and on the credit side you had equity and that's all you have. And anytime you have more than that in terms of assets, liabilities and equity, you have disclosures. They're on the face rather than footnotes.

And one of the things you have to remember is that for GAAP, there are certain footnote requirements. And if the footnotes are required, but you omit those footnotes, then the information has to go on the face of the financial statements. And people often forget that by virtue of the fact that the first thing they do is a printout from QuickBooks.

Prime example, QuickBooks gives you a great balance sheet, but in the equity section there is nothing on the face of that QuickBooks printout that includes the number of shares authorized, issued and outstanding and any other terms and restrictions that are that are present. GAAP requires that information. You would normally put it in a footnote. Now, you don't have a footnote because you're omitting substantial disclosures. You have to put it on the face of the statements and with a with the QuickBooks printout, that's not going to happen.

So, you have to recognize that omitting substantially all disclosures in some cases results in what was in the footnote goes on the face. What also happens is that what is in a footnote may also have to be as part of the report. So, we may have to add report paragraphs because of the significance of what's sitting in the footnotes. An example is going concern, or a GAAP departure is another example.

Now, the other rule with respect to omitting substantial disclosure is that you are required to document that omitting substantially all disclosures would not mislead the user. And that's a documentation requirement, and the best place to put that is on the client information form.

So, when we answer the questions with respect to the financial statements and you identify that the financial statements are going to omit substantially all disclosures that that point, there is a memo with the documentation of how you have come to the conclusion. So, you have to remember you can conclude that they wouldn't be misleading, but you better give me the basis for that conclusion.

And the basis may be a simple statement that the footnotes that would have been included are the debt footnotes and, etcetera, and management is involved in the day-to-day operations and knows the contents of those footnotes. That may be fine, except that remember it's a user focus and if the user is only management, that answer's appropriate, but if the users are some entities, third parties extended beyond management, that may not be an appropriate answer.

So, when it comes to review engagements, we need to know a little bit more, and that should make sense to everybody; right. That additional information, first of all, includes an understanding of the industry. And again, on the client information form, it asks for that unique industry practices and accounting principles that are applicable for this entity. And all we generally get on the form is "construction" or "retail" or "manufacturing," but there's no particular understanding that is documented about what makes you the, the industry unique.

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So, what type of accounting rules apply to a contractor? What kind of accounting rules apply to a retailer? It is appropriate, and if you're doing a review of an auto dealership, there's a whole host of things that you need to include in terms of the industry and the marketing practices and the, and the set asides and the financing and it, you know, you can go on and on. And we're just, we're just seeing a, you know, one phrase, you know, "They're an auto dealer," and not sufficient because I can't relate between that and an evaluation of the appropriateness of the accounting principles that have been utilized by the client.

So, until I know the industry practices and accounting rules, I can't even begin to say evaluate whether or not revenue is appropriately recorded. So, you've got to document all of the bells and whistles required in the industry. You have to understand the accounting principles and practices, and you need to be able to do it enough so that you can have in your mind a basic benchmark set of financial statements.

Now, generally what happens is you find some sample at some point, and that's the sample you continue to use. That's okay, provided nothing has changed in terms of industry practice, but more often than not, industry practice has changed in response to both what's happening in the industry, what's happening in the economy and what's happening with standards, and so your benchmark financial statements may be a tad out of date.

You have to understand the entity, its business and its accounting practices so that you can identify and perform a risk assessment. So, where a compilation said understand the entity and accounting principles, now we have to understand them to the point where we have a risk assessment.

So, one of the things people don't really remember is that every engagement starts as a compilation and then you move to the next level, which is a review. Now, that's important to remember by virtue of the compilation is going to tell you, do they have the appropriate financial reporting framework? Do they have accounting principles and practices appropriate for that framework, and is the information incorrect, incomplete, or otherwise unsatisfactory? I've answered all those questions already. Now, I'm going to take that information and say where is there a risk of material misstatement?

So, you need to know that the foundation of every engagement is that you still have to answer the compilation questions. Now, that should make sense to you in that in most cases, the client information form that you're utilizing for a compilation and one for a review are exactly the same.

In a compilation, you only fill it up so far. In a review, you fill all the compilation out and then you go to the extended procedures for the review.

Now, the knowledge is acquired through inquiry, through a document review and through your own experience. So, there are some standard questions about accounting principles and practices. There are some standard documents that you will review to make sure that the responses are consistent. So, the idea of the review of documents is that you're going to corroborate the answers.

In a review you are no different than you are in an audit. Inquiry alone is not going to provide evidence. It's not going to provide audit evidence. It's not going to provide review evidence. And the review of documents is your corroboration.

So, it, it requires that when we identify accounting principles and practices that we have the appropriate documentation and, and interestingly enough, we just, we just don't see it. I always pick on investments, but it's such an easy one to do, and that is that the investments are going to be at fair value, and the question is, how are you establishing a fair value? Well, in most cases, somebody's going to say, "Well, I got a broker dealer statement." Okay. So, you got a broker dealer statement. I'm not sure that that establishes fair value. It gives you some numbers, but it doesn't necessarily establish fair value. But before you even begin this process, the question is, "What are qualified investments?" An inquiry of personnel, which should tell you what's the client's investment policy is, because if I don't know the investment policy, I can't establish that they're utilizing the appropriate accounting principles and practices. They don't, they don't may not have the appropriate GAAP rules reflected. So, the profile doesn't have that, doesn't have the investment policy.

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When you look at investments and review a document, do you do so with the fact that knowledge that says, “Well, you know, they are not allowed to invest in,” or “There has to be a balance of 60/40 between equity and debt,” or “They can only be in mutual funds of this type.” That's part of their financial reporting framework and the principles and practices utilized to measure, recognize, record and disclose under that framework. But if you don't have the documentation, and when the client information form asks about the investments, that's what it's asking. It's asking you to review documents so you can identify what the policies are and that you can corroborate it with a review of documents, internal and external.

So, you need to be able to understand the business, its organization, its operating characteristics, and the nature of its assets, liabilities, revenues and expenses. Again, the client information form is not asking you for a list. It doesn't say, “List the assets, liabilities, revenues and expenses.” It wants you to describe them. And that's what it says, “Describe them.” Describe the nature of them.

So, when you have receivables, I need to know the kinds of customers that you have, the terms for those receivables, how you, how the client evaluates potential credit losses for those receivables. I need to know the consistency of that customer base, because I'm in a review and that would mean I would need to know whether or not I was just going to do comparative analytics on the total receivables, or because those receivables come from different classes of customers related to different product lines and segments of the business, that would mean my analytics would not be appropriate at the account balance level. It would require you to disaggregate.

How do you know how to design the analytic if the client information form doesn't describe the nature of the assets, liabilities, revenues, and expenses? This description is necessary because from it you derive all the inquiries and all the analytic procedures, and if there isn't enough information on the client information form, you can't do that.

Now, there's one other thing about the client information form when you talk about the business, and that is I want to know whether this information is reflected in the financial statement disclosures. What you need to be able to do is literally walk your way through the client information form identifying, “Oh, here's the information I need for Footnote Number 3, here's the one for Footnote Number 8, here's the one for Footnote Number 4.”

If you cannot write the footnotes from what you have written on the client information form, the client information form is incorrect, incomplete, or otherwise unsatisfactory. Let me say that again.

If you cannot write the footnotes from the client information form, that form is incomplete.

You don't need to be an expert, by the way, in the industry or even have experience before you complete the, before you accept the client. You have to before you complete the engagement. So, there's lots of ways for you to become an expert, but you don't have to do that as you first sign the client. It's not a, a requisite. There's lots of consultation you can have. There are lots of guides and industry publications that give you the experience that you would need. However, you do indeed need to know accounting principles and practices, and this may require you to really spend time with industry experts.

And let me, let me tell you that it's pretty easy to, to get access to that and you can really see it when there's a new GAAP principle that's, that's sort of a major adjustment, take revenue and leases. Before the standards were actually published, after they were approved, but before they, you know, got published, every single industry had a publication about what the effect of Topic 606 on revenue or 842 on leases was going to, to have on the industry. And in fact, it, that that guidance came complete with journal entries and clustered of footnotes and illustrative financial statements and all kinds of information.

Those industry experts sometimes are on trade association websites, more frequently they are on the websites of the large accounting practices. So, PwC, EY, KPMG, Deloitte, Grant, RSM, you know, a BDO, they all have them and the publications are free. So, you need to acquire that information.

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Understanding the business, remember I need to be able, when I get done understanding, is I need to know where you have made a risk assessment. So, when you say something such as the members of management, they get client information form is just some nice columns that you put people's names on, Not particularly useful.

So, first of all, you wouldn't be able to fill out the independence form if you don't give me some information about the knowledge, skill and experience of that individual. You don't know where management bias is, which is a requirement to evaluate any estimates, and you don't know what drives their decisions unless you know if this, these individuals are engineering types or sales types or whatever.

So, we need to make sure that it's not just name and position, but enough understanding of where the risk might be, and then that should also apply most definitely when there are, when there are changes.

Related parties, the SSARS are really, really heavy into indicating how you would know about related party relationships and transactions, and they're basically saying it should be something more than just a list of names because the idea is that management may give you that information through inquiry, but you better design more than that, because what we're worried about is the completeness. You know, are there things that are not disclosed?

We need to make sure that we understand what happens at every location, the significance of our assets and liabilities, sources of financing. Again, the key in the client information form is that these things are descriptions. They are not lists. I can read the financial statements just fine and I can, I can identify everything on the financial statements. I want you to describe what's going on because if I don't have the description, I can't do the risk assessment.

And operations is the same way. What we, you know, what we see in terms of compensation is, you know, "payroll" or that, you know, "wages and salaries," and that there's no way I can look at, at a risk assessment. You might say, "Salary plus bonuses," but until you describe how the bonuses are determined and what would cause some significant variation, variance in those bonuses, I don't know what risk is and therefore I don't know how, how to modify my inquiries and analytics. It is all about descriptions, not lists.

Okay. So, the other thing that we need to, you know, recognize when we're all done is we do have to understand the accounting system. And this is a description again. We need to know the ledgers. We need to know the journals. We need to know that the subsidiary ledgers. So, I need a description, and what I need is to know what is off book for the controller that has their own excel spreadsheets that then somehow incorporates it in the accounting system.

I need to understand how QuickBooks operates for this particular entity, and there may be lots of cases for QuickBooks not to have to operate the way you would think it does. So, a simple question may be appropriate when we ask the next, which is how do the financial statements and the reports get put together and what are all the appropriate reconciliations.

Remember, what you still have to be able to answer is that the information is not incomplete, incorrect, or otherwise unsatisfactory. The only way you can answer that if you understand the flow through the accounting system.

Do you need to know internal controls? And the answer is yes, you do. Do you have to test them? No, but do you have to understand the internal controls? Yes, because internal controls are part of understanding where your risk is.

So, the gap in the documentation, the gap in the monitoring by management are, are the things that we'll say those are areas with more risk. It is not an audit evaluation, but it is a knowledge of, and because in a review you have to also look at fraud and noncompliance, the only way I can understand the risk of fraud and noncompliance is by understanding that controls that may be there.

We need to make sure that we again focus on the user requirements and focus on something more than a disclosure checklist. A disclosure checklist is just that. It's trying to make sure that the GAAP requirements are there. It is not a way to evaluate the quality of the financial statements.

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Again, the potential for fraud and noncompliance is a part of understanding them. So, this means you need for fraud, you need to understand the various schemes and scams that might be resident in the, in the business and the noncompliance, a list of the appropriate laws and regulations and what could cause noncompliance.

You are required in a review to evaluate going concern. That is a requirement. If the appropriate, applicable financial reporting framework requires it, then you will evaluate management's evaluation and management's plans and management's disclosures. So, you are evaluating what management has done and the result is a report modification. If management does not do the evaluation or management does not have adequate disclosures, you have no choice. It's no different than in an audit because going concern is a GAAP requirement, and what you're really saying is, "You've got a GAAP departure," or "You've got a scope limitation," one or the other.

With respect to a review going concern, if the framework does not include the requirement you are, if you become aware of the events and circumstances, which means again you need to know the GAAP indicators, because you're the GAAP guru, then you will have to include the appropriate procedures. You're required to make an inquiry about the going concern and about the plans. So, it doesn't matter GAAP or otherwise, you're still going to evaluate going concern.

Materiality, the review requirements for materiality are again very much like an audit requirement. They are required to be documented. It is not a formula. Materiality is directly related to risk in terms of the base and the benchmark used. And that's a reminder. You don't set materiality as the first form that you fill out in engagement. It is after you have done your risk assessment that you determine materiality.

For compilation, you are looking for material departures from the framework. For review, that there are no material misstatements, and in a review, you're required to design all the procedures to, to address all material areas. And so, that's some, the kinds of information you need to put on the client information form.

And we thank you for attending. We hope you enjoyed the presentation.



## SUPPLEMENTAL MATERIALS

### Did You Know? Making Sense of Recent ASUs: Disclosures

by Susan Longo, CPA



**Did You Know? Making Sense of Recent ASUs—SSARS: Client Information**

Presented by: Susan C. Longo, CPA, MBA

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## Susan C. Longo, CPA, MBA

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

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

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

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



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## Learning Objectives

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

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

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## Client Information General Principles

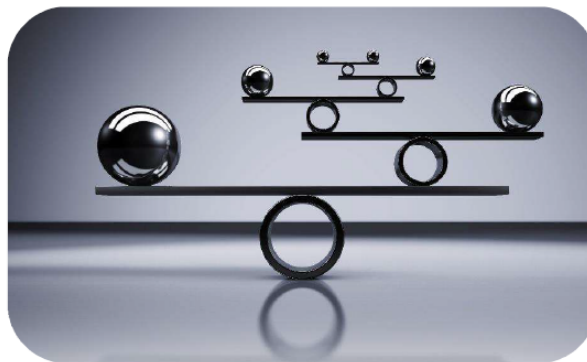
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### General Principle

- The financial statements subject to the SSARS engagement are the entity's. SSARS do not impose responsibilities on management;
- In addition, SSARS do not override laws and regulations that govern management's responsibilities.



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## Glossary

- **Basic financial statements.** Financial statements excluding supplementary information and required supplementary information.
- **Generally accepted accounting principles (GAAP).** Reference to generally accepted accounting principles in SSARs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA.
- **Applicable financial reporting framework.** The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

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## Glossary

- **Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework).
- The term *fair presentation framework* refers to a financial reporting framework that requires compliance with the requirements of the framework and does one of the following:
  - *a.* Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework.
  - *b.* Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in rare circumstances
- A financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgment in (a) or (b) is not a fair presentation framework.

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## Glossary

- **Financial statements.** A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement or in the notes, or incorporated therein by reference.
- The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements and what constitutes a complete set of financial statements.

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## Glossary

- **General purpose financial statements.** Financial statements prepared in accordance with a general-purpose framework.
- **General purpose framework.** A financial reporting framework designed to meet the common financial information needs of a wide range of users.
- **Historical financial information.** Information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past
- **Special purpose financial statements.** Financial statements prepared in accordance with a special purpose framework.

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## Client Information Compilation Engagements

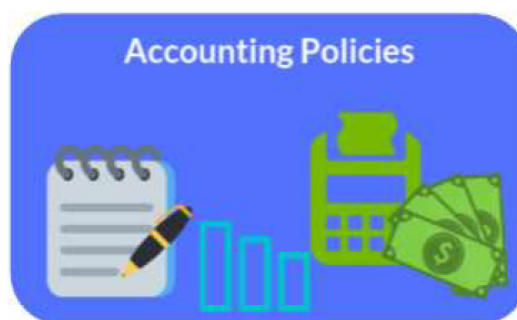
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### Compilation Engagements

- Obtain an understanding of the applicable financial reporting framework
- Obtain an understanding of the significant accounting policies intended to be used in the preparation of the financial statements.



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## Compilation Engagements

- Applying accounting and financial reporting expertise to assist management in presenting information (consisting of management's representations) in the form of financial statements, without providing any assurance on those financial statements.
- Not required to make inquiries or perform other procedures to corroborate the accuracy or completeness of the information supplied by management.
- Other responsibilities because of direct association with the financial statements.



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## Compilation Engagements

- Knowledge of the applicable financial reporting framework and significant accounting policies to be used by the client in the preparation of the financial statements obtained throughout the engagement and through experience with the client or its industry.
- The understanding of the accounting policies
  - The accounting principles and practices used in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements.
  - Consider the effect of any changes in accounting practices and principles
  - Consider differences from industry norms.

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## Compilation Engagements

- If the accountant becomes aware that information received from the client is incorrect, incomplete, or otherwise unsatisfactory based on (a) other procedures performed (e.g., accounting services), (b) knowledge of the client, or (c) the form and content of the financial statements themselves
  - Request additional or corrected information from management.
  - If the entity refuses to provide additional or revised information, withdraw from the engagement.
- Compiling financial statements that omit substantially all disclosures does not reduce the accountant's responsibility to compile the financial statements themselves appropriately.

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## Client Information Review Engagements

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## Review Engagements

- Possess or obtain an understanding of the industry in which the entity operates
- Understand the accounting principles and practices generally used in the industry,
- Must be sufficient to enable the accountant to review financial statements that are appropriate for an entity operating in that industry.



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## Review Engagements

- Obtain knowledge about the entity, including an understanding of
  - a. the entity's business and
  - b. the accounting principles and practices used by the entity

sufficient to identify areas in the financial statements in which there is a greater likelihood that material misstatements may arise and to be able to design procedures to address those areas.



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## Review Engagements

- Obtain knowledge of the entity through inquiry of the entity's personnel, the review of documents prepared by the entity, or experience with the entity or the entity's industry.
- An understanding of the entity's business.
- An understanding of the accounting principles and practices used by the entity in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements.
- A general understanding of the entity's organization; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses.

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## Understanding the Client, Its Industry, and Its Financial Reporting Framework

- Understanding of the client's business
  - the client's organization;
  - its operating characteristics; and
  - the nature of its assets, liabilities, revenues, and expenses;
- Obtained through experience with the client or its industry and inquiry of the client's personnel.
- Understanding of the accounting principles and practices
  - The accounting principles and practices used in measuring, recognizing, recording, and disclosing all significant accounts and disclosures in the financial statements.

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## Review Engagements – Knowledge Necessary

- **Need not be an expert** in the industry nor even have experience in the industry.
  - Familiar with its unique principles and practices.
  - Needed as basis for the selection of his or her inquiries and analytical procedures,
  - Basis for professional judgments concerning the results of the review procedures.
- **Must understand the entity's business.**
  - An in-depth knowledge of the industry but a lack of familiarity with the entity's business (or vice versa) is not an adequate basis for performing a review service.



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## Review Engagements – How to Acquire an Understanding of the Client

- **Experience not a prerequisite** for performing a review.
- Acquire knowledge of the industry through **study or consultation**. AICPA guides, industry publications, financial statements of other entities in the industry, textbooks, periodicals, and individuals knowledgeable about the industry are all potential references.
- **Previous experience** way to obtain an understanding of the entity's business.
- Inquiries of personnel, observation of operations, and review of previous financial statements methods of becoming familiar with the entity's business.



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## Review Engagements – Knowledge of Accounting Principles and Practices

- What is specific to the industry in which the client operates
- Specific authoritative literature applicable to the industry
- Specialized accounting practices or principles unique to the industry
- Accounting principles or practices followed by the entity that are unique to or different from those normally followed by entities in the same industry



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## Review Engagements – Understanding the Client's Business

- Company organization and personnel
  - Capital structure
  - Affiliates or equity investments
  - Related parties
  - Members of management
  - Those charged with governance
  - Locations
  - Employee base



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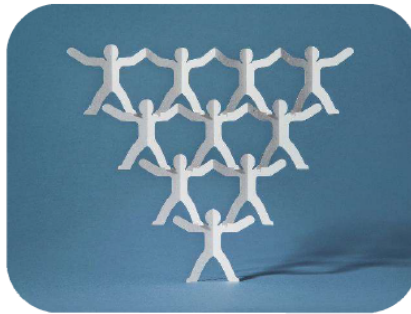
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## Review Engagements – Understanding the Client's Business

- **Related Parties**

- Be alert for arrangements or information that may indicate the existence of related party relationships or transactions that have not been identified or previously disclosed by management.
- If significant transactions outside the entity's normal course of business are identified required to inquire about the nature of the transactions and whether they could involve related parties.



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## Review Engagements – Understanding the Client's Business

- **Industry**

- **Operations**

- Activity carried on at each location
- Nature of significant assets and liabilities
- Investment activities
- Sources of financing
- Sources of revenue
- Components of cost of goods sold
- Concentrations
- Key competitors
- Major expenses
- Marketing methods



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## Review Engagements – Understanding the Client’s Business

- Operations

- Production process
- Distribution system
- Compensation methods
- Deferred compensation, including pension, profit-sharing, other post-employment benefits
- Transactions with related parties
- Compensated absences policies



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## Review Engagements – Understanding the Client’s Business

- Operations

- IT systems
- Sensitivity to economic and technology changes
- Specialized customer or vendor contractual relationships; e.g., warranties
- Critical nonfinancial data
- Significant, unusual, or complex business relationships and transactions
- Special legal, regulatory, or reporting requirements
- Key performance indicators



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## Review Engagements – Understanding the Client's Business

- Accounting principles

- Basis of accounting
- Special purpose framework, and reason for using it
- Significant accounting policies
- Relevant industry guidance
- How physical inventories are taken
- Significant estimates in the financial statements
- Revenue recognition
- Changes in accounting principles
- Prior uncorrected misstatements



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## Review Engagements – Understanding the Client's Business

- Accounting system

- Accounting software used
- Qualifications of the accounting personnel
- Any unusual features of the accounting system
- Significant journal entries or other adjustments to the financial statements
- Completeness procedure and methods to ensure that the accounting transactions enter into the accounting system
- Status of uncorrected misstatements identified during the previous engagement
- Subsequent events

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## Review Engagements – Understanding the Accounting System

- General Ledger
- Subsidiary Ledgers
  - Accounts receivable
  - Property and equipment
  - Loans payable
  - Accounts payable
  - Inventory
  - Other
- Journals
  - Cash receipts
  - Cash disbursements
  - Payroll
  - General journal entries



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## Review Engagements – Understanding the Accounting System

- Financial reporting
  - Monthly financial statements
  - Management reports
  - Annual financial statement adjustments
- Reconciliations
  - Bank reconciliation
  - Other



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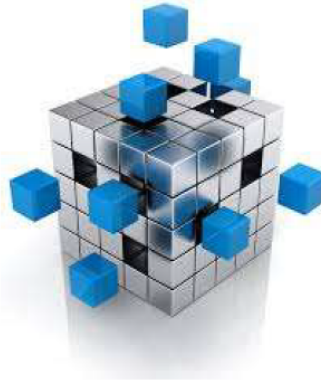
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## Review Engagements – Understanding the Client's Business

### WHAT ABOUT INTERNAL CONTROLS????????????



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## Review Engagements – Financial Statements

- History of the client
- Internal users
- External users
- Requirements of the user groups
- Material commitments, contractual obligations, or contingencies
- Communications from regulatory agencies
- Any litigation, claims, or assessments
- Actions taken at meetings of shareholders, board, or committees of the board

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## Review Engagements – Understanding the Client's Business

- Potential for fraud
- Potential for noncompliance with laws and regulations
- If management, or those charged with governance, do not provide information to
  - a. support a conclusion that the financial statements are not materially misstated due to fraud or
  - b. show that the entity is in compliance with laws and regulations that could have a material impact on the financial statements if the entity were not in compliance,then the accountant should seek legal counsel and take appropriate action, such as withdrawing from the engagement

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## Review Engagements – Going Concern

- If the applicable financial reporting framework includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time (such as in GAAP), required to perform procedures—
  - to determine whether the going concern basis of accounting is appropriate,
  - on management's evaluation of whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern,
  - on management's plans to mitigate such doubts (if applicable), and
  - to determine the adequacy of the related financial statement disclosures.

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## Review Engagements – Going Concern

- If the applicable financial reporting framework does *not* include requirements for management to evaluate the entity's ability to continue as a going concern and the accountant either
  - (a) becomes **aware of conditions or events that raise substantial doubt** about the entity's ability to continue as a going concern for a reasonable period of time [within one year after the date the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable) or
  - (b) such **conditions or events existed at the date of the prior financial statements (regardless of whether the substantial doubt was alleviated)**,
- Required to *inquire* of management about whether the going concern basis of accounting is appropriate, *inquire* of management about its plans for addressing the adverse effects of the conditions or events, and consider the adequacy of the related disclosures.

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## Materiality

- Misstatements, including omissions, considered to be *material* in circumstances when they, individually or in the aggregate, could **reasonably be expected to influence the decisions of the users of the financial statements**.
- **The size or nature of a misstatement** (or a combination of both) in light of surrounding circumstances affect judgments about *materiality*.
- The common financial information **needs of users as a group** are considered when making *materiality* judgments. What may be considered *material* to a *specific* individual user is not considered.

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## Materiality – Compilation Engagements

- Read the financial statements and consider whether they are appropriate in form and free from obvious *material* misstatements.
- Disclose *material departures* from the applicable financial reporting framework.



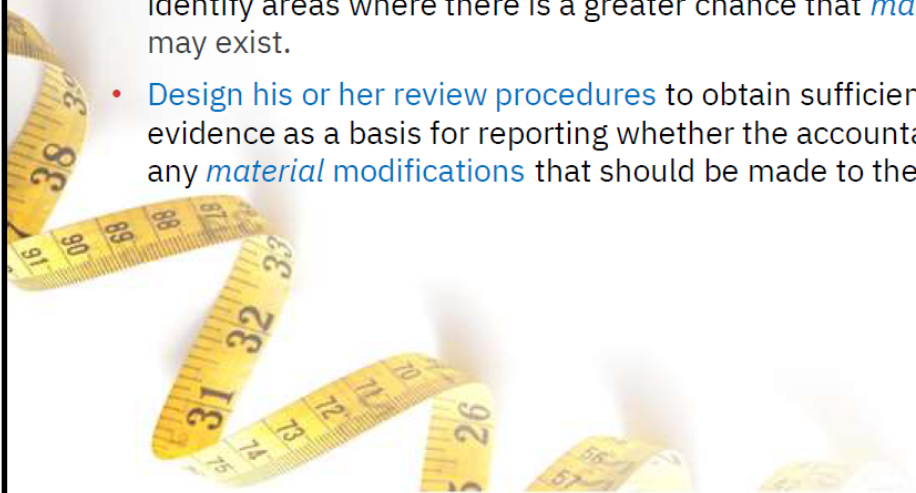
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## Materiality – Review Engagements

- Understanding of the entity's business and accounting principles used to identify areas where there is a greater chance that *material misstatements* may exist.
- Design his or her review procedures to obtain sufficient appropriate review evidence as a basis for reporting whether the accountant is aware of any *material modifications* that should be made to the financial statements.



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## Instructor Contact Information

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

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*Thank you*

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Proceed to the next page for discussion questions.

## **GROUP STUDY MATERIALS**

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### **A. Discussion Questions**

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1. What must management do before an accountant can accept a SSARS engagement?
2. What is the primary focus when preparing general purpose financial statements?
3. What is the first step in assessing whether a reporting framework is appropriate?
4. What key requirement must be fulfilled if management adopts a special purpose framework?
5. What is a key characteristic of materiality judgments in review engagements?

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## B. Suggested Answers to Discussion Questions

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### 1. What must management do before an accountant can accept a SSARS engagement?

Before an accountant can accept a SSARS engagement—whether for a compilation or a review—it is imperative that management provides a *written acknowledgment of their responsibility for the financial statements*. This step is not merely procedural; it is foundational to the integrity of the engagement and required by professional standards. SSARS guidance makes clear that the financial statements are *those of the entity*, not of the accountant, and it is management—not the practitioner—who is responsible for their preparation and fair presentation in accordance with the applicable financial reporting framework. This written acknowledgment must be obtained *prior* to engagement acceptance, and it serves to establish that management understands and accepts its role in owning the financial content. Without this documentation, the accountant cannot ethically or professionally proceed, as doing so would blur the lines of responsibility and potentially place undue reliance or liability on the practitioner. Furthermore, this requirement is an early safeguard that supports the overall quality of the engagement—it ensures that management is informed, involved, and prepared to make representations about the accuracy and completeness of the information they will provide. It also forms the basis for further engagement steps, including evaluating whether the accountant can accept the client, and only then drafting and issuing the engagement letter. In essence, this written acknowledgment sets the tone for professional boundaries and accountability from the very beginning.

### 2. What is the primary focus when preparing general purpose financial statements?

When preparing general purpose financial statements, the primary focus must be on meeting the *needs of a wide range of users*. These users may include lenders, investors, regulators, board members, and other stakeholders who rely on the financial statements to make informed decisions—but who typically do not have the authority or opportunity to request customized information. Because of this, general purpose financial statements are designed to present information that is neutral, understandable, and broadly applicable across diverse user groups. The accountant's or preparer's perspective must shift from thinking like an internal advisor or even a technician, to acting as a translator of financial information for an external audience that may be unfamiliar with the entity's internal workings. As emphasized in SSARS guidance and professional literature, this user-centric approach influences every aspect of financial reporting—from the choice of framework and policies, to how items are presented and disclosed. The goal is to communicate economic reality in a way that is *fair, complete, and free of bias*, allowing a wide range of users to assess an entity's financial position, performance, and cash flows without needing additional explanation. In essence, preparing general purpose financial statements is an exercise in *public accountability*, where clarity and comparability are prioritized so the financial story can be understood and trusted by all who read it—not just those closest to the organization.

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### 3. What is the first step in assessing whether a reporting framework is appropriate?

The first step in assessing whether a financial reporting framework is appropriate is to evaluate the *client's business, the needs of the financial statement users, and the relevant legal or regulatory context*. This evaluation is crucial because financial statements are not created in a vacuum—they must reflect the economic realities of the business in a way that is meaningful and decision-useful to those relying on them. The nature and complexity of the client's operations, its industry, size, ownership structure, and the transactions it engages in all influence what kind of reporting framework—such as GAAP, a special purpose framework (like tax or cash basis), or a contractual basis—is suitable. At the same time, understanding who the users are (e.g., lenders, regulators, investors, internal management) and what their informational needs and expectations entail is equally important. For example, if a company's lenders require GAAP-compliant statements under a loan agreement, then using a tax basis framework would not be appropriate—even if it's simpler or more familiar to the client. Likewise, legal and regulatory requirements in certain jurisdictions or industries may dictate the use of a specific framework. This initial evaluation sets the foundation for the accountant's professional judgment and documentation throughout the engagement. Ultimately, the selected framework must result in financial statements that are both *relevant and reliable* for the intended users, and aligned with the specific environment in which the client operates.

### 4. What key requirement must be fulfilled if management adopts a special purpose framework?

When management chooses to adopt a special purpose framework—such as the cash basis, tax basis, regulatory basis, or contractual basis—it is essential that the adoption is both *documented and justified* by management. This is not a mere formality; it is a foundational requirement that establishes transparency and accountability in the financial reporting process. Special purpose frameworks deviate from generally accepted accounting principles (GAAP) and are typically used to meet specific reporting needs, such as complying with tax rules, fulfilling regulatory mandates, or satisfying contractual obligations. Because these frameworks are less standardized and more narrowly applied, management must provide a clear rationale for their selection. This includes identifying the specific business circumstances, legal or contractual requirements, or user needs that make the framework appropriate. The justification must be thoughtful and well-supported—not simply a matter of convenience or habit. Furthermore, this adoption should be clearly documented in the engagement file, typically through a signed acknowledgment or a memo that outlines management's reasoning and any relevant third-party requirements. This documentation ensures that the accountant can evaluate the appropriateness of the framework in the context of the client's business, and that users of the financial statements are not misled. It also helps protect the accountant from being perceived as the decision-maker in framework selection, reinforcing that such decisions rest solely with management. In summary, using a special purpose framework demands intentional, traceable, and well-reasoned adoption by management as a matter of professional and ethical responsibility.



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## 5. What is a key characteristic of materiality judgments in review engagements?

A key characteristic of materiality judgments in review engagements is that they are made by considering both *risk* and the *common needs of financial statement users*. Materiality is not a fixed number or formula; it is a matter of professional judgment shaped by the likelihood and potential impact of misstatements, as well as by what is most relevant to those relying on the financial statements. In a review engagement—where the objective is to provide limited assurance that no material modifications are needed—this concept becomes particularly nuanced. Accountants must assess where misstatements are most likely to occur (risk assessment) and tailor their inquiries and analytical procedures accordingly. At the same time, they must ask, “Would this omission or misstatement influence the decision-making of a typical user?” This requires stepping into the shoes of a broad user base—lenders, owners, regulators—and focusing on what that audience deems important, not on the preferences of a single stakeholder. SSARS guidance makes clear that the common financial information needs of *users as a group* drive materiality judgments—not the concerns of one particularly vocal manager or board member. Additionally, risk factors like complexity, subjectivity, estimation, or prior misstatements may elevate materiality sensitivity in certain areas. The ultimate goal is to ensure the financial statements are both fair and functional for the audience they serve. Thus, materiality in a review is less about size alone and more about *context, risk, and user relevance*—a blend that challenges accountants to apply both technical skill and professional skepticism.

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## PART 2. AUDITING

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### Best Practices for Effective and Efficient Auditing: Evaluating and Concluding, Part Two

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Welcome to the second and final program section of the A and A portion of this month's program.

In this session, we'll continue our discussion by picking up where we left off in June 2025 on best practices for effective and efficient auditing: evaluating and concluding. We'll build upon the foundation established in Part One, as we continue with this comprehensive and highly practical session, delving further into the critical final phase of the audit cycle—commonly referred to as the "wrap-up"—with a sharp focus on increasing efficiency, ensuring completeness, and enhancing audit quality. Part Two of our discussion is designed to strengthen audit quality through rigorous evaluation, documentation, and critical thinking. We'll guide you through the often-overlooked yet essential final phases of an audit engagement.

This training tackles the practical and professional responsibilities auditors face when drawing conclusions, especially in areas requiring judgment—such as accounting estimates, fair value measurements, and complex disclosures. We'll underscore the need for independent auditor expectations, documentation of estimate testing, and appropriate evaluation of internal controls, including management's decision-making processes and bias indicators.

You'll learn how to elevate your analytical procedures from rote repetition to insightful evaluations that actually support audit conclusions. The course demystifies common errors, such as reusing preliminary analytics at the final stage or relying on disclosure checklists as a substitute for true evaluation. It also breaks down the need for corroborating audit evidence, resolving inconsistencies, documenting materiality judgments, and linking workpapers across significant risk areas, disclosures, and governance communications.

A key emphasis is placed on effective supervision and review processes—from detailed workpaper reviews to engagement partner and EQCR responsibilities—ensuring that findings are appropriately supported and reviewed in alignment with firm policies and professional standards. Special attention is given to structuring audit documentation to meet the standards of an experienced auditor and to building review notes that promote learning and reduce rework.

By the end of this course, auditors will be equipped not only to conclude engagements with greater confidence but also to enhance audit quality through proactive planning, documentation precision, and internal process improvements. Whether you're a staff auditor, manager, or partner, this course offers actionable best practices that will improve your efficiency, effectiveness, and compliance.

Now let's resume our discussion with Susan Longo, as we continue and conclude our session on best practices for effective and efficient auditing: evaluating and concluding.

#### Ms. Longo

All right. So, estimates in fair value. I'm going to take fair value first and I'm going to look at the financial statements as the end product with its disclosures and work backwards to the work papers. So, we have a set of financial statements. I can go to the significant accounting policies and there's a discussion there about investments. And then I can go to the topical footnotes, and we have an investment footnote which, again, reiterates some of the holdings and it has our Level 1, Level 2 and Level 3.

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Okay. Great. I can do my disclosure checklist, and I can see the, you know, by and large all the disclosures are there in the policy and in the topical footnote. Now, I go to the audit work paper, and the first thing I would want to see is, "What's the investment policy?" No, it's not on the work paper. Oh, okay, well, maybe it's in the PERM file. And the answer is, and it's not in the PERM file either.

So, audit program, step number one, is to determine whether or not investments are in line with the GAAP requirement and in line with the investment policy vetted. And the answer is I can't, I can't, I can't, I can't answer that question. I don't have the investment policy.

So, how do I know? Yeah, they got a bunch of mutual funds, they've got some equities and some fixed incomes and a little bit of derivatives and, you know, a whole host and ton of things, but what's the investment policy? I don't know.

I can't go then and look at the evaluation of internal controls over those investments, which I have to do, because there's no management review. So, I don't have a management contract with the investment advisor and the investment manager, so I know whether these are discretionary or non-discretionary. I don't know. Who's making the investment decisions? Who's monitoring compliance with the investment policy? I don't know.

Now, once we get through that piece to know whether or not, you know, the holdings are appropriate, the next is what's the definition of Level 1, Level 2 and Level 3? I don't know. The workpaper doesn't tell me.

"Well, it's what we did last year." That's not an answer. "But we've always done it that way." That's still not an answer.

And please do not cut, paste and assemble the definition of Level 1, Level 2 and Level 3 from the accounting policy. Because what happens is if I look at the definition and I look at the disclosure, they are at variance because the definition would not allow fixed incomes of the nature being held as Level 1 because they don't trade up, use a financial intermediary, that becomes a Level 2. And the same way with their mutual funds.

The assumption is all mutual funds are Level 1. That is not correct assumption. So, we don't have the definition appropriately documented and we haven't tested whether or not Level 1, Level 2 and Level 3 meets that definition. So, when it comes to fair value, we begin to see that the whole process of auditing a financial statement disclosure is just not there.

The second thing is, the internal control evaluation is not done over investments. So, unless your client has, you know, only in the overnight-money market stuff with the excess cash and they have significant investments, we have to look at the internal controls. It's probably not done.

Fair value is an accounting estimate. Please remember we have a new set of rules for auditors. Auditors are required to develop their own independent estimate. We evaluate management's point estimate, but we have to have our own independent estimate before we can do that. It's just like analytics meeting an expectation; not being done.

There are now requirements to address estimation uncertainty and management bias. Sometimes that's appropriately done in our separate inherent risk assessment, most times not appropriately determined.

The auditing standard say that we have to have a team discussion, and that team discussion has to be documented. So, if I look at your planning meeting, do I see the documentation of the discussion, the specific discussion about estimation uncertainty and management bias when it comes to fair value? Probably not.

Please remember again the estimates are tested up through the, up to the report date. It is important to understand the direction of the risk. It is not existence, it is completeness. And please remember, if it's completeness, it cannot be tested without internal controls and without very specific analytic procedures.

So, what happens is people want to dig into the numbers assuming that the numbers that the client is giving is correct. Existence and valuation is not the assertions of risk. It is completeness of evaluation.

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So, here's an example of how one would look at documentation for estimates and an understanding that we would in fact identify the assets and the liabilities, the revenues and expenses. Is it significant? Is there a disclosure? Was there a retrospective review to see the consistency? What happened with the internal control evaluation? What was the review of the methods and assumptions? What is our expectation? What did we test? What other procedures did we perform? Was there a journal entry necessary because they didn't come within the range, but we just accumulated it and as long as it, it, it doesn't meet the threshold, we're okay. What happened in subsequent events review, and what was the communication with those charged with governance?

And then what you want at the bottom here is a listing of what we would consider to be the significant estimates that are subject to this work paper review. So, again, with each of these things we have to have much more critical detailed work paper analysis than we have probably been doing.

Here's another piece of documentation. This is for testing estimates, and now what we're looking at is leases. And the reason that this one is a little different than the one we just did is that we need to remind everybody that there isn't just one estimate with, with, within an audit area.

So, lease is an expense area, but what we're looking at is classification as an estimate -- borrowing rates, terms, fair value, the assets residual value -- all those things are individually evaluated. They're separate evaluations that go on for all the attributes.

And the same thing for revenue, separate evaluations for all the attributes of that estimate; the contract criteria, the distinct material rights, transaction price, allocations, variable consideration, variable consideration constraint, standalone selling prices. All of those are part of building the estimate called "revenue," and all of them require a separate evaluation.

Final analytics. We have preliminary analytics, we have substantive analytics and we have final. And I can show you work papers where it is the same work paper used three times. The same thing preliminary for revenues, the testing of revenue and the final evaluation of revenue. Not appropriate. Not appropriate. The procedures are not a repeat of preliminary analytics, or the flux analysis used to audit the income statement. They are not.

So preliminary analytics have a particular purpose. It was, "I've done my risk assessment." Now let's look at this, stand back and look at it and say, "Is there anything that strikes my fancy that I might not have considered?"

Are the numbers now as I'm looking at them and understanding the entity, and I've already done that and I've done my understanding internal controls and my fraud, and now I want to pull it all together and say, "Does something stand out?" Now, preliminary analytics under the financial statement level, that should be a pretty easy answer, of course, to come up with. I've already done my testing. So, anytime that I could use an analytic in a particular audit area, I have done that.

Whatever ratios I wanted to do, whatever roll-forwards I wanted to do, you know, whatever trend analysis, whatever it was, I've already done that. So, here we are at the end and what we're going to ask for; right? Well, again, we're going to look at the financial statements and we're going to say, "Now, that I've looked at the financial statements, have I got an explanation for everything I'm saying?"

If I can't come up with an explanation, then maybe I'm not done. So, the final analytics are to be able to say, "I understand. I've tested. I've got work papers to prove the testing, so therefore I know the answer to why did this happen? Why did this happen? Why did that happen?" But if you see the unusual or unexpected, that just means we've got some more work to do, and that's the purpose. And that's why you can't use the same work paper three times.

We are required to evaluate the overall presentation disclosure. We are required. That does not mean that we prepare a disclosure checklist. It means that we understand the various GAAP rules, and we're certainly going to start there. What does GAAP require?

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Now, if we're in a special purpose framework, then we need those rules, but we're going to take that and we're going to add what those charged with governance have decided, and that's where your documentation may fall apart. You have significant accounting policies, number, footnote number two, and you list all of those things. In the PERM file, where's the documentation of the adoption of those accounting policies? "Well, they've always been there." Well, yeah, they're, that's true, but where's the approval of management? "Well, it's, it's referenced in the Rep letter." Again, Rep letters are not audit documentation.

So, if we go back specifically and look at three standards, Topic 606 on revenue, 842 on leases, or just take the two and, and leave off the other ones, but just those two, there were options, elections and practical expedients in those two standards. They are clearly reflected in the disclosures and the financial statements.

Where is the documentation of management's adoption of those things? And the problem probably is that the management didn't draft those footnotes, the auditor did, and probably didn't document the choices made by management.

So, part of the, what auditors forget to do is they forget to realize that there's a whole bunch of options, elections and practical expedient reflected in the financial statements, and nowhere do we have the audit evidence that that's what the client wanted to do.

Just an assumption, "Always been like that," that's not audit documentation.

So, we start with we know the GAAP rules, but to know whether the presentation and disclosure is adequate only occurs when you recognize management's responsible for the financial statements and for compliance with the applicable financial reporting framework.

I don't know how to audit compliance with the applicable financial reporting framework if I don't know the decisions made by those charged with governance. I know the decisions I made, but that that's not germane with what the client made.

We look at accounting practices and the issue here is the bias piece of it. Are the accounting principles consistently applied in accordance with the financial reporting framework? Are the estimates reasonable? Is that information relevant and reliable, the disclosures customized for the attended users, and this is what we're required to evaluate.

And I need a work paper that says, "That's what I did that. I looked at the significant accounting policies selected and applied, and here's what I know about those and here's what I know how management made that those elections." I know, need to know that GAAP is what is required, or if I'm a special purpose framework, then I'm allowed to be in a special purpose framework.

It may be that, you know, tax bases make some sort of sense, but it doesn't if there is debt out there or equity requirements that don't allow it.

So, when, when you have a disclosure requirement like this, an evaluation requirement of that disclosure, we often see the checklist that says evaluation of accounting practices and accounting policies, and the answer in the checklist is GAAP. Well, that's not what's being asked. I didn't ask you the basis of accounting. I asked you if you evaluated that basis, and these are the questions you need to be able to ask. Again, I need a work paper that tells you you've done that, and then I need an overall look-see at the audit procedures.

A reevaluation of our risk assessment. Is it still on point a look-see at fraud, significant risks, special disclosures, uncorrected misstatements as sort of the overall evaluation, and again, I need a work paper that shows I have done this.

We need to make sure that we have an evaluation of audit findings. Our audit evidence standard says we now must address inconsistencies in audit evidence findings and estimates. One source inconsistent with another, one result inconsistent with another, and you are required to resolve the inconsistency. And the little tick mark "I-M," meaning "immaterial," is not appropriate. You can't ignore it. You must resolve it. And that generally means there's additional testing that's going to have to happen.

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What requires additional procedures? Any discrepancies in records, any conflicting or missing records, confirmations or responses, any unusual relationships, any inconsistencies in corroborating inquiries, and the other is records outside the general ledger system.

This is often a very large problem in that we have, what? Well, we have a controller that has a general ledger system, but prefers a whole bunch of proprietary Excel worksheets, spends a lot of time on the calculations, and then eventually puts the answer into the general ledger system. That would require you to audit that system.

We have to consider fraud, whether or not fraud has occurred or is likely to have occurred and recognize that the result is communication with those charged with governance and outsiders.

Consultation, we can have two types of expert consultation, internal and external. Two types of consultation, internal and external, the internal experts and the external specialists. When would we use them in things like new accounting standards or complex transactions or areas with significant risk. The issue is that the answer from the consultant has to have some basis. So, there needs to be a, some supporting research and there has to be discussion with management and a disposition in the, in the financial statements.

So, this requires specialized documentation. We expect that you put together a work paper template, and that template is generally in memo form where we identify the issue. We identify the research that was done. We identify a series of questions that need to be addressed. We pose those to the experts who come back with a response. We had indicated that that response has been discussed with management and what management's view is. And then we finally have the disposition that yields some sort of disclosure in the financial statement or an understanding that the accounting as reflected in the financial statements is appropriate.

It requires very specific documentation, and where we breakdown generally is in the supporting research. A reminder that we have audit standards and we have quality control standards, and a lot of the things that are required in the engagement binder don't necessarily come exclusively from audit standards.

So, client acceptance and continuance is a QC requirement. It sits there in the binder, but the audit standard doesn't address it. So, you need to make sure that all of this is occurring.

A heads up. Be very careful. We have two new SASs, one of which is already effective and the other will be effective next year, that address quality management, and we now call it "quality management" rather than "quality control," and they put a lot of responsibilities on the partners.

Audit documentation, it's always a piece of support, support for the disclosures, support for our procedures. We strongly suggest that you understand the documentation requirements in the auditing standards themselves. If you do not, here there's an opportunity for you to understand what the Documentation Audits Codification Section 230 actually says, and then a reference to all the other AU sections that address documentation.

So, there's some misconceptions. Every work paper doesn't need to include evidence of a review, but there has to be a criteria as to what got reviewed and what didn't. The fact that you are a small client and that the, that small client has been serviced by the partner directly, does not exempt the partner or anybody else from work paper requirements. And the requirements do apply to electronic evidence.

So, audit documentation, if I were to take up an audit binder and look at it, you know, ideally what I would find, this is what I would find: Some sort of an audit plan that would include the risk assessment procedures and an understanding of the design of the further audit procedures, planning meetings and the content of the planning meetings if there was any revision of the overall strategy. The understanding of the entity and all the documentation required for that. The documentation of materiality, the documentation of the risk assessment, the documentation of the responses to risk, in terms of the audit procedures.

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For misstatements, an understanding of the communication requirements and the evaluation of those in the statements, including whether or not they are to be corrected or deemed unnecessary and therefore in a, in a past AJE work paper.

A reminder that there are certain things SAS tell us we absolutely have to do. We have to agree the financial statements to the accounting records. Interestingly enough, it doesn't say the trial balance, it says the accounting records to the financial statements. And I actually need to see documentation that that was done. I don't often find it. Have to look at journal entries, have to look at estimates, have to look at unusual transactions, have to look at receivables and inventory. Those are things that I'm required to do.

My documentation should include for analytics, expectations, the basis for it, and the threshold for variance. For estimates, the expectation, the basis for that expectation, and the threshold for variance. Remember, I have to have an independent estimate, just like an expectation.

I need to understand how I develop the scope and the sample sizes for any of my testing. It is a function of risk. Scope is directly related to risk. So, if I was going to create a template for, for what's going on, I need lead schedules, disclosure requirements, analytics, and audit program and conclusion. I can actually create a work paper on one page where I could put my lead, where I could put my program, including the conclusion, where I could put my disclosures, and where I could put my analytics. And if what I had was a basic audit approach, which is one that says all I need is substantive analytics, I could do the entire audit on one piece of paper. Try it. It works beautifully.

If I'm creating a work paper, these are all the things I need to have on that work paper: The client, the date, the title, the initials for date and preparation, an indication of whether it's prepared by the client, cross referencing and indexing, and the header. But the things that I need; the audit objective, the source of information, how I tested, data integrity, the risk assessment, the expectations, scope or sample sizes, procedures, results analysis and conclusion, and they are different. Results analysis and conclusion are different.

So, when we look at audit documentation, please don't forget that inquiries are the who, what, when, where and why, but they have to be corroborated. Inquiries alone don't deal with them. And again, the signing off on an audit program is, is not sufficient appropriate audit evidence without the work paper. The contents have to meet the experienced auditor criteria.

I know how to audit and I know how to audit in the industry, may not know the client, doesn't matter. Experienced auditor literally means that if I can look at the work paper and get up and do exactly what you did, then we've got all the documentation we need, but if I cannot replicate what was done, documentation is insufficient.

Make sure when we have specific dates that we understand the appropriate sign-off dates, the report date, the release date, and the completion date and they are different. Once again, standards say that the report dates are not properly determined.

You cannot have a report date if you haven't done the disclosure checklist. Cannot have a report date if the signing partner has not reviewed the work papers. Cannot have a report date if the client has not reviewed a draft of the financial statements. And there's a whole host of things like that and people are creating report dates much too early.

Please remember that the PERM file has to reflect everything in the financial statements and often times there's a lot of gaps in that.

With respect to the binder index, this is not, you know, a potpourri of documents and it is not a file cabinet. There is, if you do this correctly, the binder index is actually your road map for the audit. So, let me ask you, is it structured in the order in which you perform the audit procedures? And if we look just at the planning section, you'll clearly see that that's not the case.

And we'll find that, that actually violations of that are now going to be a, a standards issue for you. So, for instance, if you have a new client, the rule is that you have to communicate with the predecessor, you have to go through the firm client acceptance procedures and then you issue the engagement letter. If your engagement letter is, is dated before you've had a discussion with the predecessor, you're violating current audit standards.

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So, it's important that when you put the binder index together you have the, the thought process that says, you know, "The staff needs to do this before they do that, before they do that."

So, as we, you know, indicated, what I don't want to see in planning is that preliminary analytics as the first tab, but instead it's understanding the entity.

I also don't want to see internal controls before I did my fraud assessment because I need to know the fraud risks so that I can answer the question, "Does internal controls address the fraud risks?" Can't do it backwards.

So, yes, again the binder index, if you spend time reordering it so it matches the decision making, the, the audit will proceed much more smoothly.

There are very specific deficiencies that have been noted in peer review. They come up on a recurring basis. Analytic procedures, the biggest there is the development of expectations, and the second is the corroboration of management responses.

So, we get one of these, you know, here's this analytic that we've done some comparison, and we hand it off to Jill and say, "Tell me what happened." Jill tells you what happened. That response goes into the work papers, but there's no auditing on it. So, you have to corroborate all that.

Often times with analytics, also, we don't test the underlying data. We just assume that if we can print out a schedule where somebody else prints out a schedule for us that there is the relevant and reliable data there, and that is not a good assumption.

From the point of view of fraud risk, the reminder is that we have to test for revenue recognition in the preliminary procedures. We do not leave the fraud evaluation of revenue for when we test the revenue audit area. There is a required set of analytics for fraud risk on revenue upfront in the audit, and that sometimes is not happening.

The other piece of this is that it is important that you customize the questions you have there, there -- the questions are of the type, you know, was there actual fraud, alleged fraud, suspected fraud, where you know, I mean, we know the five questions we have to ask, but that tends to be how we're wording them and what we're saying when in fact it's not an appropriate way of doing that.

So, we have to customize them so that we can actually create the scenarios that make sense to the client. So, when we ask about vulnerabilities, we ask the specific sort of cases, if you will. "Is it possible to create a fictitious customer by doing this, this or this?" "Is it possible that the purchasing manager could do this, this or this?" Again, if you do not know fraud schemes and scams, that becomes quite difficult.

With respect to accounting estimates, again, it's all about a data analysis, and you haven't looked, if you haven't looked at the quality of data, probably a little difficult.

Revenue, the best thing I tell you here is this is Topic 606. It is in fact a five-step model. The biggest problem is people still want to do this as an analytic. So, our world changed with Topic 606. We audit revenue. Receivables are a residual. Revenue minus cash collected is receivables.

If we're going to confirm, we're not confirming receivables, we are confirming the contract. Oh, by the way, after I look at all the elements of the contract, I want to confirm, I'll also include the receivable, but we confirm the contract. I need to audit all five steps of the model, and that's just not happening.

The AICPA Revenue Recognition Guide has a great audit program. If you have not customized your audit program, that's a great, a great source. So, you must test that five-step model.

The second thing is sample sizes. Topic 606 would require you to stratify your customers and your contracts. It's revenue from contracts with customers. It is not 25, 40, and 60 randomly selected revenue transactions. It has to be stratified by, by customer and by contract type. This isn't being done.



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A reminder with fair value that the values received from a pricing service is coming from a service organization. And as such you have to test it and if it is an estimate, then you have to create an independent estimate.

Financial reporting of tax uncertainties, we don't spend time with that. So, there is a tax considerations practice aid, and we strongly suggest that you customize that as the basis for your evaluation.

In terms of the internal control evaluation, there's really a failure to figure out when we need to test controls, and an assumption on the part of too many people, "I just don't test controls, so I don't have to evaluate internal controls."

Well, that's not what the standard says. It says you have to evaluate design and, and implementation. Design means that you know whether there are any gaps in the flow of the documents and the responsibilities of the individuals. Implementation means that you can answer the questions, the procedure being performed in accordance with policy on a consistent basis by the right person without management override, and that's not being documented.

So, it's an evaluation. It isn't a documentation that says, "All right. Here's a little description or here's a check, check, check, check, check on it." All these things you are required to evaluate. Evaluate design means looking for gaps, and implementation means I can answer those four questions

So, audit deficiencies, I would say that the, the standard is if you want to sell a piece of real estate, it's location, location, location, and people often say the same thing about auditing. It's documentation, documentation and documentation, and I don't agree with that. The whole thing is based upon monitoring.

The auditing falls apart with monitoring. If you don't have adequate monitoring of internal controls of your entity, that's where you have the control failures. The same thing is true for an audit practice. Without adequate monitoring, it doesn't matter because you, you know it's the monitoring that would find the gaps in documentation, not the other way around.

So, it is monitoring, and the more you do continuous monitoring, that is, the more that engagements are subject to EQCR, second partner review, that sort of thing and then those findings are communicated immediately rather than once a year when they're all aggregated together then we, we have that learning going on throughout the time.

Now, we want to be sure that the review process clearly distinguishes the responsibilities and requirements at each level. So, when you review as you've done, as you create the work papers, these are the things to look for. Does the work paper stand on its own? Are the conclusions appropriate? Are there any exceptions that are still open? Do you have support for what you did in the way of procedures, and have you clearly identified the audit evidence?

Now, the answer to this is you shouldn't be out there struggling on your own. So, you got a binder, and the binder has an index, and in each of the indices there's tabs. There may be a section for financial reporting, a section for planning and whatever, and under each one of those then are the various work papers.

If you are going to do this well, at the tab level, we need a review note. And by that, I mean, we need to be able to say to a staff member, "Before you think you are done, did you?" So, the review note is just a reminder, it's a tickler that says, "If you think you're done, be sure you looked at this, this, this." And this rework is expensive for the firm and frustrating for the staff member, but they don't know all the things they should catch.

Does this work paper tie to this? If this is a significant estimate, then is it listed in the significant estimates work paper and is it listed in the communication with those charged with governance, and is it identified as a significant estimate in the risk assessment, and is it also in the financial statements?

Now understand those four places are what we call "linkage," but the staff member looks at each work paper as a stand-alone and doesn't see those linkages. Don't make it a mystery. Leave a note that says, "Be sure that this work paper and the conclusion ties to this, to this, to this, to this." "Don't forget to do this." And they're just a series of review notes. And most tabs would have, you know, five or six of those things. If you create it in your binder template, it will sit for all the engagements and reduces a lot of rework and frustration.

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The sequence for review, you know it's not, "Take the first tab and keep going." You know, it is client information and PERM file. That is always before I get to the risk assessment. I can't look at materiality until I've done my risk assessment. So, there is a, a known sequence for getting through the review process.

When we're doing the detailed review of individual work papers, the most important thing is to make sure that we don't have anything that's unrecorded, that we have cleared all the exceptions and all the unresolved issues. That's what I need to make sure that the mechanics are generally in pretty good shape.

The timing, I prefer to do as much on a concurrent basis as possible, but again, as we started out, we need to move as much out of wrap-up as we can, otherwise that's where the profitability goes on.

Now, another thing about review notes. We need this to be a learning process, and at, at most times, the only learning that goes on is how to clear review notes to somebody's satisfaction but there's not a whole lot of learning.

So, first of all, review notes need to be organized. The basic summary, and you might have written 47 review notes, but there weren't 47 predicted problems. So, what is it that we, you know, what, what is it that we're trying to address?

Separate out the technical issues related to GAAP and those related to the audit from things like, "Well, we need to watch the documentation because you're missing this piece of it." And get specific about what is it that we don't like. Not doing the right cross referencing is entirely different than not knowing the difference between a finding and the analysis and the conclusion.

Give specific feedback to the staff, what they did well, where they need to improve, but it is not a listing that is tied to each work paper. You've got to give them a summary, otherwise some people will never learn, and they'll make the same mistakes over and over again. So, make sure that we can, you know, clear those.

So, if we, if we look for some things that might improve what we're currently doing, it is to make sure that partners are dedicated to the risk management.

I think partners come in too late and exit too early. They are focused on just a few things with respect to each client and that's where they spend their time. But the expertise that partners have needs to be evident in the planning. And the more you spend on that planning and get that expertise, the more smoothly the audit will go.

Information and communication, professional standards change all the time. We tend to have a lot of push notifications that say, "We got a new SAS. We got a new SASB, we got whatever," and not a lot of analysis, but keeping abreast means that I can identify the clients that are going to be affected, and I can actually address the documentation that's going to change.

So, you know, when you had 145, when SAS 145 came out, did everybody understand that for the first time you're going to have to change the inherent risk assessment? You're either going to have to do it because you never did it before, or that the whole inherent risk form changed.

It doesn't do any good to tell people 145 came out there, if you don't tell them how it's actually going to affect. Monitoring, as I said, is the key for efficient and effective audits, and it, it really does require that we have quality reviews going on all the time. Feedback, feedback and more feedback.

Control activities, you know, if, if I had to, to say that there was a gap in education, I think we have a lot of people that have not actually taken a systems design class in a long time, and do you understand all the elements of a revenue cycle, of a conversion cycle, etcetera, and therefore what the, where the internal control policies and procedures need to be? And so, if I was, you know, targeting anything that would help in the internal control arena, it would be that people would spend a little time understanding accounting systems as such, and that would improve their evaluation.

---

Supervision, review and approval, this is all up for change because of the new standards. Supervision review and, and approval forms are changing by virtue of who's now going to be doing what. And so, we'll look at a detail reviewer and we'll look at an engagement partner review and an EQCR. This is the, the engagement partner review is the area that is really changing. And so, if you are not careful, your QC document may be out of sync with what auditing standards require. So, take a look at that, and most especially if you're going to undertake peer review in the next year, your QC document needs to be revised.

There are times we need to tell the partner, "Be careful. There's some things we found, and how do you want to address them?" This should be a work paper. Generally, a standard memo template is appropriate, and I've identified some of the things that might be included on that template. We would for the matter, for the attention of the partner, it doesn't look anything different, really, then what you would do if you used an internal or external consultant. The issue, the research, the discussion with the client, the discussion with the partner, where it sits in our audit documentation, the options available, what we did, any alternative opinions and finally the partner approval. So, if you don't have that type of documentation, suggest again that you get that.

And that is how we want to address the concluding procedures and the appropriate documentation. And I think the message to everyone clearly is, this takes a lot more documentation than we might currently find in our audit binders.

So, I thank you and I hope you enjoyed this presentation.

## SUPPLEMENTAL MATERIALS

### Best Practices for Effective and Efficient Auditing: Evaluating and Concluding, Part One

by Susan Longo, CPA



**Best Practices for Effective & Efficient Auditing: Evaluating and Concluding**

Presented by: Susan C. Longo, CPA, MBA

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 **CPE Programs**  
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## Susan C. Longo, CPA, MBA

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

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

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

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



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## Learning Objectives

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

- Develop audit strategies for selected financial statement captions
- Summarize and evaluate audit results
- Document concluding procedures
- Perform effective and efficient work paper review

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## Concluding Procedures

- Commitments and contingencies
- Litigations, claims, and assessments
- Going concern
- Subsequent events
- Compliance with law, regulation, contract, and agreement
- Related party transactions
- Risks, uncertainties, concentrations, estimates and fair value
- Final analytical procedures
- Presentation and disclosure



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## What Auditors Forget to Do

- **Commitments and contingencies**
  - Consider guarantees
  - Document search (inquires alone is not sufficient)
  - External communications
  - Communication with prior and current parties when change has occurred
  - Include in subsequent events testing
  - Include on legal letter



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## What Auditors Forget to Do

- **Litigation, claim, assessments**

- Document search (inquires alone is not sufficient)
- External communications
- Communication with prior and current parties when change has occurred
- Review both board minutes and committee minutes
- Customize the legal letter
- Determine the threshold for financial statement disclosure
- Determine the threshold for report modification



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## What Auditors Forget to Do

- **Going Concern**

- Understand this is GAAP requirement
- Include in the risk assessment
- Evaluate management's assessment
- Determine the need for a cash flow analysis
- Evaluate ability and intent of parties providing external support
- Communicate with those charged with governance
- View the issue in light of COVID-19
- Evaluate the adequacy of financial statement disclosure
- Determine the threshold for report modification



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## What Auditors Forget to Do

- Subsequent events
  - Understand the GAAP requirement
  - Include in the risk assessment
  - PBSR to the report date including journals and ledgers, minutes, and interim financial statements, and external reports such as investment statements
  - Evaluate evidence regarding significant estimates
  - SAS No. 135: related parties, significant transactions
  - Consider COVID-19
  - Disclosures include recognized and non-recognized events
  - Consider impaired assets



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## What Auditors Forget to Do

- Compliance with law, regulation, contract, and agreement
  - Listing of pertinent laws and regulations
  - Listing of required filings, due dates, and regulatory parties
  - Communications from external parties
  - Examination of referenced documents such as tax returns and regulatory filings
  - Customize legal letters
  - Determine the threshold for financial statement disclosure



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## Compliance with Laws and Regulations

### KEY COMPLIANCE CONTROLS

Laws and Regulations	Compliance Requirement	Evidence of Compliance
Regulations Specific to the Industry		
Regulations Specific to the State		
Taxes		
Payroll		
Employee Benefits		
Right to Work		
Discrimination		
State Labor Laws		
Independent Contractor		
Permits, Licenses, Zoning		
Insurance		
Copyrights, patents, etc		
Safety and Environmental		
Advertising and Marketing		
Online Business Law		
Privacy Law		
Contract Law		
Records Retention		
Enforcement Actions		
Examination Reports by Regulatory Agencies		

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## Compliance with Laws, Regulations, Contracts, and Agreements – Documentation

- Instances of noncompliance noted during testing and inquiry of management
  - Description
  - Disclosure required?
  - W/P reference
- Audit procedures
  - Inquiry of management as to compliance with LRCA
  - Inquiry of those charged with governance as to compliance with LRCA
  - Inspect correspondence or examination reports from regulatory agencies
  - Document policies and procedures to ensure compliance with LRCA
  - Obtain register of significant laws and regulations with which the entity has to comply
  - Read board and committee minutes
  - Review payments to consultants, related parties, government officials, government employees, agent's fees
  - Review failure to file tax returns or pay government duties
  - Obtain legal representation of any actions regarding noncompliance
  - Obtain written management representation of any actions regarding noncompliance
  - Identify any fees, fines, or other consequences of noncompliance

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## Compliance with Laws and Regulations

- General procedures
  - Understanding of the legal and regulatory framework
  - Evaluate financial statement disclosures
  - Procedures to determine noncompliance with laws and regulations
- Audit procedures when noncompliance is identified or suspected
- Reporting of identified or suspected noncompliance to those charged with governance
- Reporting noncompliance in the auditor's report on the financial statements
- Reporting noncompliance to regulatory and enforcement authorities
- Written representations from management
- Appropriate documentation

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## Compliance with Laws and Regulations

Audit Program	Compliance Requirement	Evidence of Compliance
<p>For each item below provide a narrative of your understanding related to noncompliance with laws and regulations:</p> <ul style="list-style-type: none"> <li>a. Investigations by a government agency</li> <li>b. Payment of fines or penalties</li> <li>c. Excessive sales commissions or agent's fees</li> <li>d. Purchase prices significantly above or below market</li> <li>e. Failure to file tax returns or to pay government fees</li> <li>f. Unauthorized or improperly recorded transactions</li> <li>g. Large and unusual cash transactions</li> <li>h. Information systems that fail to provide an audit trail</li> <li>i. Unexplained payments to government officials or employees</li> <li>j. Unexplained payments without proper exchange control documentation</li> <li>k. Large and unusual payments to a consultant, affiliate, or employee</li> <li>l. Purchases of bank cashier's checks in large amounts payment to bearer</li> <li>m. Adverse media comment</li> <li>n. Other</li> </ul>		

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## What Auditors Forget to Do

- **Related party transactions**

- Understand the GAAP requirements
- Inquiry alone doesn't provide sufficient, appropriate audit evidence
- Risk assessment: identified risk, fraud risk, significant risk
- Search
- Evaluate internal controls surrounding related party transactions
- Evaluate arm's length assertion
- Include as part of final analytical review procedures
- Consider the response when undisclosed related parties are discovered
- Determine the business purpose behind significant related party transactions
- Determine the threshold for report modification



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## What Auditors Forget to Do

- **Variable interest entities**

- Understand the GAAP requirements
- Risk assessment: identified risk, fraud risk, significant risk
- Search: completeness is the assertion at risk
- Evaluate internal controls surrounding VIE transactions
- Identify the entity that is the primary beneficiary
- Consider the involvement of related parties
- Consider the response when undisclosed VIEs are discovered
- Consider the alternative GAAP treatment
- Consider additional audit procedures if: change in ownership, differences in accounting principles between the entity and the VIE, increased risk of impairment losses
- Consider the adequacy of disclosure
- Determine the threshold for report modification



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## What Auditors Forget to Do

- **Risks, and uncertainties, and concentrations**
  - Understand the GAAP requirements
    - Nature of operations
    - Use of estimates
    - Significant estimates
    - Vulnerability due to concentrations
  - Include in risk assessment
  - Develop an independent auditor measurement
  - Document the threshold for disclosure
  - Completeness is the assertion at risk – not existence
  - Consider the effects of COVID-19



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## What Auditors Forget to Do

- **Estimates and fair value**
  - Include in risk assessment: identified risk, significant risk, fraud risk
  - Include in internal control evaluation
  - Perform retrospective review of measurement
  - Evaluate management's point estimate
  - Consider estimation uncertainty and management bias
  - Include in subsequent events procedures
  - Document the threshold for disclosure
  - Completeness is the assertion at risk – not existence
  - Consider COVID-19



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## Sample Documentation – Estimates

Description	Significant to Financial Statements Y or N	Disclosure Required Y or N <sup>1</sup>	If Yes WP Ref	Retrospective Review	Internal Control Evaluation	Review of Methods Assumptions	Auditor Expectations	Test of Calculation	Other Procedures	PAJE If required	Subsequent Events Review	Communication with Those Charged with Governance
<b>Assets<sup>1</sup></b>												
Disclosure made applicable to estimates of fair value for plan investments.	Y	Y	#156.55	Yes	No	Yes	#156.55	#156.55	N/A	N/A	Yes	Yes
Collectibility of notes receivable from participants.	N	N	N/A	No	No	No	-	N/A	N/A	N/A	N/A	No
<b>Liabilities<sup>2</sup></b>												
No significant liabilities subject to estimates.	N	N										
<b>Revenues &amp; Expenses<sup>3</sup></b>												
	N	N										

<sup>1</sup> - Common estimates - allowance for A/R or N/R, inventory valuation allowances, depreciable fees or PPE, amortization period of intangibles, impairment of goodwill, and/or other intangibles or PPE.

<sup>2</sup> - Common estimates - loss contingencies related to guarantees of debt, litigation or environmental remediation, product warranty, estimated real/personal property taxes, defined benefit pension plans, and/or post employment benefits.

<sup>3</sup> - Common estimates - losses on sales contracts or purchase commitments, sales with right of return, and/or long-term contracts related to revenue to be earned, cost to complete or percentage of completion.

<sup>4</sup> - Disclosure regarding an estimate (in addition to the "Use of Estimates" footnote that is part of the accounting policies) should be made when information available prior to issuance of the financial statements indicates that both of the following or items are met: (a) it is at least reasonably possible that the estimate will change in the near term; and (b) the effect of the change would be material to the financial statements. SOP 94-6 - Disclosure of Certain Significant Risk and Uncertainties.

## Sample Documentation – Testing Estimates

Estimate	F/S Area	Estimate Uncertainty	Risk Assessment	Retrospective Review	Indications of Management Bias	Significant Risk	Fraud Risk
<b>Leases</b> <ul style="list-style-type: none"> <li>Control</li> <li>Classification</li> <li>Recording</li> <li>Borrowing rate</li> <li>Lease term</li> <li>Lease cost</li> <li>FV assets</li> <li>Residual value</li> <li>Other</li> </ul>							

## Sample Documentation – Testing Estimates

Estimate	F/S Area	Estimate Uncertainty	Risk Assessment	Retrospective Review	Indications of Management Bias	Significant Risk	Fraud Risk
<b>Revenue</b> <ul style="list-style-type: none"> <li>Contract criteria</li> <li>Good and services distinct</li> <li>Material rights</li> <li>Transaction price</li> <li>Allocation transaction price</li> <li>Variable consideration</li> <li>Variable consideration constraint</li> <li>Stand-alone selling price</li> <li>Unpriced contract modification</li> <li>Measure of progress for transferred over time</li> <li>Product returns</li> <li>Losses on contracts</li> <li>Industry guidance</li> </ul>							

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## What Auditors Forget to Do

- **Final analytical procedures**
  - Procedures support the conclusion that the financial statements are consistent with the auditor's understanding of the entity
  - Focus on the unusual or unexpected balances or relationships
  - Procedures are NOT a repeat of either the preliminary analytical procedures NOR the flux analysis used to audit the income statement



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- Presentation and disclosure

- 
- A woman with brown hair tied back, wearing a dark blue shirt, is looking upwards with a thoughtful expression, her hand resting on her chin. Several black question marks of various sizes are floating around her head, symbolizing uncertainty or a lack of direction.

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## Evaluate the Qualitative Aspects of the Entity's Accounting Practices

- 

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## What Auditor's Forget to Do

- Overall conclusion of the accumulated results of audit procedures
  - Re-evaluate initial risk of material misstatement
  - Evaluate the existence of fraud
  - Evaluate significant unusual transactions
  - Evaluate disclosure areas requiring special audit considerations such as related parties, going concern, financial instruments and adoption of new accounting standards
  - Evaluate uncorrected misstatement both quantitatively and qualitatively
  - Consider prior-year waived adjustments



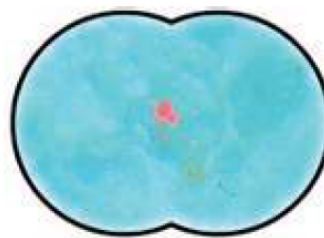
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## Evaluate Audit Findings

- Inconsistencies in audit evidence, findings, and estimates: Interim procedures, substantive tests, evaluation of internal controls
  - Audit evidence obtained from one source is inconsistent with that obtained from another source.
  - The results of an audit procedure are inconsistent with the results of another audit procedure.
  - Must resolve inconsistencies in, or doubts about the reliability of, audit evidence.



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## Evaluate Audit Evidence

- Conditions requiring additional audit procedures
  - Discrepancies in accounting records
  - Conflicting or missing records, confirmations, responses by management
  - Problematic or unusual relationships between management and the auditor
  - Inconsistencies in corroborating inquiries or PBCs
  - Accounting records outside the general ledger system



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## Consideration of Fraud

- Perform procedures to obtain additional audit evidence to determine whether fraud has occurred or is likely to have occurred if the auditor believes that a misstatement is or might be intentional and if the effect on the financial statements could be material or cannot be readily determined.
- Evaluate the implications of the identification of an intentional act on the integrity of management or employees.



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## What Auditor's Forget to Do

- Consultation

- Memo to document internal and external consultation regarding accounting and auditing issues
  - New accounting standards adopted
  - Initial application of a GAAP standard
  - Complex or unusual transactions
  - Difficult judgments about materiality of uncorrected misstatements
  - Issues requiring report modification
  - Audit areas with significant risks or requiring extensive audit procedures
  - Significant related party transactions
- Supporting research
- Discussions with management
- Disposition of the issue in the financial statements



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## Quality Control Requirements

- Client acceptance and continuance
- Written engagement letter
- Compliance with ethical responsibilities
- Engagement staff assignment
- EQCR
- Engagement consultation
- Differences in professional opinion
- Evaluate staff performance
- Records retention



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## Audit Documentation

- Support for financial statement disclosure
- Analytical procedures
- Substitute for audit program
- Use in high and low risk areas
- Template design
- Paperless audit technology



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## Specific Documentation Requirements

AU-C 230	Other AU-C Sections
<ul style="list-style-type: none"> <li>• Characteristics of specific items, matters tested</li> <li>• Who performed the work and date work completed</li> <li>• Who reviewed the work, date of review, extent of review</li> <li>• Abstract or copies of contracts</li> <li>• Significant findings or issues (including KAM)</li> <li>• How auditor addressed information inconsistent with the auditor's conclusions</li> <li>• Justification for departure from presumptively mandatory requirement in GAAS and how alternative procedure was sufficient</li> <li>• Report release date</li> <li>• Response to subsequent discovery of omitted procedures</li> <li>• Changes after "lockdown"</li> <li>• Records retention date</li> </ul>	<ul style="list-style-type: none"> <li>• Terms of engagement (210)</li> <li>• Quality control (220)</li> <li>• Fraud (240)</li> <li>• Consideration of laws and regulations (250)</li> <li>• Communication with TCWG (260)</li> <li>• Communication of internal control deficiencies (265)</li> <li>• Planning an audit (300)</li> <li>• Understanding the entity (315)</li> <li>• Materiality (320)</li> <li>• Performing audit procedures (330)</li> <li>• Evaluation of misstatements (450)</li> <li>• Audit evidence – selected items (501)</li> <li>• Analytical procedures (530)</li> <li>• Accounting estimates (540)</li> <li>• Related parties (550)</li> <li>• Going concern (570)</li> <li>• Group audits (600)</li> <li>• Using the work of internal auditors (610)</li> <li>• Key audit matters (701)</li> <li>• Applicable financial reporting framework (915)</li> <li>• Interim financial information (930)</li> <li>• Compliance audits (935)</li> </ul>

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## Practice Questions

- Misconceptions about audit documentation
  - Every work paper doesn't need to include evidence of review (but criteria must be met regarding what must be reviewed)
  - Smaller, less complex entities (or when the partner performs the work) are not exempt from the requirements of AU-C 230
  - The requirements of AU-C 230 apply to electronic evidence
  - Audit documentation is not a substitute for client accounting records
  - To Do points, drafts, and superseded versions don't need to be kept
  - There are circumstances when a permanent file isn't necessary



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## Audit Documentation

### Audit plan

- Nature, timing, extent risk assessment procedures
- Nature, timing, extent of further audit procedures at relevant assertion level for each material class of transactions, account balance and disclosure
- Other GAAS audit procedures

### Planning meeting

- Risk assessments
- Date, location, manner of team meeting
- Subject matter discussed
- Team members participating
- Overall audit strategy
- Approval of detailed audit plan



### Significant revisions to the overall audit strategy

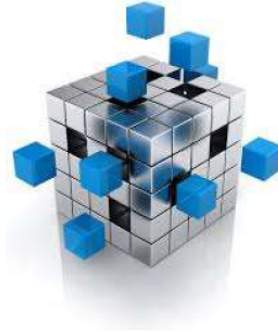
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## Audit Documentation

- Understanding the entity and its environment, including internal control
  - Sources of information
  - Risk assessment procedures performed
  - External factors
  - Nature of entity
  - Objectives, strategies, business risks
  - Financial performance
  - Internal control



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## Audit Documentation

- Levels of materiality and tolerable misstatement
  - Changes to such amounts
  - Basis for their determination
- Assessment of risk
  - Financial statement level
  - Relevant assertion level
  - Basis for assessment
- Significant risks identified and related controls evaluated
- Risk for which substantive procedures alone are not effective and related controls evaluated



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## Audit Documentation

- Overall response to risks at the financial statement level
- Nature, timing, and extent of further audit procedures
- Linkage of further audit procedures to assessed risks at the relevant assertion level
- Results of audit procedures performed
- Conclusions about using prior period audit evidence on operating effectiveness of controls



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## Audit Documentation

### Regarding misstatements

- Require communication to management
- Summary of known and likely uncorrected misstatements
- Conclusion and basis for conclusion on the uncorrected misstatements
- All known and likely misstatements corrected by management
- Document known and uncorrected misstatements from prior periods
- Consider misstatements individually and in aggregate
- Consider qualitative factors to determine if misstatements are material
- Consider effects if management refuses to make corrections deemed necessary



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## Substantive Procedures Required by SASs

Agree financial statements to accounting records  
Examine material journal entries  
Examine journal entries for fraud  
Review estimates for fraud  
Evaluate unusual transactions  
Confirmation of receivables  
Inventory observation



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## Audit Documentation

### Analytical Procedures – Required to document

- Expectations
- Basis for expectation
- Threshold for variance, based on tolerable misstatement

### Accounting Estimates – Required to document

- Expectations
- Basis for expectation
- Threshold for variance, based on tolerable misstatement



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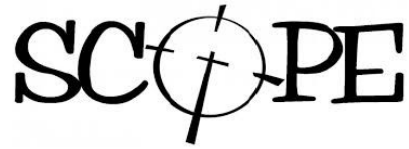
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## Extent of Substantive Procedures

### Extent of any audit procedure

- Tolerable misstatement
- Assessed risk
- Degree of assurance required
- Increasing any procedure is effective ONLY if
  - Linked to specific risk (relevant)
  - Information is complete and accurate (reliable)



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## Template Design

Lead schedule  
Financial statement disclosures  
Analytical procedures  
Audit program  
Conclusion



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## Good Work Paper Format

- Name of client
- Date of financial statements
- Title of the workpaper
- Initials and date of preparation and review
- Indications of PBC
- Proper cross-references and indexing
- Header including
  - Audit objective(s)
  - Source of information
  - Data integrity
  - Risk assessment for each assertion and related audit procedures with link to the audit program
  - Expectations
  - Scope or sample size
  - Procedures
  - Results
  - Analysis
  - Conclusions



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## Content of Audit Documentation

### Inquires

- Who, what, where, when, why
- Sign-offs on audit programs insufficient without work paper reference.

### Differences from GAAS

Experienced auditor criteria for items included



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## Dates

### Work paper sign-off dates

#### Report date

- Substantially complete
- Review process

#### Release date

- No significant time lapse
- Dual dating

#### Completion date

- 60 days after release date
- Revision require two versions
- Require why, what, when, by whom, effect of changes



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## Audit Documentation

### File structure

- Perm file has to reflect related financials
- Cross-referencing to other audit files

Retention of five years unless regulatory requirement different

Binder index: order perform audit procedures



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## Specific Areas with Deficiencies Noted in Peer Review

Area	Deficiency
Analytical procedures	<ul style="list-style-type: none"> <li>• Develop expectations</li> <li>• Investigate unexpected variances</li> <li>• Corroborate mgmt responses</li> <li>• Test underlying data</li> </ul>
Fraud risk	<ul style="list-style-type: none"> <li>• Test journal entries</li> <li>• Test revenue recognition</li> <li>• Inquire of those charged</li> <li>• Conduct brainstorming</li> <li>• Assess risk of mgmt override</li> <li>• Test internal controls over JEs</li> </ul>
Accounting estimates	<ul style="list-style-type: none"> <li>• Evaluate assumptions</li> <li>• Test underlying data</li> </ul>

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## Specific Areas with Deficiencies Noted in Peer Review

Area	Deficiency
Revenue	<ul style="list-style-type: none"> <li>• Test all assertions</li> <li>• Test contract terms</li> <li>• Test cutoff</li> <li>• Test GAAP rules</li> <li>• Appropriate sample sizes</li> <li>• Test controls</li> </ul>
Fair value	<ul style="list-style-type: none"> <li>• Test values received from pricing services</li> <li>• Develop independent estimates</li> </ul>
Impairment	<ul style="list-style-type: none"> <li>• Accepted issuer's conclusions</li> </ul>
Related parties	<ul style="list-style-type: none"> <li>• Failure to search</li> <li>• No understanding of the business purpose of the transaction</li> </ul>

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## Specific Areas with Deficiencies Noted in Peer Review

Area	Deficiency
Financial reporting	<ul style="list-style-type: none"><li>• Evaluation of management's plan to mitigate substantial doubt as to going concern</li><li>• Test tax uncertainties</li><li>• Inadequate testing of equity transactions</li><li>• No testing of transition/adoption of new accounting standards</li></ul>

## Deficiencies in Internal Control Evaluation Noted in Peer Review

Deficiencies in audits of internal controls include failure to—

- Identify and sufficiently test controls that are intended to address the risks of material misstatement
- Sufficiently test the design and operating effectiveness of management review controls that are used to monitor the results of operations
- Obtain sufficient evidence to update the results of testing of control from interim date to year end
- Sufficiently test controls over system-generated data and reports that support important controls
- Sufficiently evaluated identified control deficiencies

## Major Categories of Audit Deficiencies Noted in Peer Review

- Documentation
- Client communications
- Reviewer criteria for work papers
- Evidence to support conclusions/opinion
- Customization of procedures, programs and practice aids
- Partner involvement



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## Self Review

- Sources of audit evidence
- Support for audit procedures
- Tickmark explanations adequate
- Resolution of all exceptions
- Conclusions, where appropriate
- Indexed and referenced
- Stand on its own



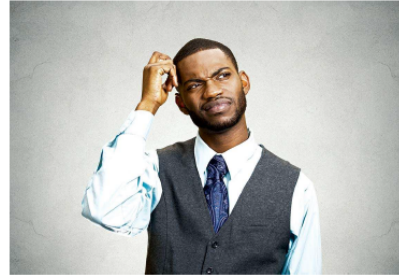
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## Sequence for Review

- Client information
- Permanent file
- Risk assessment
- Materiality
- Audit program
- Lead schedule
- Support for scope/sample
- Audit documentation



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## Detailed Review – Individual Work Papers

- Mechanical accuracy
- Satisfy audit objective
- Reasonableness of performance
- Appropriate judgments
- Unrecorded procedures/exceptions
- Adequate follow-up on exceptions
- Unresolved problems/questions
- Appropriate aggregation/projections
- Reasonable conclusions



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## Evaluating Conclusions

What should you ask yourself?



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## Timing of Reviews

Concurrent  
End of fieldwork  
End of wrap-up



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## Communicating Review Findings

### Organization

- Summary
- Technical
  - GAAP
  - Audit
- Detail w/p items
- Tips

### Feedback to staff

- Positive items
- Review of w/p items
- Next steps

### Feedback from staff

- Instructions
- Client issues

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## Sample W/P Review Template

W/P Reference	Review Notes	Comments/ Status	Disposition/ Adjustment

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## Targets for Improvement

### Risk assessment and response

- Acceptance and continuing assessment
- Specific partners dedicated to risk management
- Assignment of personnel
- Consultation requirements



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## Targets for Improvement

### Information and communication

- Communications to stay abreast of professional standards
- Availability to carry out engagement activities
- Communications with external parties



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## Targets for Improvement

### Monitoring

- Evaluation of compliance with policies and procedures
- Operational metrics
- Internal and external quality reviews
- Transparency in annual reports
- Feedback from audit committee members



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## Targets for Improvement

### Control activities

- Audit methodology with appropriate guidance materials, practice aids, systems, tools
- Adequate training, supervision, and review
- Robust quality control policies and procedures
- Engagement level quality controls



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## Supervisions, Review, and Approval Documentation

- Detailed auditor review
  - Planning and risk assessment
  - Audit documentation
  - Component auditors
  - Engagement completion documentation
  - Significant issues, findings, and other matters
  - Completed original, or modified, audit strategy
  - Conducted audit in accordance with professional standards
  - Financial statements presented in accordance with the applicable financial reporting framework
  - Appropriate communications to those charged with governance
  - Audit team properly supervised
  - Audit opinion appropriate
  - Disagreements among team members

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## Supervisions, Review, and Approval Documentation

- Engagement partner review
  - Not replicate detailed auditor review
  - Focus on partner-level responsibilities
  - Completed in accordance with firm policies and procedures
- Engagement quality review
  - Conducted only by a qualified member of the firm
  - Must be completed before the reporting package is released to the client
  - Focuses on the financial statements, opinion, and supporting documentation
  - Focuses on issues, findings, and other critical matters
- Other
  - Communications with those charged with governance

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## Matters for the Attention of the Partner

- Items to be considered

Reservations as to the integrity of client
Reservations as to client answers to inquiries
Matters relating to incomplete audit procedures and inquiries and procedures
Problems with client regarding disclosure, required basis of presentation, departures from GAAP or the consistency of the application of GAAP
Problems implementing new GAAP standards
Issues identified as key audit matters
Issues related to compliance with professional standards
Potential tax problems
Matters regarding noncompliance with federal or state income tax laws and regulations
Problems with client regarding fees, staff assignment or terms of engagement
Material matters carried forward from previous M.A.P.
Summary of significant waived adjustments
Any matter, the knowledge of which could cause the Firm to be associated with false, misleading, or otherwise deficient financial statements, tax returns, special reports or documents.

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## Matters for the Attention of the Partner

- Required documentation

- Issue
- Research citations
- Discussion with the client
- Discussion with the engagement partner
- Work paper reference of audit documentation
- Reasons for selection of the option
- Disposition in the financial statements
- Any external consultation
- Any alternative opinions among the audit team members
- Resolution
- Partner approval

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## Learning Objectives

You should now be able to—

- Develop audit strategies for selected financial statement captions
- Summarize and evaluate audit results
- Document concluding procedures
- Perform effective and efficient work paper review

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## Instructor Contact Information

- Susan C. Longo, CPA, MBA
- [slongo@makingauditorsproficient.com](mailto:slongo@makingauditorsproficient.com)

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

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Proceed to the next page for discussion questions.

## **GROUP STUDY MATERIALS**

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### **A. Discussion Questions**

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1. What is a required component when auditing fair value disclosures under GAAP?
2. What is required when a discrepancy exists between multiple sources of audit evidence?
3. Why is it inappropriate to reuse preliminary analytics work papers as final analytics?
4. What is a frequent documentation weakness noted in peer reviews related to analytics?
5. What is the auditor's responsibility when a pricing service is used for fair value?

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## B. Suggested Answers to Discussion Questions

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### 1. What is a required component when auditing fair value disclosures under GAAP?

When auditing fair value disclosures under GAAP, a key requirement is the thorough documentation of the Level 1, Level 2, and Level 3 classifications—along with a clear and supportable rationale for how each classification was determined. This hierarchy, outlined in ASC 820, is intended to provide users of the financial statements with transparency about how values are measured and how reliable those values are, based on the observability of inputs. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 are observable but not directly quoted (e.g., prices for similar assets), and Level 3 are unobservable and involve significant management judgment. During the audit, it's not enough to rely on boilerplate accounting policy language or last year's disclosures. As Susan Longo emphasizes, the auditor must avoid assumptions like "all mutual funds are Level 1" and instead must critically evaluate the nature of the investments and whether the inputs used truly qualify under the specified level. This means auditors must document: (1) the definitions of each level as applied, (2) how the asset or liability aligns with that definition, and (3) how management's classifications were vetted for consistency and accuracy. The process also requires evaluating internal controls over investments, assessing the reliability of pricing services, and documenting any management bias or estimation uncertainty. If documentation is missing or the rationale is weak, it jeopardizes both the quality of the audit and compliance with GAAS. Ultimately, this rigorous classification process supports the reliability and clarity of fair value disclosures—an area of heightened risk and peer review scrutiny.

### 2. What is required when a discrepancy exists between multiple sources of audit evidence?

When a discrepancy arises between multiple sources of audit evidence, the auditor is *required* to resolve the inconsistency through additional audit procedures. This is not optional—it is a clear mandate under GAAS and reinforced repeatedly in peer-reviewed guidance. Conflicting or inconsistent evidence undermines the reliability of audit conclusions and must be addressed before an opinion can be formed. For example, if a confirmation from a third party conflicts with the client's internal records, or if management's oral explanation contradicts other documentation, the auditor must investigate further to determine which source is valid—or whether a deeper issue exists, such as a misstatement or potential fraud. Susan Longo emphasizes that auditors may not simply label a discrepancy "immaterial" and move on; rather, "*You must resolve it*", meaning you must design and perform follow-up procedures that will provide sufficient, appropriate evidence to reconcile the inconsistency. This could involve obtaining additional confirmations, inspecting new documentation, performing analytical procedures, or consulting with specialists. In every case, the resolution process must be clearly documented in the work papers, including the nature of the discrepancy, the steps taken to investigate it, and the auditor's conclusion. This standard protects the integrity of the audit process, ensures audit evidence is not accepted blindly, and reinforces the auditor's professional skepticism and responsibility to deliver a well-supported opinion. Unresolved inconsistencies are red flags and, if not addressed, can result in a materially misstated audit or a peer review deficiency.



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### 3. Why is it inappropriate to reuse preliminary analytics work papers as final analytics?

It is inappropriate to reuse preliminary analytics work papers as final analytics because preliminary analytics are not designed to address final audit conclusions—they serve an entirely different purpose in the audit process. Preliminary analytics are part of the *risk assessment* phase; they help the auditor gain an understanding of the client, identify unusual trends or anomalies, and inform the areas of heightened audit risk. These procedures are broad and exploratory by nature, focused on identifying “what stands out” rather than confirming final balances. In contrast, final analytical procedures are performed near the end of the audit to evaluate whether the financial statements as a whole are consistent with the auditor’s understanding of the entity and to identify any unexpected results that could suggest undetected misstatements. As Susan Longo explains, using the same work paper in all three phases—preliminary, substantive, and final—is not appropriate because each phase has a distinct objective, scope, and evidentiary threshold. Final analytics must be specifically designed to support the overall audit opinion and often require a more focused, comparative approach using refined expectations based on the results of substantive testing. Reusing preliminary analytics without this evolution not only weakens audit quality, but may also result in a failure to detect red flags that only emerge after all evidence is gathered. From a documentation and peer review standpoint, this shortcut signals a breakdown in audit methodology and can expose the engagement to criticism or deficiency findings. Simply put, each stage of analytics must be purpose-built and documented to support the unique goals of that phase.

### 4. What is a frequent documentation weakness noted in peer reviews related to analytics?

A frequent documentation weakness identified in peer reviews related to analytics is the lack of documented expectations and a clearly defined threshold for variance. While analytical procedures are a cornerstone of effective auditing—used in risk assessment, substantive testing, and final review—they are only meaningful if the auditor explicitly defines what they expect to see and establishes in advance what degree of difference from that expectation is acceptable. Unfortunately, many audit files reveal that practitioners either omit these critical components entirely or treat them as afterthoughts. As Susan Longo emphasizes, “The biggest issue in peer review with analytics is not developing expectations—and second, not corroborating management’s explanation of variances”. Without a documented expectation, the procedure lacks a benchmark, making it impossible to judge whether fluctuations are reasonable or signal a potential misstatement. Similarly, without a defined threshold for variance (tied to tolerable misstatement), auditors may inconsistently apply professional judgment or overlook material issues. This undermines the reliability of the procedure and weakens the audit’s evidentiary foundation. Peer reviewers often flag such omissions as deficiencies because they violate both the letter and spirit of AU-C §520 (Analytical Procedures) and AU-C §230 (Audit Documentation), which require auditors to document the basis for expectations and the criteria used for evaluating results. In essence, a well-executed analytic must not only be insightful but also audit-ready—which means expectations and variance thresholds must be in writing, not just in the auditor’s head.

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**5. What is the auditor's responsibility when a pricing service is used for fair value?**

When a pricing service is used to determine fair value measurements, the auditor's responsibility is to treat the pricing service as a service organization and to test or evaluate it accordingly. This requirement reflects the principle that auditors must not blindly accept third-party valuations, even when those values come from seemingly reputable or commonly used sources. As Susan Longo points out, values received from pricing services are part of a service organization's output and thus fall under the scope of AU-C Section 402 and related standards on using the work of service organizations. The auditor must obtain a sufficient understanding of how the pricing service operates, what inputs and models it uses, and whether its controls are effective in producing accurate, GAAP-compliant valuations. If reliance on the pricing service is significant, the auditor may need to review the service auditor's report (SOC 1 or SOC 2), perform substantive procedures to evaluate the inputs and assumptions used, or even develop their own independent fair value estimates. Simply inserting pricing figures into workpapers without corroboration or challenge fails to meet the audit evidence standards. Additionally, the classification of investments into Level 1, 2, or 3 depends not just on the price but on the observability and transparency of the inputs, which may require judgment and documentation from the auditor. Ultimately, pricing services are not a "black box" exemption to audit scrutiny—they are part of the client's control environment and financial reporting process, and auditors are responsible for ensuring that the information derived from them is reliable, relevant, and properly supported.

## GLOSSARY

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**Audit Evidence**—The information collected by an auditor in supporting the opinion on the financial statements in an audit engagement.

**Compilation**—Presenting information obtained from a client in financial statement format. There is no assurance being provided by the accountant.

**Fair Value**—For loss contingencies, measurement is at the most probable amount at which a contingent liability will be settled.

**Financial Statements**—A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term financial statements ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement.

**GAAP**—Generally Accepted Accounting Principles

**Going Concern**—The assumption that an entity will remain in business for the foreseeable future.

**Internal Controls**—Processes and procedures designed to ensure the integrity of financial and operational activities, compliance with laws and regulations, and the achievement of organizational objectives.

**Review**—An attest engagement to provide negative assurance regarding misstatements in the financial statements, typically through the performance of inquiry and analytical procedures.

**Risk Assessment**—The process of identifying, analyzing, and responding to risks that could hinder the achievement of an entity's objectives, including both internal and external risks.

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

1. Where must disclosures about regulatory noncompliance appear if they are relevant to the financial statements?
  - A. Described in supplementary information documents
  - B. Included in internal working papers only
  - C. Included in the footnotes to the basic financial statements
  - D. Mentioned orally during board meetings
  
2. Which documentation is required to support adoption of new accounting policies like the lease standard?
  - A. A copy of the footnote from the prior year's financial statements
  - B. A link to the relevant GAAP codification section
  - C. The accountant's working paper summary
  - D. Written documentation from management outlining adopted options
  
3. When omitting substantially all disclosures, what must the accountant document?
  - A. That disclosures will be verbally presented if needed
  - B. That GAAP allows unlimited omission of footnotes
  - C. That management prefers to keep reports short
  - D. That the omission will not mislead users
  
4. In a compilation engagement, when is the accountant required to withdraw?
  - A. When management refuses to correct known incomplete or incorrect data
  - B. When material misstatements are corrected
  - C. When QuickBooks is used instead of traditional software
  - D. When the client refuses to sign the peer review representation letter
  
5. In a review engagement, what method is essential in corroborating information obtained through inquiry?
  - A. Comparing current data with competitors
  - B. Recalculating payroll expenses
  - C. Reviewing supporting documents
  - D. Sending confirmation letters to customers

*Continued on next page*

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6. Why is it necessary to describe operations like compensation methods in the client information form?
- A. To allocate job costs to specific departments
  - B. To assess where risk may exist and tailor review procedures accordingly
  - C. To design an accurate billing schedule
  - D. To validate equity changes in the prior fiscal year
7. If disclosures are omitted and the equity section lacks required GAAP information, what must the accountant do?
- A. Add it to the firm's working papers
  - B. Ignore it since footnotes are omitted
  - C. Include equity information on the face of the financial statements
  - D. Inform the client to discuss it during board meetings
8. Which best describes the purpose of final analytical procedures in an audit?
- A. To document sampling strategy
  - B. To ensure financial statements align with the auditor's understanding
  - C. To verify prior-period balances
  - D. To verify that planning materiality was properly set
9. Which of the following must be evaluated as part of internal control implementation?
- A. If procedures are followed consistently without management override
  - B. If the client uses cloud-based or paper records
  - C. Whether controls are documented by the IT department
  - D. Whether staff find the controls convenient to use
10. What is a required component of the auditor's documentation for accounting estimates?
- A. Basis for expectation and threshold for variance
  - B. Copying the estimate from the disclosure checklist
  - C. Reliance on prior estimates as benchmarks
  - D. Use of management's number without an independent expectation

*Continued on next page*

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11. What does GAAS require auditors to do with respect to journal entries?
- A. Examine entries related only to revenue
  - B. Examine journal entries for fraud indicators and unusual items
  - C. Examine only those over a certain dollar threshold
  - D. Review only management's manual entries
12. Which element is essential in the review of accounting principles and estimates?
- A. That estimates have remained unchanged over three years
  - B. Whether accounting estimates and principles are appropriate and unbiased
  - C. Whether the auditor agrees with all of management's estimates
  - D. Whether the estimates are clearly noted in the permanent file
13. How must the auditor address uncorrected misstatements?
- A. Discuss only quantitatively immaterial items with management
  - B. Document misstatements and evaluate them in aggregate and individually
  - C. Omit documentation if the amount is below the planning materiality
  - D. Refer all misstatements to the AICPA for review
14. Which condition must exist before the audit report date is finalized?
- A. The draft tax return has been submitted
  - B. The engagement letter is signed
  - C. The financial statements have been reviewed by the client
  - D. The permanent file index is locked
15. Which best describes the experienced auditor standard for documentation?
- A. An experienced auditor can replicate the work based on the documentation alone
  - B. The auditor used standard firm templates
  - C. The client agrees with all audit findings
  - D. The lead partner must perform all procedures

## Subscriber Survey

### Evaluation Form

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

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

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

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

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

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

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

	<b>Overall</b>	<b>Knowledge of Topic</b>	<b>Presentation Skills</b>
Accounting Speaker	<input type="text"/>	<input type="text"/>	<input type="text"/>
Auditing Speaker	<input type="text"/>	<input type="text"/>	<input type="text"/>

Are you using **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:

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Name/Company \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_

Email \_\_\_\_\_

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

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



# CPE Network<sup>®</sup>

## CPE Group Attendance Sheet

Firm/Company Name: \_\_\_\_\_

Account #: \_\_\_\_\_

Location: \_\_\_\_\_

Program Title: \_\_\_\_\_ Date: \_\_\_\_\_

<u>Name</u>	<u>Email</u>	<u>Total Hrs</u>	<u>IRS PTIN ID</u> <u>(if applicable Tax only)</u>	<u>Sign In</u>	<u>Sign Out</u>
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I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network<sup>®</sup> newsletter, and earned the number of hours shown.

Instructor Name: \_\_\_\_\_ Date: \_\_\_\_\_

E-mail address: \_\_\_\_\_

License State and Number: \_\_\_\_\_

# CPE Network/Webinar Delivery Tracking Report

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

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# CHECKPOINT LEARNING NETWORK

# CPE NETWORK<sup>®</sup>

# USER GUIDE

REVISED July 1, 2025

## Welcome to CPE Network!

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

This User Guide has the following sections:

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

**IMPORTANT:** This User Guide outlines in detail what is required for 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.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

**IMPORTANT:** If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to 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 CPE Network for your training solutions.  
Thank you for your business and HAPPY LEARNING!**

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# “Group Live” Format

## CPE Credit

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

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance

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

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

## **Real Time Instructor During Program Presentation**

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

## **Elements of Engagement**

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

## **Make-Up Sessions**

Individuals who are unable to attend the group study session may use the program materials for self-study 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 Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

## **Awarding CPE Certificates**

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

## **Subscriber Survey Evaluation Forms**

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

## Retention of Records

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

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

## Finding the Transcript

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 Checkpoint Learning Network by the following means:

Email: [CPLgrading@cerifi.com](mailto:CPLgrading@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 CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance in a Webinar

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

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program. 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 Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

## Awarding CPE Certificates

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

## **Subscriber Survey Evaluation Forms**

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

## **Retention of Records**

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

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

## **Finding the Transcript**

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

## Requesting Participant CPE Certificates

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

Email: [CPLgrading@CeriFi.com](mailto:CPLgrading@CeriFi.com)

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

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant.

**Incomplete submissions will be returned to you.**

# “Self-Study” Format

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

## Self-Study—Email

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

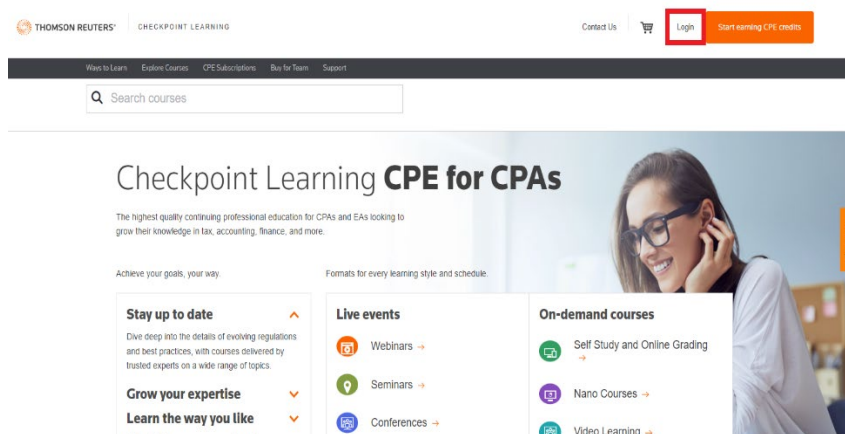
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

**CPLgrading@cerifi.com**

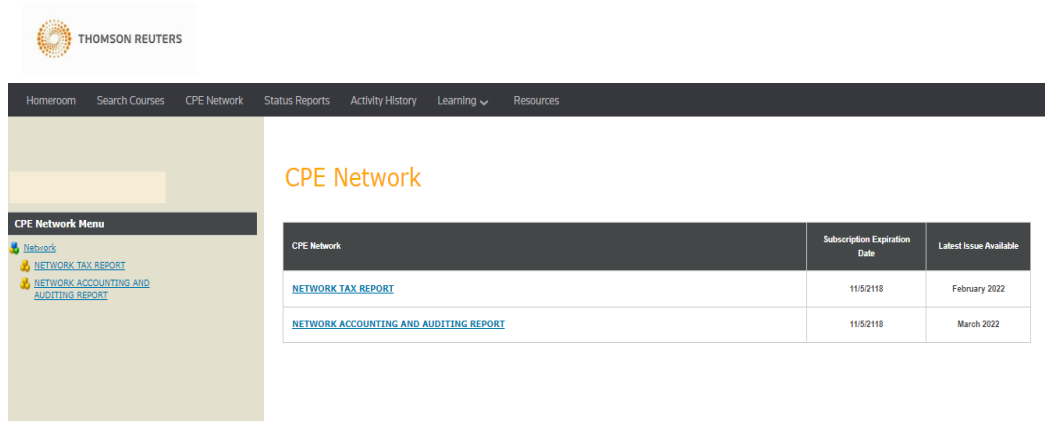
## Self-Study—Online

Follow these simple steps to use the online program:

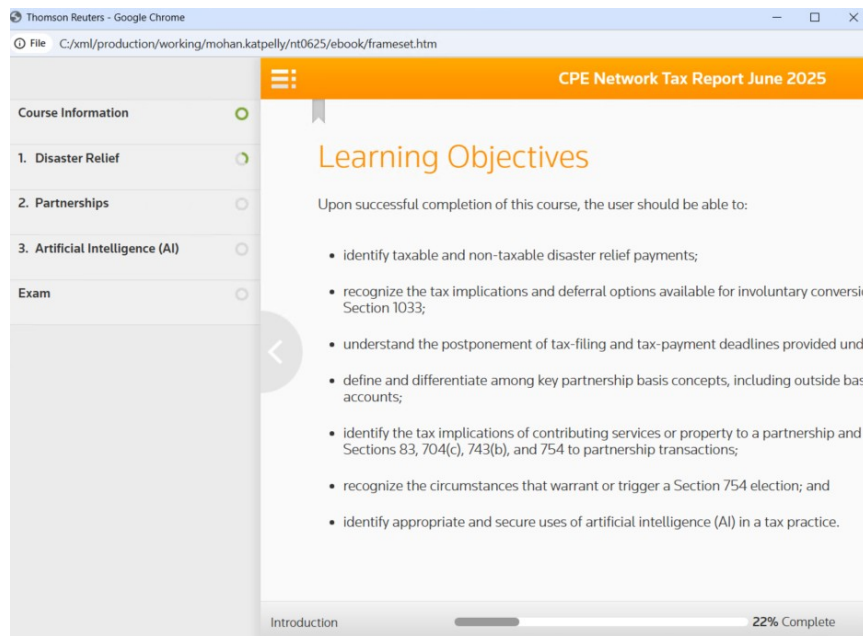
- Go to <https://checkpointlearning.com/>.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

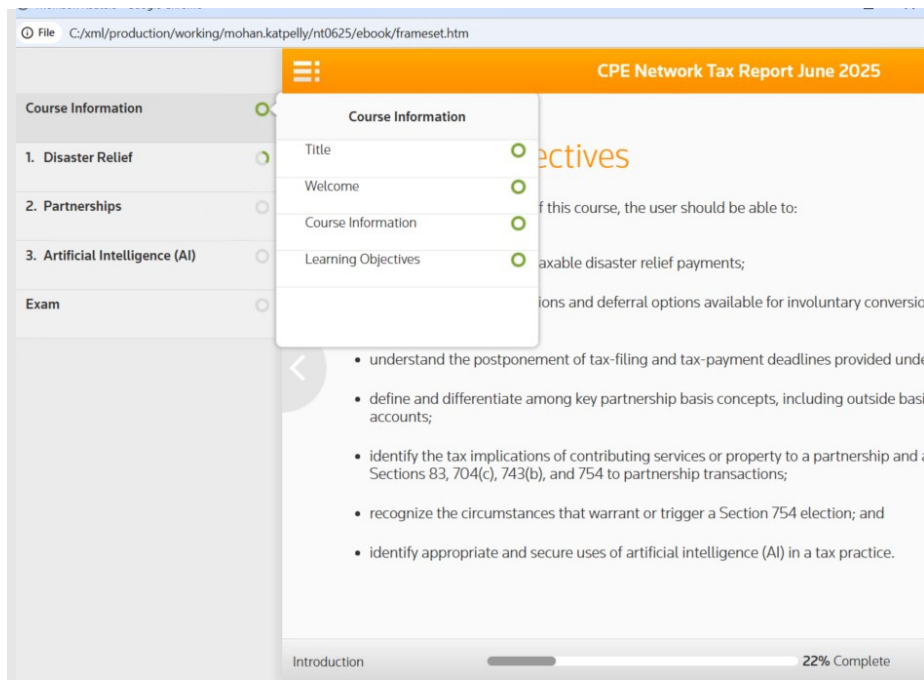


The Chapter Menu is in the gray bar at the left of your screen:

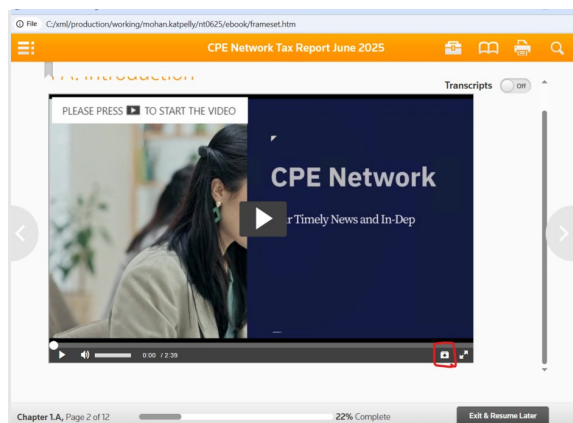


Click down to access the dropdown menu and move between the program Chapters.

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



- **Each Chapter is 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.



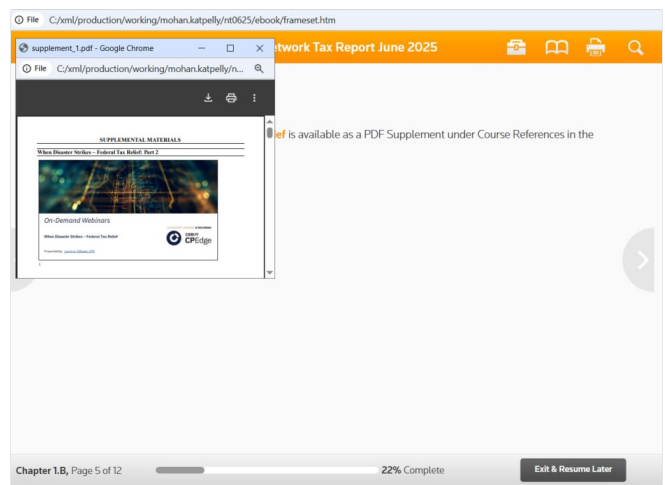
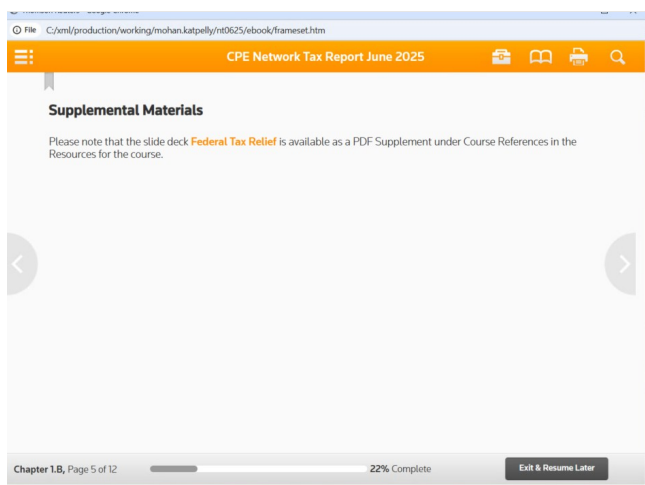
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.

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

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 application interface for a CPE Network Tax Report. The browser's address bar displays the file path: C:/xml/production/working/mohan.katpelly/nt0625/ebook/frameset.htm. The application has an orange header bar with the text "CPE Network Tax Report June 2025" and icons for a menu, home, book, print, and search. Below the header, the main content area is titled "Chapter 1: Study Question" in orange. Underneath, it says "Select the best answer." and poses the question: "Which of the following is a key requirement for a payment to qualify as a qualified disaster relief payment under IRC Sec. 139?". There are four radio button options: A. It must be for personal expenses due to a qualified disaster. B. It must be paid to a business for losses. C. It must be reported on Form W-2. D. It must be reported on Schedule C. Navigation arrows are visible on the left and right sides of the question area. At the bottom, a footer bar shows "Chapter 1.B, Page 6 of 12", a progress bar at "22% Complete", and an "Exit & Resume Later" button.

File C:/xml/production/working/mohan.katpelly/nt0625/ebook/frameset.htm

CPE Network Tax Report June 2025

## Chapter 1: Study Question

Select the best answer.

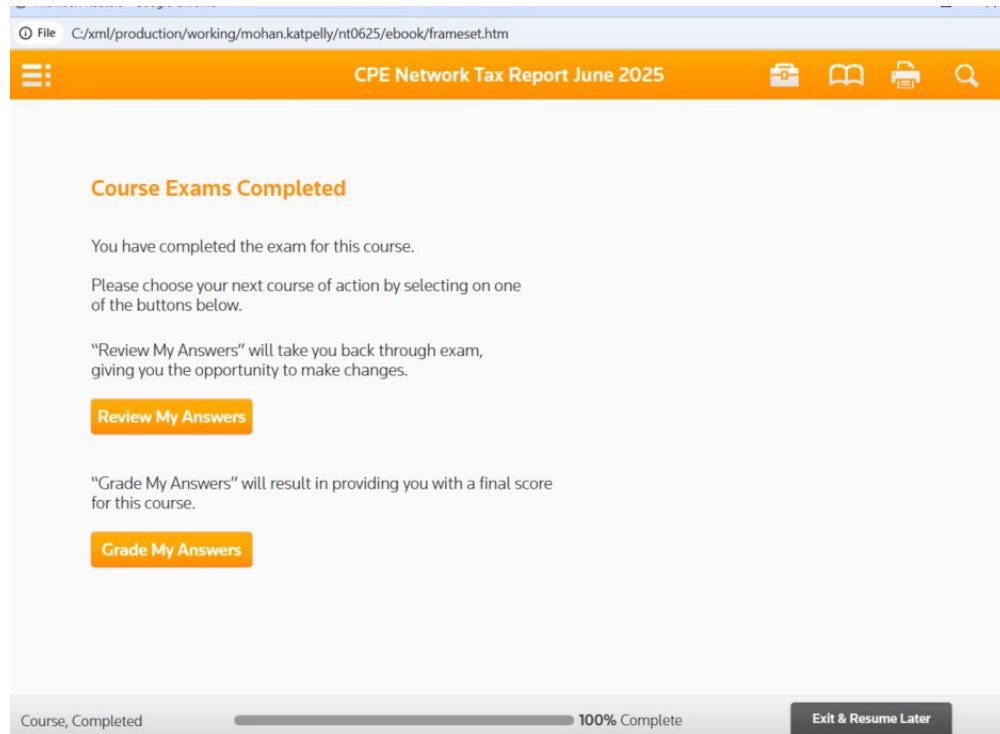
Which of the following is a key requirement for a payment to qualify as a qualified disaster relief payment under IRC Sec. 139?

- ☐ A. It must be for personal expenses due to a qualified disaster.
- ☐ B. It must be paid to a business for losses.
- ☐ C. It must be reported on Form W-2.
- ☐ D. It must be reported on Schedule C.

Chapter 1.B, Page 6 of 12 22% 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

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

**Search Results** are displayed with the number of hits.

### Print

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

# 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.

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

# Getting Help

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

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