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ACCOUNTING & AUDITING REPORT

JUNE 2025 VOLUME 38, ISSUE 5

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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent ASUs: Disclosures 3

Susan Longo, CPA, explores financial statement disclosures in two key non-GAAP contexts: Special Purpose Frameworks (SPFs) and compilations that omit substantially all disclosures. While GAAP disclosures are familiar territory, SPFs—including tax, cash, regulatory, and contractual bases—present unique challenges, especially when third-party GAAP compliance isn't required. We will examine which GAAP-like disclosures still apply and how to document and justify their use. We will also clarify what "omitting substantially all disclosures" really means, focusing on when disclosures must appear on the face of financial statements to avoid misleading users. Along the way, we will look at practical pitfalls—like relying too heavily on accounting software—and reinforce the importance of sound professional judgment and clear documentation. *[Running time: 51:01]*

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

- Identify the requirements in recent ASUs.
- Pose and answer FAQs related to recent ASUs.
- 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 One 35

Susan Longo, CPA, begins a two-part discussion on best practices for effective and efficient auditing—focusing on the final phase of the audit cycle: evaluating and concluding. We will explore how to streamline the wrap-up process, improve audit quality, and avoid common pitfalls that lead to inefficiencies and lost profitability. Key topics include commitments and contingencies, subsequent events, going concern assessments, compliance, and related party transactions—all areas where strong documentation and professional judgment are essential. We will emphasize moving beyond checklists to ensure each audit conclusion is well-supported and regulatory-compliant. *[Running time: 48:47]*

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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PART 1. ACCOUNTING

Did You Know? Making Sense of Recent ASUs: Disclosures

Welcome, everyone, to our first session on the A and A portion of this month's program. This instructional session offers a comprehensive exploration of financial statement disclosures in two nuanced contexts: the use of Special Purpose Frameworks and compilations that omit substantially all disclosures. While most accounting professionals are adept at GAAP disclosures, this presentation delves into less conventional—but equally important—scenarios that require a deep understanding of financial reporting beyond standard frameworks. We will first addresses special purpose frameworks, formerly known as other comprehensive basis of accounting, including tax basis, cash basis, regulatory basis, contractual basis, and other logically defined bases. These frameworks are used when third-party requirements for GAAP compliance are absent, allowing for cost-effective and purpose-specific financial reporting. Our discussion emphasizes that even under special purpose frameworks, certain GAAP-like disclosures—such as those related to going concern, related party transactions, and risks and uncertainties—are still mandatory due to their relevance in understanding the financial condition of an entity. We will highlight the importance of tailoring disclosures based on the needs and expectations of users, insisting on the proper documentation and justification for choosing a non-GAAP basis.

The second major theme of this session centers on financial statements that omit substantially all disclosures, a practice often misunderstood as an outright elimination of footnotes. We will clarify that regulatory guidance requires disclosures to appear on the face of financial statements if they are not included in the footnotes, especially when those disclosures are mandated by GAAP or when they are necessary to avoid misleading users. Through detailed examples, we will illustrate the complexity and risk of omitting disclosures, especially in situations involving nonprofits, lease accounting, income taxes, and revenue recognition. We will warn against relying solely on default accounting software outputs, such as those from QuickBooks, noting that these often lack the nuanced disclosures required for accurate and complete reporting. Ultimately, this session underscores the accountant's responsibility to exercise sound judgment, uphold professional standards, and maintain transparency—whether working within special purpose frameworks or minimal disclosure compilations. By highlighting practical considerations, regulatory requirements, and ethical obligations, this session serves as an essential guide for practitioners navigating the gray areas of financial statement preparation and disclosure. Now let's join our expert, Susan Longo, who will lead us as we explore today's accounting topic, Making Sense of Disclosures.

Ms. Longo

Hello, I'm Susan Longo. We're going to discuss disclosures, not GAAP disclosures because most of us are fully conversant in that, but we're going to look at disclosures in two unique situations. One is Special Purpose Frameworks, the old OCBOA or Other Comprehensive Basis of Accounting. So, we're going to look at the required disclosures if you're doing tax basis or cash basis or regulatory basis, and then we're going to look at disclosures.

When you are in a compilation and you are only looking at a set of financial statements that says we're not going to do footnotes, we're going to do the compilation without disclosures and, and yet you have to realize what is required between the face and the footnotes. So, we're going to take a look at those types of disclosures.

So, let's talk first about Special Purpose Frameworks. Just as a reminder, Special Purpose Frameworks have particular definitions and they are prescribed. So, cash basis is anything that an entity uses to disclose cash receipts and disbursements. If it's pure cash basis, that's all you have. Start with an opening cash balance. Everything that comes in, everything goes out, ending cash balance, that's the financial statement.

If you have modified cash basis, that is where we have things like property gets added and the corresponding depreciation and related debt, then we call that modified cash basis. And the format for the financial statements looks pretty much the same as it would if you had a lot of other things going on.

Now, tax basis is whatever is used to file the tax return. In general terms, we, we refer to the filing of the tax return at a federal level instead of the state or local level; however, it can be used when we are looking at foreign taxes.

Regulatory basis is any provision by a regulatory agency that prescribes the accounting practices. So, insurance companies are one example, if you are looking at a governmental entity and we want to do fund reporting, if you want to look at landfills, those, those kinds of things, MUAs, that sort of thing.

Contractual basis is anything that will comply with the contract between the entity and third parties, and other basis is anything that has a logical and reasonable criteria. This is not a blank check to do what you want. The "other basis" has to have been established by and approved by a sub-entity. So, the example used here is for small entities, and that is something that comes out of the AICPA. So, it is not something that is sort of a, a unique entity-by-entity creation.

So, the first is when do you use a Special Purpose Framework, and generally there are no third-party users. So, a Special Purpose Framework is appropriate, for instance, when the business does not have third-party debt. Now sometimes there are some exceptions to that, but you would have to document the approval.

Now, one of the things that you have to make sure is that no matter what the level of, of, of service for being provided -- comp, review, or audit -- the practice aide is going to ask you whether or not the Special Purpose Framework is appropriate, and you are actually required to, to document how you determined it was appropriate, and that question is often not answered. It's answered with, "This is what we're using," but you really do have to determine whether it's appropriate, and you start with, "Who are the users?" And so, if you don't understand who the users might be and what their requirements are, you are not in a position to say that a Special Purpose Framework is appropriate.

Now, generally, the creditors would have to approve if it was a non-GAAP statement. "The cost of complying with GAAP exceeds the benefits." That, that's kind of a, a, an interesting analysis and often times it's, it's one that is used as an excuse for not doing GAAP when in fact what you really are doing is GAAP with certain exceptions. So, what I find often times is that that the labeling is Special Purpose Framework, but when I look at the financial statements, it's really not Special Purpose Framework, it's GAAP except for you don't like the depreciation or you want to do direct write-off and essentially everything else is GAAP. So, be careful of, of which bucket you really are presenting.

Owners and managers have to be involved so that they understand the difference between what they're being given with respect to a Special Purpose Framework versus what, how the books and records are kept. So, that's one of the reasons why Special Purpose Frameworks are, are utilized, but then you begin to see the, the disconnect.

So, if the entity is tax-oriented but they keep their books on a cash basis, then you got to ask yourself, "Well, wait a minute. From a tax perspective, are they cash basis tax or are they accrual basis tax?" And if you're not careful, there'll be a disconnect between the two.

If you have a nonprofit organization, they budget on a cash basis but their financial statements are on an accrual basis and therein lies a lot of confusion from the perspective of the board. The owners are primarily interested in cash flows, and they are interested in the tax implications. And so, again, the Special Purpose Framework is what is appropriate from the user's perspective.

Is the Financial Reporting Framework acceptable? Again, the needs of the user will determine that. It depends upon whether there is an authorized standard setting organization that has the framework defined or it's required by law and, and regulation.

So, some general principles, you need to recognize that these general principles are now included in all of the auditing standards and all of the comp and review standards. So, while we're starting from a disclosure perspective, in order to, to provide the services and issue the reports, you need to recognize the same principles apply.

So, the first general principle is that if the transaction is GAAP-like, then the disclosures are GAAP-like. A couple of really easy examples, related party transactions, we have a lot of GAAP standards about related parties and related party transactions. We're not talking about the auditing or anything else. We're just talking about the rules to get it included in the, the face and the footnote disclosures. And if you move to a tax basis set of financial statements, the -- and that entity has related parties and related party transactions, all of the GAAP disclosures would be included in the tax basis financial statements.

A second one that, that is always giving people difficulty is, is a reminder that going concern is a GAAP Rule for which we then apply the appropriate review and audit procedures, but the rules of, as to what it is and what the disclosures are, are in GAAP. And if going concern applies in terms of the events and circumstances, all of those disclosures would likewise be required for cash basis, tax basis, regulatory basis, etcetera.

There are additional disclosures beyond those required by the framework that are not related to matters specifically identified on the face of the statement. The most obvious example of that is risks and uncertainties. It didn't matter whether you were a comp reviewer, an audit reviewer, whether you were a cash tax or GAAP, COVID, risks and uncertainties were sitting in all of those financial statements.

It doesn't matter. Revenue has disclosures in terms of risk. It doesn't matter if you have values that can vary because of some uncertainty. That is a requirement. If there are contingencies, if there are commitments, those are required. In addition, anything that affects the use and understanding of the financial statements.

So, remember from the perspective of comps and reviews, the, the underlying question, before you move anywhere in the procedures is, is the information incorrect, incomplete or otherwise unsatisfactory? That answer has to be satisfied before you can perform a comp, a review or an audit. The compilation assumes that you've done all the accounting services to answer that question. A review assumes you've done the compilation, which means you have also answered that question, and the audit, the same one.

The disclosures can use qualitative instead of quantitative information. So, when we talk about the nature of operations, I don't have to identify percentages of anything. I can just identify that the majority of or a significant amount of, and so qualitative information can be, can be utilized.

So, presentation requirements. When we are in a Special Purpose Framework, are there things that have to be done? And the answer is, first is liquidity. You have a choice. You either can create the current/noncurrent classification for assets and liabilities or if you opt not to, and you just have a running list, that list has to be in order of liquidity. Which may mean that despite the fact that you're not in GAAP, there are still lots of instances where there would be multiple lines. So, receivables could be current and noncurrent and therefore have multiple lines, investments the same way. So, it has to be in order of, of liquidity.

Redeemable equity shares or liability, unusual and infrequent items are a separate line item in the operating statement, and discontinued operations net of tax is separate from continuing operations. So, the income statement is the continuing operations, then a separate, a whole separate section for discontinued operations. And then nonprofits you have to remember that it wouldn't make any difference whether you're in GAAP or not. The nonprofit is still required to present functional expense classifications as well as the natural expenses.

All right. A statement of, of, of cash flows. It's not required by virtue of the fact that we're not presenting GAAP financial statements; however, if the entity decides to include the statement of cash flow, then the presentation has to conform to a GAAP presentation, in which case there has to be a total for cash, cash equivalents, restricted cash, restricted cash equivalents. There has to be a reconciliation of cash to an articulation of cash to the statement of financial position.

You have to reconcile restricted cash and cash equivalents to the statement of financial state, statement of financial position, if it is not a separate line item on the financial statement. You have to disclose major reconciling items between net income and cash from, from operating activities, which means that you get the choice between the direct method or the indirect method. You still have to disclose interest and taxes and there are still rules in terms of what gets presented gross. So, the debt gets presented gross, investment in property, plant and equipment gets, have presented gross, as just two examples.

Now, you are in a Special Purpose Framework, tax basis, cash basis, regulatory basis, etcetera. Question: "Do you have to have a footnote summary of significant accounting policies?" And the answer is "Yes." That policy will start with the definition of the basis of accounting. Please be very sure that the definition that you are using is the definition in the appropriately referenced glossary. It is not creative writing. It is not legacy of whether, "Well this is how we've always defined tax basis." It comes directly from an appropriate standards, and it's, and it's the glossary in that standard.

There you're then required to describe the primary differences between the basis of accounting and GAAP. It is not saying there's a difference. It is not saying we're using income tax basis, which is different from GAAP, period. That's it. And the answer is "No." That is the opening sentence. And now you have, have a whole series of sentences to identify those differences. How you're treating depreciation, how you're treating certain installments, how you're treating certain accruals, what are certain limitations. You will have a whole litany of things that create the difference.

You will also understand that accounting policies include options, elections and practical expedients, and so, you will identify where you have made certain selections. Tax law, having lots of options, and you will have to identify what those are. Again, we do not get a detailed enough description of all the things that have been adopted on a tax basis.

The disclosures that are required are the Revenue Rules, the Depreciation Rules, the Receivable Rules and whatever else is required by, by industry. There are certain items that would require disclosure by virtue of the general principle that says, "If the transaction is GAAP-like, the GAAP disclosures would be required."

So, for depreciation, interest, rent and retirement plan expenses, those would be disclosed, either face or footnote. The components of property and equipment, so, we would distinguish between land and building and equipment and vehicles and that sort of thing. The components of an income tax provision, the current and deferred done by tax jurisdiction, done by domestic and foreign, all of those things applicable, and then anything that would, would generate the deferred tax items

Measurement rules, what's measured at fair value, what has been reduced below their cost, that is the impairments. What are accrued losses? Those all require disclosure even though you're in a Special Purpose Framework.

Supplemental fair value information, what is reported at cost, what had -- what are amounts that are not recorded. Information about the transaction. So, descriptions are very important. Leasing arrangements, all of the terms and conditions around debt, all of the information about retirement plans, everything related to related party transactions, all those details GAAP would require, they now transfer over to a Special Purpose Framework, that the relationship of a tax provision to pretax income and any commitments related to long term leases. These are things that would require disclosure.

Other information as we mentioned, going concern and related parties, commitments and contingencies are every time we have an issue with impairment. Subsequent events still apply to a Special Purpose Framework, and all the risks and uncertainties: nature of operations, use of estimates, significant estimates, concentrations and a revenue uncertainty as a bare minimum, and these are examples. They are not an exhaustive list.

So, you know, essentially if you were to put together a tax basis financial statement, is it possible to do so without footnote number, Number 1, nature of operations? The answer is "No."

Is it possible that footnote Number 2, significant accounting policies would not include the policy on estimates? “No.”

Is it possible that we would not have a risks and uncertainties footnote? And the answer is “No.”

So, these are GAAP-like and they show up in Special Purpose Framework.

In addition, all of the things that apply when in fact there have been material changes to reporting from one year to another, that applies as well as their Special Purpose Framework. So, if you have a single year presentation, then what happens is you have to remember that there's an opening, retained earnings and an ending, and you have to have the flow of the current period reflected, and that would mean that you have to understand when there's a change in accounting principle, a change in accounting estimate, a change in accounting entity and a change from one reporting framework to another.

So, we are used to, in the GAAP world, having a three-columnar format. What is the prior year, what is the adjustment that was made and what is the current year presentation and is that applicable for a Special Purpose Framework? And the answer is most definitely yes.

So, when we have a change in an accounting principle and it requires the adoption, we would have all the bells and whistles that, that relate to that, changes in estimates and reporting entity.

All right. Some other things to be careful to consider, and that is consolidation of variable interest entities. If the entity qualifies, that is the entity is a variable interest entity, the reporting entity has a variable interest and they are the primary beneficiary, the rule is, with several exceptions, but by and large the rule is that you consult -- consolidate.

So, the question is, “Does that apply as well?” For variable interest entities, if consolidated income taxes are presented, then the same thing would happen for Special Purpose Frameworks.

Be careful, there is an exception for pass-through entities on the GAAP side that would then also apply on the tax basis side if elected, if elected by those charged with, with governance.

Now, if there is, if there's a, a difference between taxes on the tax basis financial statements and what is required by GAAP, then we have to make sure that in addition, the uncertain tax positions that meet the criteria more-likely-than-not are, are treated in a Special Purpose Framework the same way they are on, on a GAAP basis. So, in some cases those uncertainties are disclosed. In other cases there is an additional liability that is accrued and the same would apply for Special Purpose Framework.

All right. So, all of that is, is, is again, general principles, but if I were to do a technical review of income tax basis financial statements, what would I want to, as a minimum, see included in the disclosures?

Well, first of all, the basis of the accounting. I would need to know whether this is tax basis as we file, which is accrual or cash, and I need those both defined. And then how the basis differs from GAAP, is that discussion of all the various tax provisions that have been adopted, which are different than if we were utilizing the GAAP Rules. Significant accounting policies, income taxes, basis of the consolidation, inventories, receivables, depreciation, organizational costs, revenue related parties, all of those things are accounting policies as a bare minimum that would be in a tax basis. And remember you're writing this so that two things happen. You're defining all of these things, and by that definition, I can go right back up here to what you have said. How does that basis differ from GAAP?

In addition, these are the disclosures that need to be included in an income tax basis, financial statement: related parties, commitments and contingencies, impairments, our changes in principle and estimates, receivables, investments, property and equipment, debt and leases, restrictions, benefit plans, VIEs, uncertainties and going concern. All of these would show up as footnotes. All of those would show up as footnotes. These are disclosures required, again.

Now, there, there are available in lots of different places, this is one example, disclosure checklists that have been written specifically to address a tax basis financial statement. It is not appropriate to try to take a GAAP disclosure checklist and figure out how to modify it because you will miss certain things when you do that. So, please, whatever source you want to use, find a disclosure checklist for income tax basis.

Cash basis financial statements, if it is, as we would normally write it, it will be cash receipts and disbursements plus related parties, restrictions, subsequent events and uncertainties. So, it is, it is, again looking at what would be required to amplify and augment the financial statements.

If you are on a modified cash basis as a minimum defining the accounting basis and how it differs from GAAP in detail, all the significant accounting policies, revenue related parties, commitments and contingencies and impairment. And as you can see, we're not any -- really there's no significant difference here on cash basis from what we were saying on tax basis: changes in principal and estimate inventories, property leases, debt restrictions, benefit plans, income taxes.

So, once you start down the route of modifying cash basis, you pretty much get the same general principles, which is that the bucket of disclosures is pretty much the same bucket. The terminology, the language within those disclosures is going to change, but the, the, the basic requirements are not. And again, we want to remind you that there are disclosure checklists to make sure that you have incorporated in the financial statements everything that needs to be included. So, that's what happens when you are in a Special Purpose Framework.

All right. Now, let's look at another problem, Omitting Substantially All Disclosures. So, the first thing is please take note of the title, "Omitting Substantially All Disclosures." It doesn't say, "omitting all disclosures." The only way we omit all disclosures is that the statement of financial position has two items on it; total assets and total liabilities plus equity. Essentially it would have cash and equity and that would be it. As soon as you start to detail a whole list of assets, a whole list of liabilities, a whole series of, of types of equity, then we're not omitting all disclosures.

Now, Omitting Substantially All Disclosures has been translated to say that we don't have any footnotes, and that's essentially what the common parlance means, is that we don't have any footnotes.

All right. Well, the, the problem is that there are things that, that GAAP says. If you don't have the footnote, then that disclosure has to go on the face of the financial statement. So, our first primary issue is to understand that if you opt not to include certain footnotes, that doesn't mean you don't have the disclosure, it means the disclosure moves.

So, let me give you a prime example. Nonprofit organizations have to have some functional expense classification and presentation. Now, you can write it in a footnote if you want, but if you don't put it in the footnote, then you have two choices, a separate statement of functional expenses or that the statement of activities is modified to include it on the face of that statement, but do you get to ignore it and eliminate or omit the disclosure? The answer is "No." So, the issue for most of us is, do we know what is a requirement and what is the option to have face or footnote.

Another example is leases. The lease standard says that you must disclose operating leases differently from finance leases. And so you have to have on separate line items: operating lease asset and finance lease asset, operating lease, current liability, finance lease current liability operating lease, non-current liability operating lease, non-finance lease, non-current liability, six items.

Now, you can do that, and you just have separate line items show up in the statement of financial position. But a lot of people don't want to do that. They think it's kind of messy and they like, you know, to, to net things and that and the, state that the, the, the ASU says that's fine. You can do that. You just have to include it in the footnote and in enough detail that I literally know on which line item these items might be. And now if you do omit substantial disclosures, everything that you put in the footnote now has to go on the face of the statement of financial position, just two examples. So, omitting substantial disclosures does not mean no disclosures.

The first thing is you may not be able to do this because SSARS 25 says you have to conclude and document the basis of that conclusion, that doing so doesn't mislead the users. So, again, the first thing is the practice aid needs to have defined who the users are, what the requirements of the users might be, and you need to be able to say, “Well, if I do this, I'm going to satisfy their requirements.” And you have to have a basis for that conclusion, which is not, “Well, we don't want to do it. The client doesn't want to pay for it.” It's an understanding that there's been some sort of communication and agreement with the users that this is okay.

Again, if GAAP, has an option for face or footnote omitting the footnote forces the disclosure to the face of the financial statements.

Now, here's one that I'm not sure everybody understands. If a modification to a report references a footnote. In other words, if our reporting rule requires reference to a footnote, then the footnote must be included.

So, for instance, if you have a report modification for going concern, that requires a reference to a footnote on going concern, the footnote must be included and therefore we do not have omitting substantially all disclosures, we have selected information omitting substantially all disclosures.

So, anytime things like if you have a GAAP departure, measurement or disclosure, that forces a reference. Anytime you have a subsequent event, that forces that footnote. Anytime you have a, a commitment or contingency, some sort of emphasis of matter that forces a footnote, that will force a footnote. That is something that people -- this is probably the one thing that is violated more than anything else. If there's a modification to the report and that modification requires a reference to a footnote, the footnote has to be there.

So, some basic GAAP requirements that would be on the face of a segregation between restricted cash and an understanding that you have certain concentrations. Receivables by category disaggregated when we have officers, employees and affiliates, the allowance for credit losses has to be a separate disclosure, and receivables that serve as collateral will have to have segregation.

We're required the valuation of debt and equity securities, all right. The categories of investments as held to maturity, trading and available for sale. The disaggregation by measurement category and form of assets. So, the requirement to have equity securities, fixed income securities, derivatives and the categories within those. So, equity securities that might be shares held versus mutual funds.

The fair value measurements and designating where those happened, and the contractual maturities. So, if you do not have that five-year debt security footnote, then on the face of the statement there has to be an indication of that, that maturity schedule. So, if it's ratable, you know, and it's, it's straight line, pretty easy to do. When, when it's not, it gets a little bit more complex in terms of the design.

Inventories, the basis evaluation and the method of determining lower of cost or net realizable value, FIFO, any significant changes in the basis, any unusual losses, the classes of inventory materials and work in process and finished goods.

Property, plant and equipment. The major classes, accumulated depreciation. How that depreciation is computed, depreciation expense as the line item in this operating statement. The, the segregation of idle or held for investment property, and, and impairment. Current liabilities, segregated obligations, the terms, interest rate, maturity dates, etcetera. Conversion features, what's pledged as collateral. The debt issue costs and what gets refinanced. All those things are footnotes that now if you omit the footnotes, they show up on the face of the financial statement.

Income taxes, all of these items winding up now on the income -- on the balance sheet and on the income statement, and so you need to make absolutely sure you understand that you don't have that income tax footnote. You don't wind up with just one line item, but there's a whole lot more that shows up on income taxes.

Shareholder equity, shareholders equity classes, titles, changes, rights and privileges. What was issued during the most recent period. All of these things we're used to putting in footnotes or in other information, and now it goes on the face of the statement.

So, what we're telling you is if there's a GAAP requirement and the GAAP requirement is a disclosure, what was in the footnote is now being disclosed on the face of the statement, and that, people are not getting that to happen.

Income statement the same way. Segregation of revenue from contracts with customers. The beginning and ending balances of all receivables, contract assets, contract liabilities, obligations for returns, refunds and similar obligations, impairment losses.

So, the revenue requirements translate to what's in the income statement. They also translate to what shows up on the balance sheet. Major categories of expenses, interest incurred, expensed and capitalized, cost of goods sold, net losses from purchase commitments, unusual and infrequent items, advertising cost. All the comprehensive income items. Now, there are generally four of them that, that is the unrealized gains and losses from available for sale securities and, and etcetera, but that is a requirement.

Anything related to investments: the proceeds from the sale, the gross realized and unrealized, the net that might be in other OCI. So, what we're saying, again, is what often is a complete set of disclosures in the footnotes, you now have to redesign. So, all those things go on the face of the statement. And, again, risks and uncertainties leases, which we talked about related parties, they now are clearly distinguished.

So, sometimes what's going to happen is it's not possible to get all of that included. It just, the statements just become too cumbersome to do that, and so the alternative is selected information Omitting Substantially All Disclosures where what you do is omit one or more notes and others related.

The issue for most people when that is done is the, is the nervousness that says, "Well, I picked these. Would someone else have picked some other disclosures?" And that can only be answered if you have really documented the user and the use of the financial statements, but if you have not really refined that, that becomes particularly, it becomes particularly difficult.

Now, we will tell you, in addition, that this is magnified, this problem is magnified when you have a client that utilizes QuickBooks, because often times the financial statements are nothing more than a printout of what comes out of QuickBooks, and none of the things that we're talking about are things that are embedded in the reporting module in QuickBooks.

So, sure, you can take the numbers and the general layouts, but all of these things are going to require that that QuickBooks printout get substantially modified and, and we need to be sure that in fact is what's happening.

Now, judgement is required when we have selected information. The issue is, "How do you keep the financial statements from being misleading." So, anything that relates to tax status, subsequent events, unusual or infrequent transactions, commitments and contingencies, discontinuations, impairment losses, those would automatically have to be included in this selected information; otherwise, the, the information is incorrect, incomplete or otherwise unsatisfactory.

Remember that phrase, "incomplete, incorrect and otherwise unsatisfactory" is not just related to the numbers on the face of the financial statements. That relates to an estimate and the related disclosure. So, when we're talking about this, we're talking about disclosures as much as we are the numbers.

Report modifications that require supporting disclosures, the issue we talked about a few minutes ago -- a GAAP departure, a measurement departure, omitted information, going concern, noncompliance, change in presentation, change in accounting principle and correction of an error -- all of those reference a footnote, and because of that, the footnote would have to be present in the presentation.

So, that's a review of Special Purpose Frameworks and, and Omitting Substantially All Disclosures and the types of things that you need to consider when you construct those presentations and to give the client the advice as to what needs to be included and what can be omitted.

Did You Know? Making Sense of Recent ASUs: Disclosures

by Susan Longo, CPA

Did You Know? Making Sense of Recent ASUs—Disclosures

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 ASUs
- Pose and answer FAQs related to recent ASUs
- Explain recent changes in accounting rules to staff professionals and client personnel

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Special Purpose Framework Financial Statements

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Special Purpose Frameworks

- *Cash Basis.* A basis of accounting used by the reporting entity to record cash receipts and disbursements. It includes modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets), commonly known as the *modified cash basis*.
- *Tax Basis.* A basis of accounting the reporting entity uses to file its tax return for the period covered by the financial statements. (The term *income tax basis* is also commonly used.)
- *Regulatory Basis.* A basis of accounting used by the reporting entity to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- *Contractual Basis.* A basis of accounting used by the entity to comply with an agreement between the entity and one or more third parties other than the practitioner.
- *Other Basis.* A basis of accounting utilizing a definite set of logical and reasonable criteria that is applied to all material items within the financial statements. Example: SMEs

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When to Use Special Purpose Framework

- There are no third-party users of the financial statements (for example, the entity is a small closely held business with no third-party debt).
- The entity's creditors do not require GAAP financial statements.
- The cost of complying with GAAP would exceed the benefits (for example, a small construction contractor who would be required to account for long-term contracts using the percentage of completion method and would be required to compute deferred taxes).
- The owners and managers are closely involved in the day-to-day operations of the business and have a fairly accurate picture of the entity's financial position.
- The owners are primarily interested in cash flows (for example, a professional corporation of physicians that distributes its cash basis earnings through salaries, bonuses, and retirement plan contributions).
- The owners are primarily interested in the tax implications of transactions (for example, partners in a partnership who are concerned about the effects of transactions on their personal tax returns).
- The entity is not required to issue GAAP financial statements, nor does it expect to be.

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Is the Financial Reporting Framework Acceptable?

- The financial information needs of the intended users.
- The special purpose framework applied to the financial statements encompasses financial reporting standards that have been established by an authorized standard-setting organization that follows an established and transparent process, for example, the AICPA or the FASB.
- The financial reporting framework applied is required by law or regulation to be used in the preparation of the entity's special purpose financial statements, such a financial reporting framework is presumed acceptable (unless indications to the contrary exist).
- The financial reporting framework applied, exhibits attributes that are normally exhibited by acceptable financial reporting frameworks.
- For financial statements prepared in accordance with a contractual basis of accounting, the parties to the contract might agree on significant interpretations of the contract, if any, that are the basis of the special purpose framework. If the parties cannot reach agreement, the auditor may determine that the framework is not acceptable.

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General Principles

- If the transaction is GAAP-like the disclosures are GAAP
- Additional disclosures, beyond those required by the framework, not related to matters not specifically identified on the face of the financial statements
- Matters that affect the use, understanding, and interpretation of the financial statements
- Disclosures using qualitative information instead of quantitative information required by GAAP that communicates the substance of the GAAP requirement
- The level of service (financial statement preparation, compilation, review, or audit) should not affect what it means for financial statements to be fairly presented.

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Presentation Requirements

- Liquidity: either current/noncurrent classification or presenting assets/liabilities in order of liquidity
- Redeemable equity shares required to be presented as a liability
- Unusual and/or infrequent items
- Discontinued operations of a component net-of-tax as a separate component of income
- Nonprofit organizations
  - Functional expense classifications
  - Net asset classifications

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Cash Flow Information

- A statement of cash flows is not required for special purpose financial statements because they do not purport to present financial position and results of operations in accordance with GAAP:
- If the presentation resembles a statement of cash flows or if the entity decides to include a statement of cash flows, the presentation should either conform to the requirements for a GAAP presentation or communicate the substance of the GAAP requirements:
  - Total of cash, cash equivalents, restricted cash, restricted cash equivalents
  - Reconciliation of cash to the statement of financial position
  - Reconciliation of restricted cash and cash equivalents to the statement of financial position
  - Disclosure of major reconciling items between net income and cash from operating activities
  - Disclosure of interest and income taxes
  - Presentation of certain transactions gross

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Summary of Significant Accounting Policies

- The basis of accounting
- Primary differences between the basis of accounting being used and GAAP
- Any of its accounting policies that involve a selection from existing acceptable alternatives, industry peculiarities, and unusual or innovative applications of accounting principles.
- Disclosures of accounting policies required by GAAP
  - Recognition of revenue from contracts with customers
  - Depreciation methods
  - Trade receivables and related allowance
  - Others as applicable

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Financial Statement Items for Which GAAP Would Require Disclosure

- Amounts
  - Depreciation, interest, rent, and retirement plan expense
- Component amounts
  - Components of property and equipment
  - Components of income tax provision
- Information about measurement
  - Assets measured at fair value
  - Derivatives and hedging
  - Assets that have been reduced below their cost
  - Accrued losses

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Financial Statement Items for Which GAAP Would Require Disclosure

- Supplemental fair value information
  - Fair value of financial instruments reported at cost
  - Fair value of financial instruments for which amounts are not recorded
- Information about transactions related to the item
  - Descriptions of leasing arrangements
  - Scheduled principal reduction of long-term obligations
  - Guarantees of debt
  - Information about retirement plans
  - Terms of related party transactions
- Other information about the item
  - Relation of the tax provision to pretax income
  - Commitments related to long-term lease agreements

GAAP

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Other Information That GAAP Would Require

- Going concern considerations
- Related-party transactions for which amounts are not recorded
- Commitments and contingencies
- Impairment of assets
- Subsequent events
- Risks and uncertainties
  - Nature of operations
  - Use of estimates
  - Certain significant estimates
  - Concentrations of risk
  - Revenue uncertainty

GAAP

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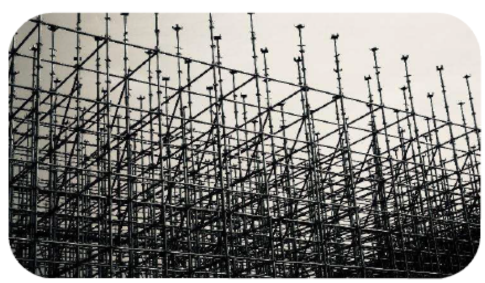
Change in Financial Reporting Framework

- Change in accounting principle
- Change in accounting estimate
- Change in the reporting entity
- Change from one financial reporting framework to another financial reporting framework applied retrospectively



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Other Considerations

- Consolidation of variable interest entities
  - If consolidated income tax returns are presented
  - If modification to pure cash basis is consolidation
  - VIE subsection require consolidation; disclosures are always required
- Uncertainty in tax positions that don't meet the more-likely-than-not criterion
- Economic uncertainty due to COVID-19

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Income Tax Basis Disclosures

- Basis of accounting
  - Accrual method
  - Cash method
  - How the basis differs from GAAP
- Significant accounting policies
  - Income taxes
  - Basis of consolidation
  - Inventories
  - Receivables
  - Depreciation methods
  - Business start-up and organization costs
  - Revenue and cost recognition
  - Related parties

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Income Tax Basis Disclosures

- Related party transactions
- Commitments and contingencies
- Impairment of assets
- Change in accounting principles or estimates
- Receivables
- Investments
- Property and equipment
- Debt and lease agreements
- Restrictions on assets and equity
- Employee benefit plans
- Variable interest entities
- Uncertainty in income taxes and open tax years
- Going concern

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Disclosure Checklist

Source: *PPC's Disclosure Checklist for Income Tax Basis Financial Statements,* from Thomson Reuters Checkpoint

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Cash Basis Financial Statements

- Statement of cash receipts and disbursements plus
  - Related party transactions
  - Restrictions on assets and owners' equity
  - Subsequent events
  - Significant uncertainties

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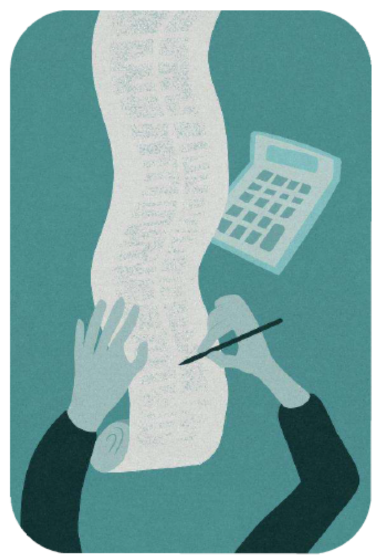
Cash Basis Financial Statements

- Modified cash basis
  - Basis of accounting and how it differs from GAAP
  - Significant accounting policies
  - Revenue recognition
  - Related party transactions
  - Commitments and contingencies
  - Impairment of assets
  - Changes in accounting principles or estimates
  - Inventories
  - Property and equipment
  - Leases
  - Terms of debt agreements
  - Restrictions on assets and owners' equity
  - Employee benefit plans
  - Income taxes



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Disclosure Checklist

PART I—DISCLOSURES APPLICABLE TO ALL
PURE CASH AND MODIFIED CASH BASIS FINANCIAL STATEMENTS

Instructions

art I should be completed in its entirety. A block ☐ has been provided for each major disclosure caption. If the m
ption is not applicable to your client, simply place a (✓) in the block. It will then not be necessary to check N/A
ch question under the major caption. Otherwise, respond to each question with a (✓) in the appropriate column:
s—either the information required by GAAP has been disclosed or information that communicates the substa
the disclosure has been provided; (2) No—item present but no disclosure made (any item checked "No" should
plained in the checklist or in a separate memorandum); or (3) N/A—either the item is not present or it is immate
the financial statements.

ASH	4
ENERAL DISCLOSURES	4
ICOME TAXES	5
EVENUE FROM CONTRACTS WITH CUSTOMERS	5
ELATED PARTY TRANSACTIONS AND COMMON CONTROL	5
ENSION AND OTHER POSTRETIREMENT BENEFIT PLANS—DEFINED CONTRIBUTION	6
EASES IN FINANCIAL STATEMENTS OF LESSEES	6
THER COMMITMENTS	8
ONTINGENCIES, RISKS, AND UNCERTAINTIES	8
ontingencies	8
oncentrations	8
uarantees and Product Warranties	9
oing Concern	9
mminent Liquidation	10
HANGES IN PRESENTATION OF COMPARATIVE STATEMENTS	10
UBSEQUENT EVENTS	10
ONSOLIDATIONS	11

Source: *PPC's Disclosure Checklist for Pure Cash and Modified Cash Basis Financial Statements*, from Thomson Reuters Checkpoint

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Omitting Substantially All Disclosures

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General Principles

- Omitting substantially all disclosures doesn't mean "no disclosures"
- SSARS 25: the accountant must conclude (AND DOCUMENT THE BASIS OF THE CONCLUSION) that omitting the disclosures would not mislead the users
- If the ASC provides an option for face or footnote for a required disclosure, omitting footnotes forces the disclosure to the face of the financial statements
- If modification of the accountant's report references a footnote, the footnote must be included.

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GAAP Requirements – Balance Sheet

- Balance sheet offsetting
- Consolidation
- Cash
  - Restricted cash
  - Concentrations of credit risk
- Receivables
  - Disaggregation of receivables by category
  - Disaggregation of amounts due from officers, employees, affiliates, et al.
  - Amounts of allowance for credit losses
  - Receivable that serve as collateral for borrowings
- Valuation of debt and equity securities
  - Three categories of investments
  - Disaggregation by measurement category and form of financial assets
  - Fair value measurements
  - Contractual maturities

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GAAP Requirements – Balance Sheet

- Inventories
  - Basis of valuation and method of determining cost
  - Nature and effect on income of any significant changes in the basis of stating inventory
  - Substantial and unusual losses
  - Major classes of inventory
  - LIFO disclosures
- Property and equipment
  - Balances of major classes
  - Accumulated depreciation
  - Methods used to compute depreciation
  - Depreciation expense
  - Segregation of idle or held for investment property
  - Impairment

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GAAP Requirements – Balance Sheet

- Current assets/liabilities
  - Segregated or ordered
- Obligations
  - Terms, interest rates, maturity dates, subordinate features, pledged assets, restrictive covenants, credit enhancements
  - Conversion features of convertible debt, conversion price, and number of shares, coupon rate, maturity and conversion dates, settlement method, preferences, changes in terms
  - Assets pledged as collateral
  - Debt issue costs of liabilities not reported at fair value reported as a direct deduction from the face amount of the related note
  - Short-term obligation expected to be refinanced excluded from current liabilities

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GAAP Requirements – Balance Sheet

- Income taxes
  - Current and deferred taxes
  - Allocation of income tax expense or benefit
  - Significant components of income tax expense
  - Net change in the valuation allowance
  - Income tax uncertainty

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GAAP Requirements – Balance Sheet

- Stockholders' equity
  - Classes of capital stock in order of priority in liquidation
  - Legal title; par or stated values; number of shares authorized, issued, and outstanding
  - Changes in stockholders' equity accounts and changes in number shares of equity securities
  - Changes in equity accounts of S corporations, partnerships, and proprietorships
  - Pertinent rights and privileges of securities outstanding
  - Number of shares issued during the most recent period
  - Required stock redemptions

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GAAP Requirements – Balance Sheet

- Stockholders' equity
  - Preferred stock rights and privileges:
    - Terms and features; callable or redeemable; shares issued and par value; conversion prices/rates, and number of shares; conversion dates; voting rights and liquidation preferences; terms that could change conversion or exercise prices
  - Treasury stock:
    - Number of shares and basis of carrying value: segregation of shares that are not held for retirement;
  - Accumulated other comprehensive income
    - Segregated from retained earnings and additional paid-in capital; changes in components during the period
    - Reclassifications out of accumulated other comprehensive income and where they are reported in income
    - Accumulated derivative gain or loss

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GAAP Requirements – Income Statement

- Revenues
  - Segregation of revenue from contracts with customers
  - Beginning and ending balances of receivables, contract assets, contract liabilities
  - Obligations for returns, refunds, and similar obligations
  - Warranty obligations
  - Impairment losses segregated from other impairment losses
- Expenses
  - Major categories of expenses
  - Interest incurred, expensed, and capitalized
  - Cost of goods sold and expenses, net of purchase discounts
  - Accrued net losses on firm purchase commitments for inventory
  - Separate disclosure of unusual and/or infrequent items
  - Advertising costs
- Comprehensive income
  - Components of comprehensive income, net of tax
  - Hedging instruments

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GAAP Requirements – Income Statement

- Amounts related to investments
  - Proceeds from sale of securities
  - Gross realized gains and losses
  - Amount of net unrealized gains or losses included in accumulated other comprehensive income
  - Amount of gains and losses reclassified out of accumulated other comprehensive income
  - Credit losses by major security type

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GAAP Disclosure Requirements to be Presented on the Face of the Statement

- Contingencies, risks, and uncertainties
- Defined contribution pension and postretirement plans
- Leases:
  - Segregation of finance and operating lease right-of-use assets; segregation of finance and operating lease obligations
  - Significant lease terms
- Related party transactions and common control
- Guaranties and warranties

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"Selected Information", Omitting Substantially All Disclosures

- Omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable reporting framework, with the nature of the departure and its effects, if known, disclosed.

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"Selected Information", Omitting Substantially All Disclosures

- Judgment required to determine what selected information should be presented
- Items would include disclosure necessary to keep the financial statements from being misleading
  - Significant information on tax status of the entity
  - Subsequent events
  - Unusual and/or infrequent transactions
  - Contingencies and commitments
  - Discontinued operations
  - Significant impairment losses

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Report Modifications Requiring Supporting Note Disclosures

- GAAP disclosure departure
- GAAP measurement departure
- Omitted information; e.g., cash flow statement, comprehensive income
- Going concern
- Noncompliance with laws and regulations
- Changes in presentation of comparative statements
- Change in accounting principle
- Correction of an accounting error

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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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Proceed to the next page for discussion questions.

A. Discussion Questions

1. What is a defining feature of cash basis accounting?
2. What must be included when presenting a Statement of Cash Flows under SPF?
3. What does SSARS 25 require when omitting disclosures?
4. Why is identifying users important when choosing a framework?
5. What must be described in significant accounting policies in SPFs?
6. Which GAAP-like disclosure must always be included in SPFs?
7. Which footnote is always expected in tax basis statements?
8. What presentation is required when a nonprofit issues financial statements under a Special Purpose Framework?

B. Suggested Answers to Discussion Questions

1. **What is a defining feature of cash basis accounting?**

   The defining feature of cash basis accounting is that revenues and expenses are recognized only when cash is actually received or paid. This method does not match revenues with the expenses incurred to generate them, as accrual accounting does. Instead, it focuses on the timing of cash flows, which makes it simpler and often more relevant for small businesses or entities without external reporting obligations. It does not involve accounts receivable, accounts payable, or other accruals. This simplicity is also why it is commonly used in Special Purpose Frameworks when external stakeholders do not require GAAP compliance.

2. **What must be included when presenting a Statement of Cash Flows under SPF?**

   Even though a Statement of Cash Flows is not required in SPF financials, if it is included voluntarily, it must present cash flows categorized into operating, investing, and financing activities. This aligns with GAAP presentation rules and ensures clarity in how cash moves through the organization. The inclusion must also be accompanied by key disclosures such as interest paid, taxes paid, and reconciliation to cash shown on the statement of financial position.

3. **What does SSARS 25 require when omitting disclosures?**

   SSARS 25 requires the accountant to **conclude and document** that omitting substantially all disclosures will not cause the financial statements to be **misleading to users**. This includes identifying who the users are and ensuring that their decision-making would not be adversely affected by the lack of full footnote disclosures. This documentation must be retained in the workpapers and is a critical step in protecting the integrity of the engagement.

4. **Why is identifying users important when choosing a framework?**

   The appropriateness of a Special Purpose Framework (SPF) depends heavily on the needs and expectations of the financial statement users. If there are no external users or if users such as owners and lenders accept non-GAAP reporting, an SPF may be suitable. Identifying the users ensures that the selected framework provides sufficient clarity and meets their informational needs, which is essential for fair presentation and professional compliance.

5. **What must be described in significant accounting policies in SPFs?**

   SPF financial statements must clearly state the basis of accounting being used (e.g., cash, tax, regulatory) and describe the primary differences from GAAP. This helps users understand the accounting framework applied and how the financial statements may differ from a GAAP-compliant presentation. Disclosure must also include any key policy elections, practical expedients, or industry-specific applications that affect interpretation.

6. **Which GAAP-like disclosure must always be included in SPFs?**

   Going concern is a GAAP-based disclosure requirement that carries over into Special Purpose Frameworks, such as tax basis or cash basis financial statements. Auditors must evaluate management's assessment and ensure that adequate disclosure is made when events or conditions raise substantial doubt about the entity's ability to continue as a going concern. This applies regardless of the framework used, because the principle relates to the fundamental reliability and transparency of the financial statements for any user.

7. Which footnote is always expected in tax basis statements?

The **"Nature of Operations"** footnote is foundational and always expected in tax basis financial statements. It provides users with essential context about what the entity does, how it operates, and the environment in which it functions. This information is critical regardless of the reporting framework, as it helps users interpret the financial results and assess relevant risks and uncertainties.

8. What presentation is required when a nonprofit issues financial statements under a Special Purpose Framework?

Nonprofits are required to present expenses by **function—**such as program services, management and general, and fundraising**—regardless of the reporting framework** used. This requirement ensures transparency in how resources are used to fulfill the organization's mission. It can be presented on the face of the statement of activities, in a separate statement, or in the notes. The requirement applies under both GAAP and Special Purpose Frameworks.

PART 2. AUDITING

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

Welcome to the second and final program section of the A and A portion of this month's program. In the first part of this two-part session, we'll begin our discussion on best practices for effective and efficient auditing: evaluating and concluding.

In this comprehensive and highly practical session, we will delve 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. This segment underscores the essential nature of thorough concluding procedures, reminding practitioners that while traditional time budgets often allocate just 10% of effort to the wrap-up stage, effective auditing should reverse this balance, with wrap-up representing the streamlined culmination of a well-planned and diligently executed audit. This segment emphasizes that inefficiencies and lost profitability frequently stem from insufficient planning and unstructured review processes. To counteract this, the presentation outlines key wrap-up tasks such as commitments and contingencies, subsequent events, going concern evaluations, compliance with laws and regulations, and the treatment of related parties, risks, and uncertainties.

Central to this session is a call for robust documentation and evidence collection—not merely ticking boxes or relying on client assertions. For instance, legal letters must be customized and corroborated with supporting evidence rather than treated as perfunctory formalities. The same rigor applies to evaluating management's going concern assessments, which require not just acknowledgement but an auditor's independent judgment, especially in light of current GAAP mandates. Similarly, subsequent events evaluations are framed not as superficial sign-offs but as thorough, report-date-inclusive explorations of available evidence, with implications for disclosure even when no direct monetary impact is present.

This session also shines a spotlight on auditors' obligations around compliance, stressing that representations from management or the use of supplemental schedules do not constitute adequate evidence. Instead, practitioners must independently verify filings, assess outcomes, and document both compliance and noncompliance with meticulous clarity. Additionally, significant attention is given to the heightened scrutiny around related party transactions under SAS 135 and SAS 145, whereby we urge tailored audit responses, control evaluations, and an understanding of the client's business model to adequately assess the substance and disclosure of these transactions.

Ultimately, we will reinforce that effective wrap-up procedures are not just about completing checklists—they are about validating that each component of the audit stands up to professional scrutiny and regulatory standards. Through detailed examples and practical advice, the session equips auditors with strategies and expectations that align with the evolving demands of the profession, ensuring both quality outcomes and regulatory compliance. Now let's join Susan Longo, who will lead us as we delve into part one of our discussion on best practices for effective and efficient auditing, evaluating and concluding. Be sure to tune in next month as we present part two.

Ms. Longo

Hello, I'm Susan Longo and in this course, we're going to look at the very end of the audit cycle. We're going to look at the wrap-up piece of the engagement. We're going to look at strategies for how to be much more efficient.

You know, if we were to look at the standard budget, we might find that the budget would spend about 10% of the time on the planning, you might spend about 50% of the time actually performing the audit procedures and 40% of the time on the wrap-up.

In fact, if the audit is conducted properly, it should be just the opposite. 40% of the time on planning, 50% of the time on the procedures and 10% of the time on, on wrap-up. It's not what happens. So, we want to talk about why, and we want to talk about what it is that we can build into the audit process itself in, in order to become more efficient at the back end. So, that's, and that in fact is where we lose the profitability in, in the job.

We also want to talk about documentation and on what that should entail. And finally, we want to look at work paper review and how to make sure that we don't have people doing the same thing at all different levels. So, we want different things being done by different levels. Detailed review by seniors, partner review that should look very different, and EQCR.

So, in terms of concluding procedures, it's a host of things, commitments and contingencies, litigations and claims, Going Concerns, subsequent events, compliance, related parties, risks and uncertainties, analytics and evaluation of presentation and disclosure. All those things need to be addressed.

Now, the one thing to remember is we do have a couple of audit standards. They've sort of changed the time frame for this. So, for instance, in subsequent events, which takes us right up to the report date, now all significant estimates have to be evaluated up to the report date, and that generally was not what was being done then when the estimates were part of an audit area. Once you finished that, and handed off to be reviewed and, and we were over and done with, and now all significant estimates are part of that subsequent events review. So, we need to think about some of the differences in what is now required, and when we look at the most recent audit standards.

I want to focus not so much on what has to be done, but from the flip side of it, what do auditors forget to do? So, with commitments and contingencies, the first thing to remember is that sufficient appropriate audit evidence is never, and never will be an inquiry. Conversation with Karen is not how we conduct an audit.

So, if we have some conversations that should lead us to the, the additional inquiries, corroborating evidence, etcetera, that we're going to gather. In order to emphasize that, please remember that when we look at this concluding audit program, it has a lot of steps in it, but what's on the far-right side? The far-right side is work paper reference.

Please remember that an audit program is not audit evidence. An audit program is a conclusion.

"I did the following." And audit standards require that we document the conclusion, sign off on the audit program, and that we document the basis for the conclusion, which is the reference work papers.

So, part of what happens with some of these concluding procedures is that we say, "Yeah, we, we did that," and most of it is done by inquiry or by giving the client some checklist to do and they go through it, but we can't take that as audit evidence, either. If we ask the client the questions in either oral or written form, the evidence requirements and standards is that we have something that collaborates those responses.

So first of all, when it comes to commitments and, and contingencies, you need to deal with the document search. You need to look at all kinds of external communications, including communications from regulators. You have, to look at communications between prior and current parties. Once you've had that conversation and you've also completed the audit knowing that there were some significant changes, perhaps changes in contract terms, significant transactions and events. All of that needs to occur, and one of the things that we find is that this legal letter that we send out tends to be just boilerplate.

We have a sample. We send that sample. We expect the attorney to, to sign off on that, and if there's anything unique, we place it on the shoulders of the attorney to tell us something. That is probably inappropriate in most cases.

We know that sensitive areas in operations where we need to know that there aren't things that have been discussed between the client and the attorney or where the attorney is monitoring certain environmental activity -- "environment" meaning business environment -- are not necessarily putting it in writing in, in terms of some action, legal action at this point.

So, therefore, when you write a letter, a legal letter and you're talking about commitments and contingencies, you need to add a paragraph or two making sure that the attorney is going to address certain issues and again, that just doesn't seem to happen. We just don't have that. We don't have the customization of the legal letter that we really need to do.

So, it does take a document search. It does take an understanding of what may have transpired during the year. The more that the client is in a regulatory environment, nonprofits, governmentals, employee benefit plans, financial institutions, broker-dealers, I can keep going, the more you should recognize that these commitments and contingencies are a part of their business environment and to assume nothing, is probably pretty naive.

And again, although the client doesn't necessarily intend to not disclose, that's not on their radar screen, either. If it's not a completed transaction, they don't sort of think about it. So, you need to create a way of reminding the client of the kinds of things that are included in commitments and contingencies.

Litigations, claims and assessments. A document search, again, necessary. Now, in this particular case, depending upon your audit approach there are certainly techniques to help us do that when we have access and can link in with the, with the client's accounting system and that sort of thing. We, we can do that without too much disruption of, of their system.

So, most of the things that we've said about commitments and contingencies are also applicable for litigations, claims and assessments with two, what two considerations that we need to, to deal with. One is at what point do these items result in financial statement disclosure? At what point do they, do they result in the report modification?

Now, the commitments and contingencies, we know that's always going to be there, but the litigation claims and assessments, not necessarily. We need to recognize that both of those thresholds are preset. We don't wait for the circumstance and then try to come up with, "Well, what should it, what should we think?" "Where, where are we?" But those thresholds should be predetermined. And then what we're asking is, "Have we hit that threshold?" Too many times that's not what happens. We then find something, and then we're at that point of, "Well, is it enough to, does it rise to the level of" and then we, we get into some sort of a, of a debate, which is certainly not where you want to be. So, establish those up front in the audit.

Going Concern. First of all, please remember that Going Concern is a GAAP requirement. It is not an audit requirement as such in terms of disclosure. It is a GAAP requirement. That GAAP requirement includes management's assessment. As an auditor, we evaluate that assessment. So, as an auditor we look at Going Concern the same way we would look at the assertion for inventory, for payables or anything else. The client has an assertion with respect to existence, completeness, valuation, etcetera, and we're there, out there auditing those assertions.

Well, management is making an assertion as well that there is no substantial doubt as to Going Concern, and our job as to that is, is to evaluate that assertion. To do that, we look at management's assessment and any plans to mitigate the events and circumstances.

The audit standards give us no wiggle room. If management does not perform the assessment, we must modify the report as either qualified or adverse. And that's the piece of what has to happen when we're looking at Going Concern, is a recognition that this is the point at which we look at the quality of management's assessment, and we're looking at the plans to mitigate and we're looking at the disclosures that are in the financial statements.

Now, we need to also remind you that inadequate disclosures are a GAAP departure, and a GAAP departure requires a modifying report as well. So, that the client's going to argue, "Look, you know, we had the events and circumstances, but our plans mitigated. We don't have a problem. So, I don't want to say anything in the financial statement. I don't want a footnote." And you can remind them that the standard says you must have the disclosure.

What you have is two paragraphs instead of three, the events and circumstances and management plans with a statement that mitigates, rather than the third which also says substantial doubt. But the two paragraphs you have up top, "No, no, no, no, I don't want those." In which case you remind them either they have them or you have a qualified or adverse opinion. And there is no, again, no wiggle room in the, in the standard for that. So, we need to be very sure they understand that.

There is a need for cash flow analysis as part of management's assessment. It doesn't have to be particularly sophisticated, but there is a requirement for cash flow analysis. If one of the mitigating plans is that some external parties are going to provide support, then the ability and intent of those parties has to be done in written form. So, it's not an oral representation. It's a written representation.

Going Concern is, shows up in our audit reports not once, not twice, but three times. So, we have to recognize that this evaluation satisfies all three pieces of what is sitting in the report.

In 2023, we had to look at Going Concern a little differently than we would in 2024 and 2025 because in 2023 we were out of COVID. And in '20 and '21 and '22, I think some practitioners were fairly lax at, at dealing with, with Going Concern in that, "Well, you know, they haven't come out of COVID yet. So, we give them a little leeway." By '23 that wasn't necessary, and you know, as we go into '24, '25, etcetera, the same is true.

What the FASB has clearly found here is that there are still too many reports where no disclosures are happening in preceding years and then all of a sudden, "Bang," we are substantial doubt as the Going Concern and into bankruptcy, etcetera. So, the intent of the standard is to give everybody a heads-up well before it happens because these things don't just happen overnight. So be careful of, of this.

Now, it is a GAAP requirement, but the auditing standards have, has been very clear that this also applies to special purpose frameworks. That's your cash basis, tax basis, contractual basis, regulatory basis, because the emphasis is on disclosure and because those special purpose frameworks have that Going Concern disclosure requirement. So, while we can think of it as a GAAP requirement, that really applies to all of the audited financial statements that you would issue.

Subsequent events, probably the first thing is to remind everybody that this is actually a GAAP. requirement, once again. It's not, it's not an audit requirement. What we're doing is we're auditing the assertion that there isn't anything in that post balance sheet period that requires either adjustment of the financial statements or disclosure.

And there's a whole litany of what would actually qualify as a subsequent event. And subsequent event evaluations are not directly tied to materiality. And I think that that's often where auditors go off the rails. Well, the transaction that occurs, that occurred after year-end isn't significant in the way of dollars. As a matter of fact, some of them may have no dollars attached to it at all. The founding member and largest shareholder died. Well, there's no dollars attached to that at this point because we don't know what the estate settlement is going to be. But is that a significant disclosure? For some it will be by virtue of the uncertainty of what's going to happen to the entity.

Similarly, certain tax transactions would also be subsequent events, even though what you've got is a GAAP set of financial statements, and those, and those disclosures by virtue of the fact that we have a tax-status footnote, and anything that affects that tax status would be a significant subsequent event.

So, we have the normal purchases and sales of something, a change in the, in the composition of the entity, all kinds of things that can occur as a subsequent event. The issue is the appropriate disclosure.

So, the post-balance sheet review is looking at every piece of information available to the auditor, the journals and ledgers and everything in the accounting system, minutes, interim financial statements, all kinds of external reports that are available.

So, sometimes this is easy to accumulate because all you're doing is, is kind of extending the documentation that you've already got in your work papers, but a lot of times these are, are unique events and therefore they would not be covered by the normal document search that you would undertake. So, be sure that the PBSR number one goes right up to the report date, and the second there, that this really is a data gathering exercise, and you need to sort of let your, your fingers do the walking through lots and lots of documents.

A reminder again that significant estimates are as of the report date, that related parties and significant transactions are also as of the report date, that disclosures are recognized and non-recognized events, but those are, those that generate the debits and credits, and those that don't.

There are some excellent subsequent event memos available. It is not just a sign-off because we, we need to, we need to kind of get away from that mindset that says, “I signed off on the audit program staff, so that's all the documentation necessary.” And the answer is, no.

That audit evidence requirements and the audit documentation requirements means that I, as a reviewer, need to be able to look at that work paper and actually reperform what you did. If you don't give me a work paper, I can't reperform it. And if you just check the box on an audit program, I can't determine what you did. So, yes, I see your initials and I see the date, but there is no indication of what you actually did.

So, you know, a well-crafted subsequent event memo listing all the things that we should be doing, and then, you know, if you craft it as a template, it is certainly something that you can utilize from one year to the next. So, we need to craft the work paper.

Now, compliance with law, regulation, contract and agreement, we have even more of a gap in our documentation than we do subsequent events, and that's because auditors have just sort of looked at this as a global kind of issue and not gotten into the nitty gritty.

So, what are the pertinent laws and regulations applicable to the entity? Well, you know, we know all the payroll laws. We know all the zoning and licensing laws, the EPA, the OSHA, all kinds of, of those kinds of things. And they are both federal and state. And so once again, without documenting what it is that you've actually addressed, you can't tell that we really do have compliance with law, regulation, contract agreements.

We do need a listing of all required filings, their due dates and the parties, and some way of knowing whether or not those filings occur. I mean I cannot tell you how many times in the years of practice I've had when I was working with a CPA firms and they would, they would show me all the documentation they had about completing tax returns and, and sending transmittals to clients and that sort of thing, and I would look at them and say, “Do you know whether the client filed the tax return?” And I would get this deer-in-headlights like, “What do you mean?” I said, “Well, there's no guarantee because you gave them the tax return with the instructions of what to do, that they actually did it.”

In today's world, it’s a little bit easier to figure that out, but there are a lot of filings where we provide the basis for that filing, and we need evidence that they actually did the filing, and a confirmation for regulatory parties that it was received and accepted and approved. And those are three different things.

The parties, the regulatory party got it; right. They accepted it in that it was in, in the form required and that, you know, all the, all the boxes were checked and that it was, that the content was later on approved, and you want confirmation of all those things.

In some cases, those filings and the documents related to them are something that you want to examine. This is again a section that should be reflected somewhere in the legal letters as you customize those legal letters, and depending upon the entity, there may well be a requirement for a financial statement disclosure. Sometimes the disclosure is global in that what you're doing is saying that, "We operate under certain statutes and the required compliance of," and you reiterate that on, on sort of a global basis. In other cases, there's something very specific that needs to be addressed in the, in the disclosure, but, again, compliance.

Now, the opposite is also true. Sometimes we have a, a set of financial statements and we recognize there is noncompliance, and we disclose that and often times the disclosure is in supplemental information. Just a reminder, supplemental information is in fact supplemental information. It's not part of the basic reporting package.

So, for instance, if you have a set of financial statements for an employee benefit plan and that employee benefit plan did not remit contributions on a timely basis, there's a supplemental schedule that indicates the dollars and the penalty and interest. It's a supplemental schedule. That does not satisfy the requirement for disclosure. So, there has to be a footnote indicating that noncompliance.

So, that's something that auditors tend to forget, is that supplemental information is just that and it's not part of the basic financial statement package. And so, there would have to be a disclosure to link those two things.

So, here's an example of how one would put together some sort of compliance evaluation: The laws and regulations, those specific to the industry, those specific to some state, things related to taxes, payroll, employee benefits, right to work discrimination, labor laws, independent contractor rules, permits, license and zoning, insurance, copyrights and patents, safety and environmental, advertising and marketing, online business law, privacy, contract records, retention enforcement actions and examinations by regulatory agencies.

That's just the sort of the opening volley. But what you would then have is an enumeration of the compliance requirement and then evidence of compliance. So, again, it's not a conversation with Karen. It is an understanding that there's an assertion that says, "We have complied." "Complied with what?" "Here's the listing, and where's the evidence of compliance?"

So, that's what I was talking about when I was talking about subsequent events, and what I was talking about with litigation claims and assessments and commitments and contingencies, all of that kind of thing documented in this kind of a format, listing what is the requirements and the evidence of compliance.

Now, the documentation, instances of noncompliance that might have been noted, a description whether that noncompliance disclosure is required, and obviously reference. The audit procedures are a lot more detailed.

Start with an inquiry. LRCA is, is Laws, Regulations, Contracts and Agreements. Look at and talk to those charged with governance, all of your correspondence, all of the policies and procedures, create a register of the type I just illustrated. Look at board and committee meetings. Look at payments to consultants, related parties, the government. Look at the filing of tax returns. Look at legal representation, written representation by management and identifying fees and fines and other consequences.

Now, I do want to take a minute and talk about management representation letters. I think sometimes auditors go into the mode that says, "Well, if I'm not sure I'm going to put it in the Rep letter, the client's going to sign it and that's all I need to do."

A management rep letter is not audit evidence. It will never be audit evidence. It's just that, it's a representation management. It isn't any different than an inquiry. And as you know, for an inquiry we have to have corroborating evidence, so, too, for management representation.

What you're really doing with management representation is taking the financial statement and disclosures and saying, “Okay. Management, you're saying this in the, in the financial statements so let's reiterate all of that.” “You agree?” That's what I'm saying in the financial statement, but it's not audit evidence. So, don't fall into the trap that says, “Well, I'm not sure of any of this stuff, but I'll just put an item in the Rep letter and that'll cover me.” And the answer is, no, it does not.

So, understand the legal and regulatory framework and the related disclosures, and then determine what it will take to audit that compliance or, and/or determine that there is noncompliance.

What do you do when noncompliance is identified or suspected? You go to those charged with governance. All of that goes to those charged. It is then looking at the response of those charged, which determines whether or not we have other reporting responsibilities, whether the noncompliance is cited in the auditor's report, whether or not the noncompliance is reported to outside parties.

Regulatory parties have only one set of parties. So, we do have a reporting responsibility to those charged with governance and to outside parties.

So, again, because this is an important issue and I'm not sure how many auditors spend enough time, I have provided a little audit program to help you create the appropriate documentation.

So, I started with, here's your registry of all the requirements. Now, here's the audit program. And for each item create a narrative as to what the compliance requirement is, and then the evidence that you examined for compliance.

So, were there any investigations by a government agency or the payment of fines or penalties or excess commissions or purchase prices significantly above or below market? These are things that allow us to take a look at the documentation provided and know what it is that might yield noncompliance. So, hopefully between the two you see you get a different perspective of looking at compliance.

With respect to related parties and related party transactions, especially when we look at SAS 135 and 145, the auditing standard setters are placing more and more emphasis on the risks related to these types of transactions. So, related party and related party transactions are now defined as significant risk. As such they require a separate risk assessment. As such they will require customization of the audit program.

The audit program is a general framework. It is not designed for significant risk, and significant risk is unusual, infrequent, nonstandard and non-routine transactions. So, none of those things are part of the general framework. So, please remember that related parties and related party transactions are now considered to be significant risk, and as such we have to design the appropriate audit procedures.

We are required to evaluate the internal controls surrounding related party transactions. So, it's not enough to do, what? It's not enough to just look at internal controls for cash and for receivables and revenue and property and payroll and the standard cycle kinds of things, but we are required to look at internal controls surrounding related parties. I believe if we look at a lot of the documentation, we will not see the specifics of an evaluation of the design and the implementation of controls over these transactions.

We are now required to evaluate whether or not the transaction was at, was arm's length and at market. And once again, what we often see is just a description of what they are. “Well, they leased,” right? So what? There's a lease range between the entity and some other entity, the shareholder who bought a building and stuck it into a legal entity and then rendered it back to the reporting entity. That's a related party transaction, but did we evaluate that it was arm's length and at market. And that would require looking at the contract between the parties and understanding what the standard terms would be in the marketplace, and probably not being there.

We have to understand that there may be undisclosed related parties. This isn’t as much of a problem as it is when we have litigation claims and assessments or commitments and contingencies which are not reported. When we discover these, that's a communication then with those charged with governance.

We always have to look at the business purpose behind significant related party transactions, and this takes on a little bit different framework under SAS 145. 145 is all about the client's business model. Our understanding of the entity prior to this point was a series of disparate topics. “Tell me something about the accounting framework. Tell me something about the assets and liabilities and equity. Tell me something about revenue and expenses and compensation,” disparate kinds of things.

But now it's not organized that way, and now the focus is on understanding the business model and how each of those questions, pieces, if you will, audit areas relate to the business model. That generates a different set of questions with respect to related party transactions. Why would we need to do that? Why is it in the business’ interest to have that related party transaction? And then, you know, an understanding of how significant those might be and therefore some sort of report modification.

Obviously, if there is actually an inadequate disclosure, then we have a GAAP departure and we already know we have a report modification, but sometimes there is enough of a significance, with respect to the related party transactions that we want some sort of an Emphasis of Matter, and that is certainly appropriate in a lot of cases.

Variable interest entities, special part of our GAAP rules, they are, they require an evaluation of, “Do we have a variable interest entity? Do we have a variable interest?” “Are we the primary beneficiary?”

I would recommend to you that there's a very good flow chart available. It's available in two places, one in the standard, the generated, the work, the requirements and the GAAP side. And the other is there is a guide to related parties and variable interest entities that is published through Thomson Reuters. There's another one from a couple of other vendors that also do significant GAAP guides, and, and there are flow charts as to how to evaluate. Do you have a variable interest entity, a variable interest in the primary beneficiary? If you are not familiar with how to make those decisions, flow charting of that type is very useful.

It is, again, a completeness issue because if we are in fact the primary beneficiary, it is a requirement to consolidate, unless you meet the one exception rule. You need to recognize that there may be additional audit procedures required if there is a change in the ownership, a difference in the accounting principles between the various entities and any impairment losses.

This is an area where consolidation is the, is the rule if you, if you meet the criteria that the entities are consolidated; however, there is an alternative GAAP treatment which avoids that, but that is in fact a policy election. And, of course, we know, all know that the policy elections are done by those charged with governance, not the accountant that is drafting the financial statement.

All right. Risks and uncertainties. I guess I would be so bold at this point to say that there would be minimal opportunities for a set of financial statements to be issued without a risks and uncertainties footnote.

The GAAP requirements are all there in the general requirements and they are all there in the specific requirements. So, for instance, nature of operations, use of estimates, significant estimates, concentrations, all those things wind up as disclosures, but it’s not possible to issue a set of financial statements that have significant revenue under Topic 606 without risks and uncertainties.

Not possible to issue a set of financial statements, that is investments or anything else, that is measured at fair value without risks and uncertainties. Now, we may move away from that because we no longer have the effects of COVID-19, but that doesn't mean that there isn't something else out there of a similar ilk that is going to affect us. So, please be very sure that you understand that you need to craft these disclosures.

Now, again, it is a disclosure requirement. The placement of those, those disclosures are completely up to the client. If you want to risks and uncertainties footnote up in headlights, go right ahead and do it. But if you want to talk about the risks and uncertainties in terms of the market and interest rate risk and you want to put it in the debt and/or the investment footnotes, that's fine. Or if you use the language, it doesn't matter where it's placed, but we are not finding that.

Now, one of the things we'll tell you is if you used the practice aid with respect to understanding the entity, that first information gathering practice aid, and as you answered each question, if you referenced the appropriate footnotes, this is when they talk about this footnote, and so, when we when we look at that, there's a lot of information gathering, your related parties, what footnote is that, risks and uncertainties, what footnote is that?

Then what happens is when you write these comments in the understanding, the criteria is, "Do you have all the information that's needed for the footnote?" And if you do, now we know all the information we have to audit. But be sure that you understand between the GAAP rules, and we can, you know, enumerate a lot of them that make reference to risks and uncertainties that you, that you just don't get that without.

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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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
For each item below provide a narrative of your understanding related to noncompliance with laws and regulations: a. Investigations by a government agency b. Payment of fines or penalties c. Excessive sales commissions or agent's fees d. Purchase prices significantly above or below market e. Failure to file tax returns or to pay government fees f. Unauthorized or improperly recorded transactions g. Large and unusual cash transactions h. Information systems that fail to provide an audit trail i. Unexplained payments to government officials or employees j. Unexplained payments without proper exchange control documentation k. Large and unusual payments to a consultant, affiliate, or employee l. Purchases of bank cashier's checks in large amounts payment to bearer m. Adverse media comment n. Other		

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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 respond 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 respond 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: ident[illegible]ant 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[4]	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
Assets[1]												
Disclosure made applicable to estimates of fair value for plan investments.	Y	Y	4150.55	Yes	No	Yes	4150.55	4150.55	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
Liabilities[2]	N	N										
No significant liabilities subject to estimates.												
Revenues & Expenses[3]	N	N										

[1] – Common estimates - allowance for A/R or N/R, inventory valuation allowances, depreciable lives or PPE, amortization period of intangibles, impairment of goodwill, and/or other intangibles or PPE

[2] – 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

[3] – 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

[4] – 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 criteria 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

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Sample Documentation – Testing Estimates

Estimate	F/S Area	Estimate Uncertainty	Risk Assessment	Retrospective Review	Indications of Management Bias	Significant Risk	Fraud Risk
Leases • Control • Classification • Recording • Borrowing rate • Lease term • Lease cost • FV assets • Residual value • Other							

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Sample Documentation – Testing Estimates

Estimate	F/S Area	Estimate Uncertainty	Risk Assessment	Retrospective Review	Indications of Management Bias	Significant Risk	Fraud Risk
Revenue • Contract criteria • Good and services distinct • Material rights • Transaction price • Allocation transaction price • Variable consideration • Variable consideration constraint • Stand-alone selling price • Unpriced contract modification • Measure of progress for transferred over time • Product returns • Losses on contracts • Industry guidance							

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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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What Auditors Forget to Do

- Presentation and disclosure
  - Evaluate the overall adequacy of presentation and disclosure
  - Evaluate the adequacy of presentation and disclosure of significant risks
  - Preparation of the disclosure checklist is not an auditing procedure

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Evaluate the Qualitative Aspects of the Entity's Accounting Practices

- Evaluate indications of management bias
- Evaluate
  - Significant accounting principles selected and applied
  - Appropriateness of the financial reporting framework
  - Accounting principles consistent with the applicable financial reporting framework
  - Reasonableness of accounting estimates
  - Information is relevant, reliable, comparable, and understandable
  - Adequacy of disclosures for the intended users
  - Terminology used in the financial statements is appropriate
  - Presentation, structure and content of the financial statements is adequate
  - Financial statements, including disclosures, represent the underlying transactions

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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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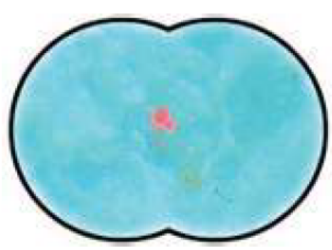
Evaluate Audit Findings

- 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
• Characteristics of specific items, matters tested • Who performed the work and date work completed • Who reviewed the work, date of review, extent of review • Abstract or copies of contracts • Significant findings or issues (including KAM) • How auditor addressed information inconsistent with the auditor's conclusions • Justification for departure from presumptively mandatory requirement in GAAS and how alternative procedure was sufficient • Report release date • Response to subsequent discovery of omitted procedures • Changes after "lockdown" • Records retention date	• Terms of engagement (210) • Quality control (220) • Fraud (240) • Consideration of laws and regulations (250) • Communication with TCWG (260) • Communication of internal control deficiencies (265) • Planning an audit (300) • Understanding the entity (315) • Materiality (320) • Performing audit procedures (330) • Evaluation of misstatements (450) • Audit evidence – selected items (501) • Analytical procedures (530) • Accounting estimates (540) • Related parties (550) • Going concern (570) • Group audits (600) • Using the work of internal auditors (610) • Key audit matters (701) • Applicable financial reporting framework (915) • Interim financial information (930) • Compliance audits (935)

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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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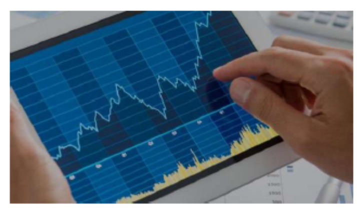
Audit Documentation

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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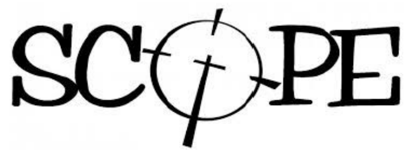
Extent of Substantive Procedures

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	• Develop expectations • Investigate unexpected variances • Corroborate mgmt responses • Test underlying data
Fraud risk	• Test journal entries • Test revenue recognition • Inquire of those charged • Conduct brainstorming • Assess risk of mgmt override • Test internal controls over JEs
Accounting estimates	• Evaluate assumptions • Test underlying data

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Specific Areas with Deficiencies Noted in Peer Review

Area	Deficiency
Revenue	• Test all assertions • Test contract terms • Test cutoff • Test GAAP rules • Appropriate sample sizes • Test controls
Fair value	• Test values received from pricing services • Develop independent estimates
Impairment	• Accepted issuer’s conclusions
Related parties	• Failure to search • No understanding of the business purpose of the transaction

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Specific Areas with Deficiencies Noted in Peer Review

Area	Deficiency
Financial reporting	• Evaluation of management's plan to mitigate substantial doubt as to going concern • Test tax uncertainties • Inadequate testing of equity transactions • No testing of transition/adoption of new accounting standards

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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

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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 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

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- 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.

A. Discussion Questions

1. Why is it important for auditors to customize legal letters when auditing commitments and contingencies?
2. Why is the management representation letter not considered sufficient audit evidence?
3. When evaluating related party transactions, what must the auditor do in addition to identifying the transactions?
4. Which activity should final analytical procedures support during audit wrap-up?
5. What should an auditor do when inconsistent audit evidence is identified?
6. Why is the post-balance sheet review (PBSR) essential in an audit engagement?
7. What is the auditor's responsibility if management does not perform a going concern assessment?

B. Suggested Answers to Discussion Questions

1. Why is it important for auditors to customize legal letters when auditing commitments and contingencies?

Customization of legal letters is essential to ensure they address the specific legal risks, commitments, and contingencies relevant to the audited entity. Generic or boilerplate legal letters often fail to elicit complete and relevant responses from legal counsel. Customization involves identifying key operational areas, known disputes, regulatory environments, or industry-specific exposures that might not be adequately covered by standard templates. Auditors must tailor the inquiry to prompt legal counsel to consider issues they might otherwise overlook and to verify whether potential liabilities require financial statement disclosure or adjustment. Effective customization helps satisfy the requirement for sufficient appropriate audit evidence and demonstrates due professional care in high-risk areas.

2. Why is the management representation letter not considered sufficient audit evidence?

A management representation letter, while required under audit standards, is not sufficient audit evidence on its own because it lacks independence. It merely reiterates management's assertions and does not provide objective support for those assertions. Audit standards emphasize that representations must be corroborated by other forms of evidence such as third-party confirmations, internal documentation, or physical inspection. Relying solely on a representation letter without obtaining independent and verifiable evidence would violate the requirement for sufficient appropriate audit evidence and compromise audit quality. The letter is useful as a summary and confirmation of management's positions but must be evaluated in conjunction with other corroborative sources.

3. When evaluating related party transactions, what must the auditor do in addition to identifying the transactions?

It is not enough to merely identify related party transactions—auditors must evaluate whether those transactions were conducted under terms that are comparable to those that would have been agreed upon by unrelated, independent parties. This "arm's length" assessment involves reviewing contractual terms, comparing prices to market rates, and assessing whether the entity benefited or was exposed to unusual risks. Evaluating internal controls around related party dealings and understanding the business rationale for the transaction are also necessary. This step is critical because related party transactions pose heightened risks of fraud, misstatement, and lack of transparency, and they are subject to increased scrutiny under auditing standards such as SAS No. 145.

4. Which activity should final analytical procedures support during audit wrap-up?

Final analytical procedures are designed to confirm that the overall financial statements are consistent with the auditor's understanding of the entity and its environment. This includes evaluating whether the results make sense in light of industry trends, business activities, and known events. Unlike preliminary analytics (used to identify risk areas), final analytics serve as a reasonableness check at the conclusion of the audit. They help the auditor identify any unusual or unexpected relationships that were not previously addressed, and ensure that nothing has been overlooked. These procedures are particularly critical in forming an overall conclusion about the fair presentation of the financial statements and should not be a repetition of earlier analyses.

5. What should an auditor do when inconsistent audit evidence is identified?

When audit evidence is contradictory or inconsistent, the auditor is required to investigate the matter by performing additional audit procedures. These procedures may include obtaining further corroborating evidence, re-performing work, or evaluating the reliability of different sources. The auditor must resolve the inconsistency before drawing conclusions or forming an opinion. This requirement reflects a fundamental principle in audit quality: the reliability and sufficiency of evidence must be evaluated with professional skepticism, especially when the evidence does not align across sources. Failure to address inconsistencies may lead to unsupported conclusions and audit deficiencies.

6. Why is the post-balance sheet review (PBSR) essential in an audit engagement?

The primary purpose of the post-balance sheet review (PBSR) is to identify subsequent events—events occurring after the balance sheet date but before the audit report date—that could require adjustment to or disclosure in the financial statements. These events may include significant transactions, legal matters, or changes in the entity's operations or financial position. The PBSR is a critical audit procedure because subsequent events can materially affect the auditor's opinion if not properly accounted for or disclosed. The auditor must examine journals, ledgers, interim financials, board minutes, and external documents to identify such events. PBSR must extend through the report date, and its documentation must be detailed enough to support re-performance by a reviewer.

7. What is the auditor's responsibility if management does not perform a going concern assessment?

If management fails to perform a required going concern assessment, the auditor must treat this as a departure from GAAP. In accordance with auditing standards, the auditor is obligated to modify the audit report — typically issuing a **qualified** or **adverse** opinion depending on the materiality and pervasiveness of the issue. The assessment is a management responsibility under the accounting framework, and the auditor's role is to evaluate that assessment. If it is absent, the financial statements are considered incomplete or misleading. In such cases, no "wiggle room" exists — the auditor must issue a modified opinion to comply with professional requirements and maintain audit quality.

Concluding Procedures—A series of final audit tasks performed to ensure the financial statements are complete, accurate, and appropriately disclosed. These include evaluating commitments and contingencies, subsequent events, going concern, and related party transactions.

Modified Cash Basis—A variation of the cash basis of accounting that includes select accrual adjustments such as depreciation and debt recognition, making it more GAAP-like while still simpler than full accrual accounting.

Qualitative vs. Quantitative Disclosures—Qualitative disclosures describe attributes such as risks, nature of operations, or general conditions without numerical detail. Used more frequently in SPFs when precise figures are not available or necessary.

Risk Assessment Procedures—Audit activities performed to identify and assess the risks of material misstatement, including inquiry, observation, inspection, and analytical procedures. These shape the nature, timing, and extent of further audit procedures.

Significant Risk—An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. Examples include related party transactions and variable interest entities.

SSARS 25—A standard under the Statements on Standards for Accounting and Review Services (SSARS) that requires accountants to evaluate whether omitting disclosures could mislead users, and to document this evaluation.

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

1. Which of the following is considered a Special Purpose Framework (SPF)?

    A. Consolidation basis
    B. Fair value basis
    C. International Reporting Framework
    D. Modified cash basis

2. Which disclosure is always required, even in Special Purpose Frameworks?

    A. Deferred taxes for all entities
    B. Earnings per share
    C. Functional expenses for nonprofits
    D. Segment reporting

3. When can a Special Purpose Framework be used appropriately?

    A. For public companies
    B. When the audit firm prefers it
    C. When there are international operations
    D. When there are no third-party users

4. What is true of omitting substantially all disclosures?

    A. All footnotes must be excluded
    B. Can be used if the client prefers
    C. Eliminates need for review procedures
    D. Forces disclosures to face of statements

5. What is a key challenge with QuickBooks outputs for disclosure?

    A. It auto-generates all required disclosures
    B. The layout is too advanced
    C. They are incompatible with tax reporting
    D. They lack embedded footnote disclosures

Continued on next page

6. When must revenue-related disclosures be made under SPF?

   A. Only for public entities
   B. Only under modified cash basis
   C. When revenue has material uncertainties
   D. When there are tax basis statements

7. Which of the following must be included when financial statements under a Special Purpose Framework present a statement of cash flows?

   A. Benchmark ratios for liquidity and solvency
   B. Classification of revenue by region
   C. Reconciliation of cash and restricted cash to the financial position
   D. Segment reporting by business unit

8. Under SSARS 25, what must be done before omitting substantially all disclosures?

   A. Confirm that management has requested the omission
   B. Document that the omission will not mislead users
   C. Ensure disclosures are replaced with industry commentary
   D. Submit an explanatory note to the state board of accountancy

9. What is the ideal percentage of time that should be allocated to the wrap-up phase in an efficient audit process?

   A. 10%
   B. 25%
   C. 30%
   D. 40%

10. What is the primary purpose of the auditor's evaluation of going concern?

    A. To confirm the presence of sufficient internal controls
    B. To ensure financial ratios are accurate
    C. To test payroll and cash flow accounts
    D. To verify management's assertion that no substantial doubt exists

Continued on next page

11. Which type of transaction is now considered a significant risk under the auditing standards and requires a customized audit approach?

    A. Inventory write-downs
    B. Related party transactions
    C. Sales to new customers
    D. Standard lease agreements

12. What is one of the most common deficiencies in peer reviews related to internal control evaluation?

    A. Failing to confirm client bank balances
    B. Failing to test design and operating effectiveness of management review controls
    C. Over-documenting low-risk areas
    D. Skipping sampling procedures on revenue

13. What is a common oversight by auditors when evaluating litigation, claims, and assessments?

    A. Determining if events result in modification of the audit report
    B. Including matters in the legal letter
    C. Reviewing both board and committee minutes
    D. Waiting until a finding arises to set a threshold for disclosure

14. Which of the following is required to ensure proper audit documentation formatting?

    A. A checklist of completed audit steps
    B. A summary signed by the audit manager
    C. Clear cross-references, audit objectives, procedures, and conclusions
    D. Inclusion of client-prepared schedules

15. Why are risks and uncertainties footnotes considered essential in financial statement disclosures?

    A. They help justify audit fees
    B. They highlight areas where the entity is vulnerable due to estimates or market conditions
    C. They replace the need for disclosures on fair value
    D. They serve as supplemental information only

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.**

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	|______|	|______|	|______|	|______|	|______|	|______|
Auditing Session	|______|	|______|	|______|	|______|	|______|	|______|

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

____

____

____

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

____

____

____

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

____

____

____

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):

	Overall	Knowledge of Topic	Presentation Skills
Accounting Speaker	|______|	|______|	|______|
Auditing Speaker	|______|	|______|	|______|

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:

______

______

Name/Company ______

Address ______

City/State/Zip ______

Email ______

Once Again, Thank You…

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®

CPE Group Attendance Sheet

Firm/Company Name: ______________________________

Account #: ______________________________

Location: ______________________________

Program Title: CPE Network Accounting and Auditing Report, June 2025 Date: __________

Name	Email	Total Hrs	IRS PTIN ID (if applicable Tax only)	Sign In	Sign Out

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

Instructor Name: ______________________________ Date: __________

E-mail address: ______________________________

License State and Number: ______________________________

CPLgrading@cerifi.com

CPE Network/Webinar Delivery Tracking Report

Course Title	
Course Date:	
Start Time:	
End Time:	
Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of 3 times per CPE hour. 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.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

			First CPE Hour			**CPE Hour 2**			**CPE Hour 3**			**CERIFI USE ONLY**
First Name	**Last Name**	**Student Email**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Certificate Issued?**

CHECKPOINT LEARNING NETWORK

CPE NETWORK®
USER GUIDE

REVISED June 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!

Copyrighted Materials

“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

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

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:

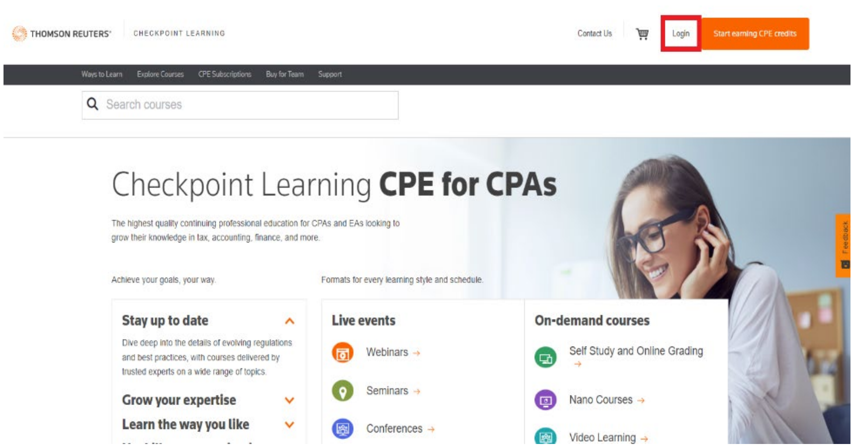
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

  CPLgrading@cerifi.com

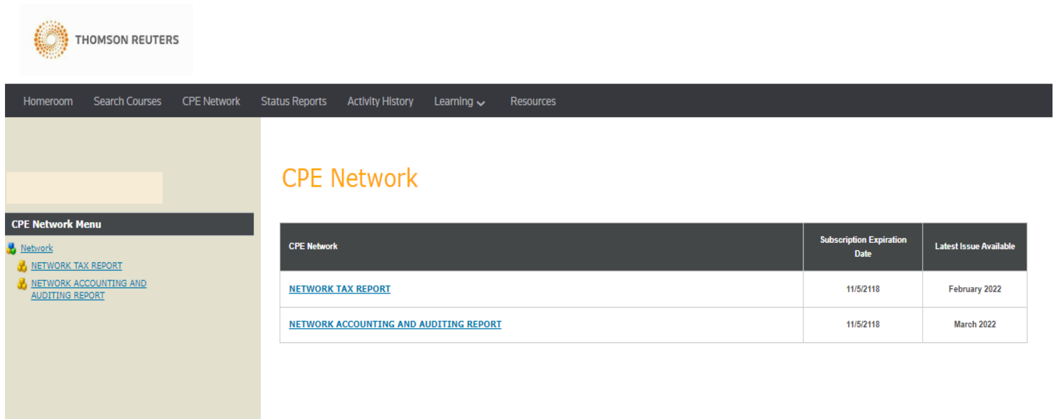
Self-Study—Online

Follow these simple steps to use the online program:

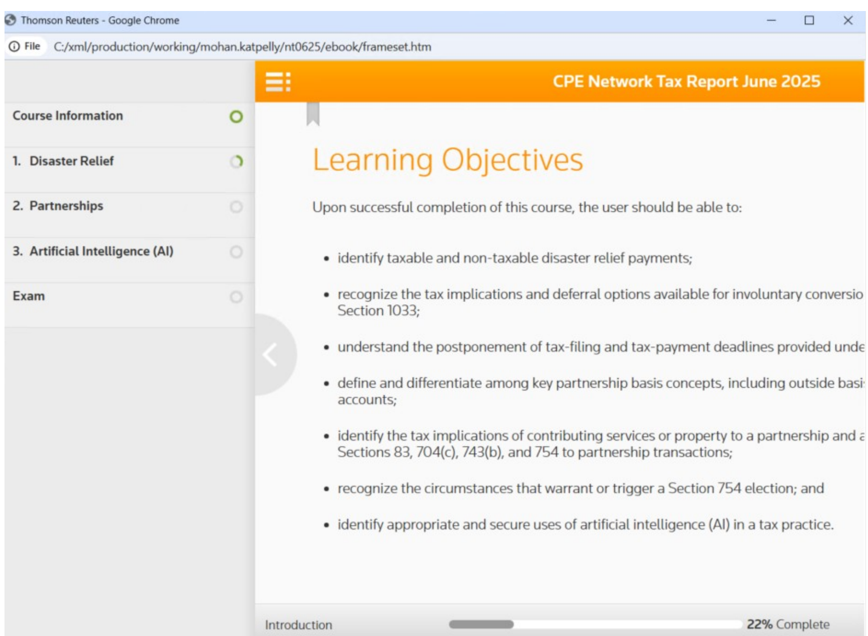
- Go to **https://checkpointlearning.com/**.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

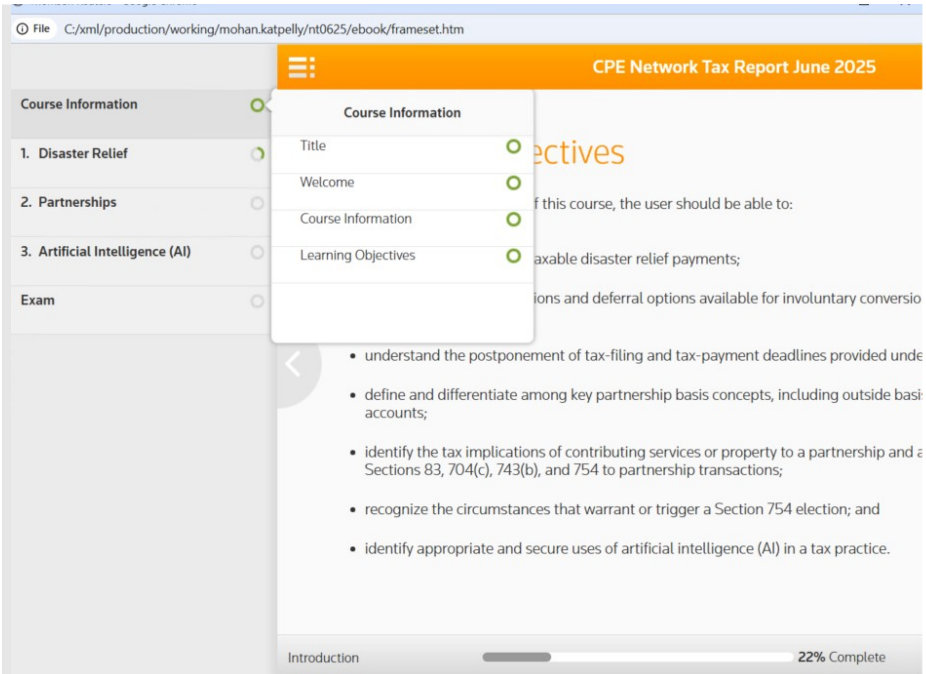


The Chapter Menu is in the gray bar at the left of your screen:

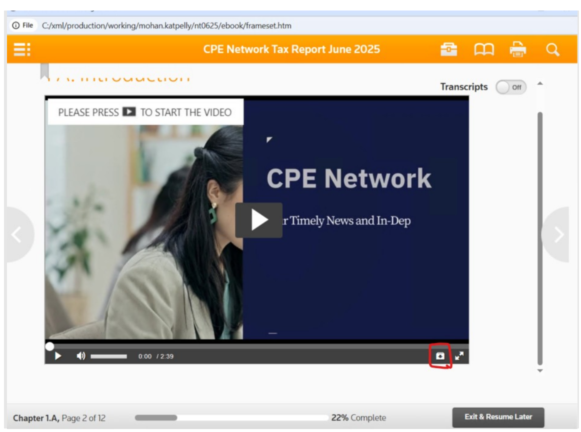


Click down to access the dropdown menu and move between the program Chapters.

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



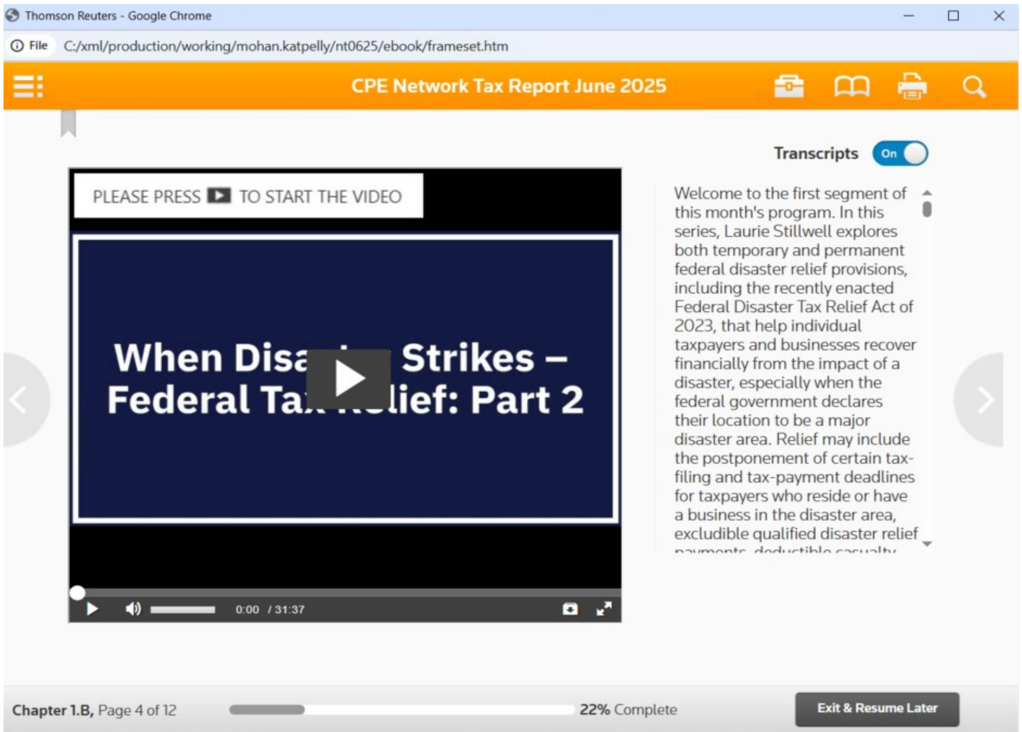
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access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



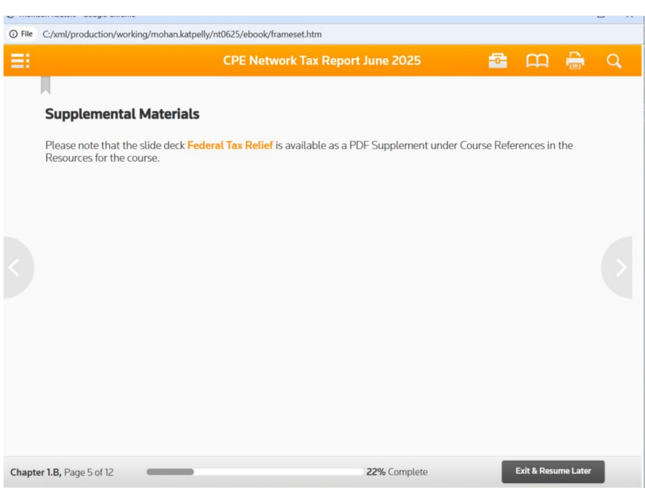
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.

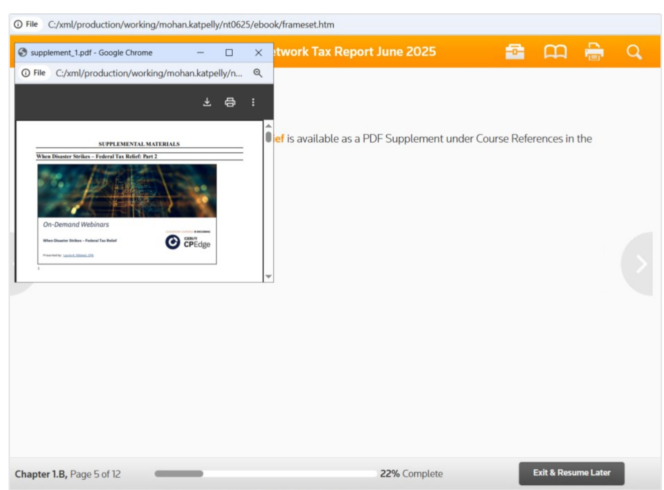
Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts**

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.

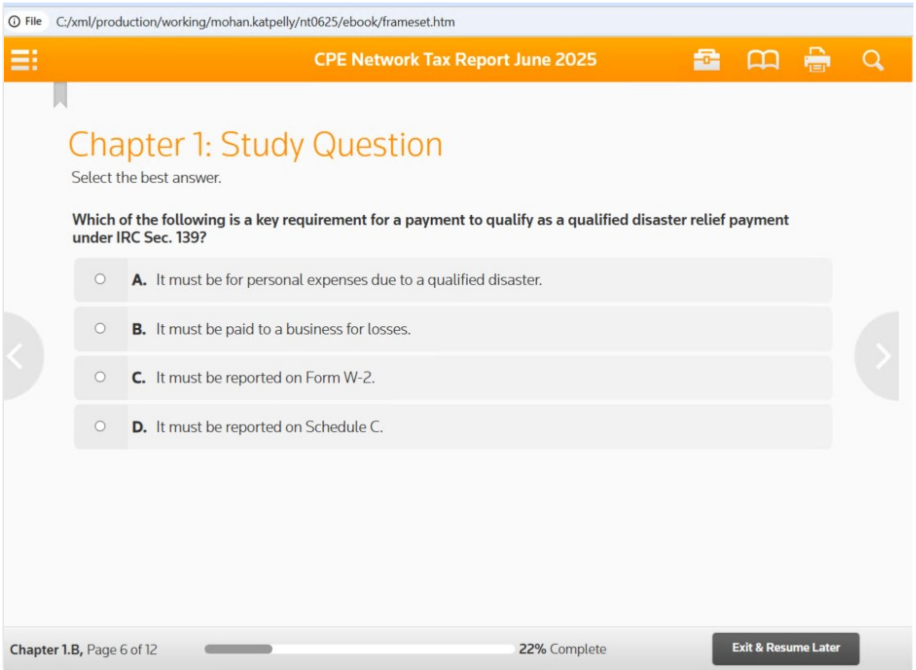


The supplemental materials are available via the toolbox and the link will pop up the pdf version in a separate window.



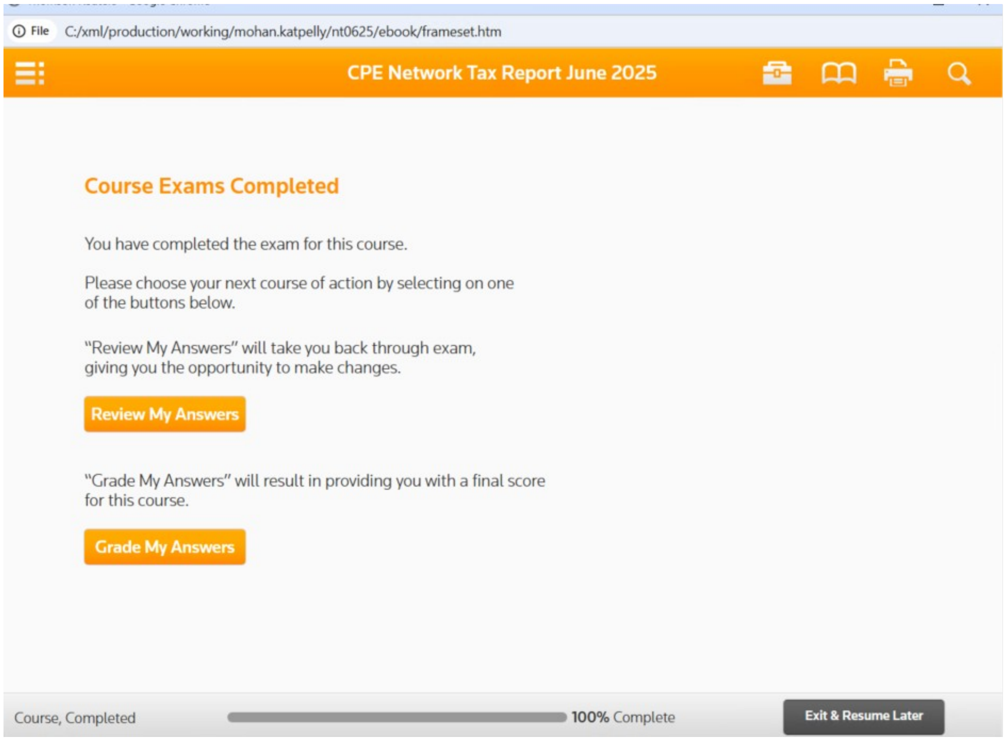


Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.



The **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.

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

Getting Help

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

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	844.245.5970	Cplsupport@cerifi.com	• Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	844.245.5970	Cplsupport@cerifi.com	• Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	844.245.5970	Cplsupport@cerifi.com	• Billing • Existing orders • Cancellations • Webinars • Certificates