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CPE NETWORK ACCOUNTING & AUDITING REPORT

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CERIFI

EXECUTIVE SUMMARY

PART 1. ACCOUNTING

A critical responsibility for accountants and auditors alike is the need to understand and properly account for subsequent events. In this session, Susan Longo, CPA, provides a comprehensive overview of the applicable gap requirements as well as audit and review procedures surrounding subsequent events. We'll explore these areas: the distinction between recognized and non-recognized subsequent events; the related accounting and disclosure obligations; and the impact these events can have on financial reporting. Special emphasis is placed on recent standards addressing the following: estimates; real-world examples illustrating key concepts; and auditor responsibilities for gathering sufficient appropriate evidence. Today's session will enable you to gain practical guidance to confidently navigate this complex and important area of financial reporting. *[Running Time: 40:02]*

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

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

PART 2. AUDITING

In this session, Susan Longo, CPA provides a comprehensive exploration of the significant changes introduced by SAS 134 to the auditor's report structure and language. Focusing on both unmodified and modified reports, we'll outline the redesigned format intended to enhance clarity, transparency, and usability for report users. We'll examine the sequencing of report sections, the new emphasis on highlighting key information early, the introduction of section headers, and the impact on the auditor's opinion of various client circumstances—such as GAAP departures, going concern issues, and scope limitations. Through detailed guidance and real-world examples, participants will gain a deep understanding of how to correctly structure and issue auditor reports under the revised standards. *[Running Time: 1:38:32]*

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

- Identify the structure of unmodified and modified auditors' reports as required by SAS No. 134
- Construct auditors' reports with multiple modifications
- Modify auditors' reports for special circumstances such as supplementary information, special purpose frameworks
- Determine when a report modification is appropriate and when an emphasis of matter section is appropriate

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.

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

Title of Course (Enter full title)	
Date of Class (MM/DD/YYYY)	
Time (Enter time of class)	
Location (Enter location of class)	

Learning Objectives (Refer to executive summary)	
Program Description (Refer to executive summary)	
Instructional delivery method	Group Live
Recommended CPE credit	3.0 Credits
Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	• Basic Accounting and Auditing professional experience
	• Basic Tax professional experience
	• Basic Governmental professional experience
Advance preparation	None required
Course registration and, where applicable, attendance requirements [1]	

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

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent Standards – Subsequent Events

Welcome, everyone, to our first session on the A&A portion of this month's program. A critical responsibility for accountants and auditors alike is the need to understand and properly account for subsequent events. Today's discussion provides a comprehensive overview of the applicable gap requirements as well as audit and review procedures surrounding subsequent events. We'll explore these areas: the distinction between recognized and non-recognized subsequent events; the related accounting and disclosure obligations; and the impact these events can have on financial reporting. Special emphasis is placed on recent standards addressing the following: estimates; real-world examples illustrating key concepts; and auditor responsibilities for gathering sufficient appropriate evidence. Today's session will enable you to gain practical guidance to confidently navigate this complex and important area of financial reporting. Now let's join our expert, Susan Longo, CPA, who will lead us as we explore today's accounting topic, Making Sense of Subsequent Events.

Ms. Longo

Hello, I'm Susan Longo. In this self-study course, we're going to talk about subsequent events. We're going to talk about them from the perspective of what are the GAAP rules, and what are the rules for the procedures to be applied in an audit and in a review engagement. So we're going to look at the recognized subsequent events and the non-recognized subsequent events. What do we do on the financial statement side and what do we do as an accountant or auditor.

So let's start with our GAAP rules. Let's first of all define what a subsequent events is. It's any event or transaction that occurs after the balance sheet but before the financial statements are either issued or available to be issued. There are two types of subsequent events, those that provide additional evidence about what existed at the date of the balance sheet, including estimates, and the second type is conditions that did not exist at the date but arose subsequent to the date of the financial statements. One are considered to be recognized subsequent events and the other non-recognized events. Now I want to address for just one minute to remind you that we do have a new auditing standard that deals with estimates, and in particular addresses the need for all estimates to be evaluated up to the report date. So what happens often is that the estimates are tested in whatever audit area or in whatever review inquiries and analytics occurs, and that's what they sort of put to bed, if you will. But we have a SAS requirement and now we also have a SSARS requirement that the estimates actually get evaluated up to the date that the financial statements are issued or available to be issued. So they are now a significant part of what occurs when we think about subsequent events are all of our significant estimates.

So with respect to estimates, this is applied to accounting and to disclosure, and it is sort of the global principle. There are other topics that discuss subsequent events, specifically, topics like income taxes, earnings per share, and gain contingencies actually provide some guidance for how we ever account for those things, but, you know, the basic topic, it provides our general principles.

So, what do we recognize? Well, the important thing is it is not just the narrative of, "This happened." It is that we have to summarize the effects. And in order to do that, we have to recognize that our evidence rules do apply, and evidence applies to presentation and disclosure. So we have to make sure that the effects are denoted and that we have the appropriate evidence to support that.

For non-recognized events we don't want to include them in the financial statement displays of balance sheet, income statement, statement of cash flows, but what we do is disclose. So the non-recognized are all of the issues with respect to disclosure. Now, in the case of non-disclosure, the issue, of course, is it didn't exist at the balance sheet date. And it is something after that point, up to the point where the financial statements are issued or available to be issued.

Also, financial statements can be reissued because there's some adjustment required by GAAP or regulatory requirements, and the subsequent events requirements apply to that reissue period. It does apply to that reissue period as well.

All right. So what do we mean by a non-recognized subsequent event? I think most would recognize that litigation is one of those cases. Litigation took place after the balance sheet date and we needed to discuss that. If there is some sort of disaster that occurred -- hurricane, flood, fire, or whatever -- and there was a loss of property or inventory. Now, if there is some change in the estimate, and the estimate may be credit losses, may be fair value, any kind of valuation estimate that significantly changes, we would need to have a disclosure. I think that's the one where people don't spend a lot of time thinking about it, by virtue of the fact that most people say, “Well, you know, it's just a sort of a market contraction at the moment and we don't need the disclosure.” And it is not so much that we're telling people that, you know, the market declined by 20% and that generates this amount of a loss, as it is to remind people that embedded in the disclosures of the financial statements is a risks and uncertainty statement with respect to investments, and here is a prime evidence of that at work. So any kind of estimates, any kind of change in the fair value, any kind of commitments and contingencies, and then, of course, anything that affects our equity. So it may be the sale of stock, it may be a business combination, it may be some sort of financing of that kind of an acquisition. All of those are disclosed but not required.

Now, if you are not an SEC, so we have private companies, you disclose both, the date through which the events were evaluated, and you have got to remember this has got to be through the report date and it's got to be matched up with the rep letter, and whether or not it is the date the financial statements were issued or they were available to be issued. One reminder, this is a footnote. It is not part of accounting policies. It does not belong as the last item in accounting policies. It is a separate footnote, and generally the last one.

Now the disclosure with respect to non-recognized subsequent events has to be with enough detail that all parties would understand what's actually happening. That means we need to fully describe the event and an estimate of the effect or a statement that such an estimate could not be made. And that is a very high threshold. The intent is not to say, “Well, we don't want to pay to spend the time doing that.” The intent is to basically say that the reason the estimate couldn't occur is that we don't have the information. Som in the case of litigation, it would be the fact that the litigation hadn't proceeded far enough along to be able to indicate what a potential settlement might be. But it's a high bar. So if there is a range for that settlement, then that would be the estimate disclosed. So the intent is not to eliminate the requirement. It is to be sure that there is some substance to the numbers but not necessarily a fixed-in-concrete value.

Sometimes it is appropriate to provide some pro forma financial data, and it would be, you know, as if it had occurred on the balance sheet date. You can, of course, include it as a footnote, but there's no reason why you couldn't put it in a columnar form. That would often occur when there was some major acquisition, or an acquisition that yields a business combination giving the reader an understanding of the effect. Now the same thing would happen on the divestiture. So here you have a company that has a subsidiary or an affiliated company, and now that post balance sheet has been divested, so therefore it's not just a case of saying, “Well, we've divested this subsidiary.” It is then a pro forma that would say, “Well, the balance sheet is going to change because of this.” So the investment is going to come off, and “Here's what's happening with equity. Here's what's happening with revenue and expenses.” So the intent is to create sort of a mini summarized set of financial statements so that everybody understands the effects of some major event that looks like that.

So if we were to revise the financial statements, then we disclose in the revised financial statements this new subsequent event state. Now the revised financial statements may be, you know, everything on the balance sheet, the income statement, and statement of cash flows, or it may be that there is a particular disclosure that has been revised. We identify the date for the subsequent events, and then we also carve out exactly what is covered by the revision. So it may be that you would say that the subsequent events with respect to this only covers the information in, for instance, this particular footnote and it doesn't cover everything else. So when you have revised financial statements, you can in fact carve out the extension of your subsequent events so that you don't wind up with a redo, if you will, of everything. However, you do have to remember that most financial statement accounts and audit areas are interrelated. So obviously if there was a revaluation of inventory, then you know that's going to ripple through a whole lot of other places in the financial statements. So it is making sure that when we carve out, we carve out all of the areas that are affected.

So, an interesting rule: if we have litigation, all right, and the events took place before the balance sheet date, but we are settled after the balance sheet date but before we issue the financial statements, and the liability recorded needs to be adjusted, then that is recognized in the financial statements. So that's one important exception. So here we have an ongoing piece of legislation -- litigation, an ongoing piece of litigation, and that litigation got settled after the fact and for an amount other than what was accrued in the financial statements. In that particular case, the accounting rule is, revise the liability that is on the financial statements.

Now when we have subsequent events that deal with the realization of assets, inventories, such as inventories, or investments, or property, plant, and equipment, and the impairment kinds of things, or the settlement of estimated liabilities, if they represent the culmination of what existed over a long period of time, they get recognized. So what's happening is, again, the events and transactions that developed the initial estimates are already in the financial statements. We just have a refinement of those estimates now, because now we have concluded the transaction. We have settled the liability. Those require recognition in the financial statements, not just disclosure. So two exceptions to our disclosure rule.

So, [it’s] probably best if we look at some of the examples of people that had to consider this as accountants and auditors, and what types of subsequent events were later included in the financial statements. So first of all, notice the disclosure rule. We have the date, and we indicate that this is when the financial statements are available to be issued. And what happens in this particular case is we have an entity that has a financing transaction that occurs related to the construction of a facility, and all of that detail is provided. And in fact, the detail is such that I need to be able to understand all of the requirements. In this particular financing arrangement, there's an investment fund and a community development entity that is involved in the participation of what is going on. And so then we identify all of the requirements of the loan and all the compliance requirements. So this one, particular subsequent events, you get to see the level of detail required. It's what's happening, why it is, and the effect on the financial statements.

As another example, we see this particular company again providing for us a knowledge of the date through which the evaluation occurred, and that the financial statements were available to be issued at this particular point. And in this case, we have Community Development Fund Revenues, three payments, period of time over which those payments occur, and then, in addition, this is the standard subsequent events that we all created when we encountered COVID for the first time.

Here's an example of how one would apply the rules, again with the appropriate date, and these statements are available for issue, and what's being discussed here is the decline in the value. And so in this case we had volatility in the financial markets. We have risks related to certain investment securities, and as of the date of April of 2022, which is before the subsequent events period, evaluation period ended, they have a lease agreement as well. Now, from our point of view, you know, it's best if you were to create better English than flow because those are, you know, clearly two separate and distinct events

and so one should be under the decline in the value of investments and the other should have its own sub. And notice, please, that for the second one, there is a reference to a financial statement effect for this subsequent event, the lease amendment.

We also see that there's a tax incentive award that allows an entity to monetize research and development tax credits, and there was a pledge to hire more employees. Another illustration, there's a cost-reduction program, and as part of it there is a workforce reduction, and so we detailed the restructuring and what the effect of that restructuring might be.

We have trade customers that might go into litigation and therefore we need to know what the effect is if we lose a customer. Now that particular customer went into liquidation because of a natural disaster. But it doesn't really matter. It is an understanding that the amounts owed will not be paid. Here, the company itself incurred a natural disaster or fire. And in this case, here's an example, they could not estimate the cost related to refurbishing and the temporary shift of production in excess of what would be the reimbursement expected. And primarily this would be justified by virtue of the date, 12/31 yearend. This happens on January the 10th. You're issuing financial statements within two months. But knowing how long that you will be in another facility, and what it will take to restore the original facility at the end of one month or two months, you do not know. This is a breach of a financial loan covenant. They got a waiver from the bank, and so subsequent to it the bank revised the debt covenant. Now we will tell you that more often than not, that particular disclosure is in the debt footnote. More often than not it's sitting there, when it should be in the subsequent events footnote. So it's not really appropriate to put it in the debt footnote.

Here's another one, a termination agreement under a license agreement, and what the parties have agreed to in terms of payments required under that agreement.

Another one, change in the corporate tax rate. So anytime that we have a new tax law, that has a substantial effect on any subsequent events. Here is an interim financial statement, that identified the acquisition of shares and they're awaiting regulatory approval. Here's another example of a debt covenant that is revised.

So in summary, types of subsequent events include antitrust legislation, changes in business combinations, sale of an investment, discontinued operations, a dividend, an income tax assessment. So any kind of tax regulatory action should be in a subsequent event. A foreclosure, a replacement of facilities, the sale of significant property, plant ,and equipment.

A business combination, changes in equity, anything related to borrowings.

So it can be the borrowing itself. It can be the establishment of a line of credit. It can be refinancing or changes in terms, or violations, anything related to borrowing, anything related to lending.

Any kind of litigation, the initiation of it, the process, and any change in the status of the litigation, and any settlements. The purchase, sale, lease of property is something that also ought to be included in a disclosure.

Agreements with a competitor. Changing the financial status of a major customer. Change in the market of investments. Death of an officer. Natural disasters, dividends. Loss of a customer, partner change, pension plan change, production suspension.

Purchase commitments, defective products, relocations, sales commitments, price changes, tax assessments, losses of inventory, losses on receivables, losses of insurance coverage, cyber-attacks. Don't forget that one. If you were hacked.

And any changes in laws or regulations, terms of major contracts, loss of a major contract, adverse trends, grant awards, shortages, and the effects of what's going on in the world. All of those things are things that we evaluate as to whether or not they meet the exceptions and therefore are recognized, or they are non-recognized and just disclosed.

So, if we are at the point of having identified what GAAP is requiring us to include in the financial statements, then the next question is, “What are the requirements for comps, reviews, and audits.” So first of all, we're going to start with our audit requirement. So, the responsibilities are for subsequent events and subsequently disclosed events. The first thing is to recognize that the financial statements are not developed with a boundary and not blinders on. So there are rollover accounts, and that requires that what we do is we also look at the predecessor. So the predecessor is responsible for the previously issued financial statements and the subsequent event on that period. The auditor's responsibility is between the date of the financial statements and the date of the report. So the predecessor does have responsibilities, so therefore there will be inquiries and procedures to determine exactly what the predecessor did with respect to subsequent events. So it is a requirement that the predecessor identify the period and identify the procedures that they performed as part of their subsequent events review, and the successor auditor has to document that information in the work papers.

Now, we need sufficient appropriate audit evidence with respect to these subsequent events, and the issue is to understand, “Do we need adjustment or disclosure?” So is it a recognized or a non-recognized event, and an understanding that the response may actually require a revision of our report. So if management doesn't provide the appropriate evidence and we can't apply the appropriate audit procedures, it constitutes a standard, every day, ordinary, scope limitation which requires a modification of our report, either a qualified or a disclaimer.So you are to perform those audit procedures that provide that evidence where there's an adjustment or a disclosure. You are not required to perform additional procedures on what was already provided in the audit evidence that you've documented in your work papers.

Now to do this, it's all about our risk assessment. It's all about risk assessment. So the first thing is we have to understand how management is ensuring that subsequent events have been identified. That will mean that you will have to look at internal controls. So you need to make sure that your internal control documentation specifically addresses all of the items that have to be addressed in subsequent events. So the internal controls, you have to look at the design, which is how management deals with it, and the implementation, and depending upon the significance of the audit area, it may include test of controls. It is appropriate that we also talk to those charged with governance because they may have the ultimate responsibility over the financial statements and therefore, they too would be involved in understanding subsequent events. Reading the minutes of meetings, including committee meetings, especially those held after the date of the financial statements, and we would look at all subsequent interim financial statements, monthly and quarterly.

Now, if the auditor identifies subsequent events, the issue is, “Are they reflected in the financial statements as required by the applicable financial reporting framework?” And it's different if you are in the GAAP world versus if you are in the special purpose framework. So are you in the GAAP world or not?

So, some of the things that would be required, understanding management's procedures and the inquiry of management and those charged. It is important that you recognize that there has to be separate evidence with respect to estimates all the way up to the report date. And this is an area that has not traditionally been included in subsequent events. At best, if the entity had investments, you got some subsequent broker-dealer reports. You didn't do much with them, but you might have had them. But this talks about all estimates. So, the credit losses, the inventories, the property, you just work your way down all of the balance sheet items. And then you look at all the income statement items as well, the revenue, the key expenses, all estimates. And please remember that we are now required a separate risk assessment on estimates, a separate inherent risk and a separate control risk on estimates, and therefore that risk assessment is going to drive the procedures you perform subsequent to the balance sheet date. With respect to the lawyer's letter, this is a warning. You may at times have to customize that lawyer's letter. I would say that 99.999% of lawyers’ letters are not customized. They're just cut, paste, and assemble. And when it comes to subsequent events, we need to be much more specific to get a response from the attorney. With respect to management letter, we do have a paragraph that deals with subsequent events. Just remember it doesn't provide you any evidence, so the response in the management letter, the rep letter, has to be supported by our workpapers. You can look at all the minutes of all the meetings subsequent to the date, look at all the internal financial reports, you can look at all the journals and ledgers, and you can look at impairments.

[There] should be a lot of inquiries, things that would normally, events and circumstances that would normally generate subsequent events: anything related to commitments and borrowings, anything related to acquisitions and dispositions of assets, an issuance of debt and equity, plans and agreements, natural disasters, contingencies, accounting adjustments, anything that deals with going concern or the measurement of estimates, related parties, unusual transactions, all of those things.

And so the idea is, “Has management identified them and what has management done in order to understand the effects of the financial statements?” We need to have the appropriate, sufficient appropriate audit evidence to understand whether we adjust or disclose. Now, if the subsequent event is not appropriately accounted for or disclosed, “or disclosed,” then it requires the modification of the report. So we don't have a lot of wiggle room.

The written representations are, again, a way of management acknowledging the requirements.

And that is a quick event, overview of subsequent events, the GAAP rules and the audit rules.

Did You Know? Making Sense of Recent Standards – Subsequent Events

by Susan Longo, CPA

There are no supplemental materials for this segment. Go to the next page for discussion questions.

GROUP STUDY MATERIALS

A. Discussion Questions

1. What is an example of a recognized subsequent event under GAAP?

2. What is a reason to revise financial statements for a subsequent event?

3. Why might auditors need to customize lawyer's letters regarding subsequent events?

B. Suggested Answers to Discussion Questions

1. What is an example of a recognized subsequent event under GAAP?

   ANSWER: A recognized subsequent event under Generally Accepted Accounting Principles (GAAP) is an event that provides additional evidence about conditions that existed at the balance sheet date. These events are significant because they refine or confirm estimates or situations already reflected in the financial statements as of the reporting date.

   One key example of a recognized subsequent event is the settlement of litigation that was pending as of the balance sheet date.

   If a company had an ongoing lawsuit at year-end and the lawsuit was settled after year-end but before the financial statements were issued (or available to be issued), the settlement provides critical evidence about the company's liability as of the balance sheet date.

   In this case, the amount of the settlement would be used to adjust the previously recorded liability to reflect the new information.

   This ensures the financial statements properly represent the company's financial position as of the balance sheet date.

   The key characteristic of recognized subsequent events is that the underlying condition (such as the existence of the lawsuit) existed at the balance sheet date, and the event after year-end simply clarifies or quantifies that preexisting condition.

   Important Context from GAAP:

   Definition: A recognized subsequent event relates to situations existing at the balance sheet date, and new information received after the balance sheet date but before the financial statements are issued must be incorporated into the financials.

   Recognition: GAAP requires adjustment to the amounts recognized in the financial statements to reflect the impact of such subsequent events.

   Examples include:

   Settlement of pre-existing litigation.

   Finalization of an estimate related to impairment, warranty liabilities, or other significant accruals.

   Realization of an asset or settlement of a liability that provides more certainty regarding amounts already reflected in the accounts.

   Summary:

   Settlement of litigation that existed at the balance sheet date is a classic example of a recognized subsequent event. It reflects a situation where the event (the lawsuit) was already in progress as of the reporting date, and the subsequent settlement simply finalizes the conditions requiring adjustment of the previously estimated amounts.

2. What is a reason to revise financial statements for a subsequent event?

   ANSWER: A reason to revise financial statements for a subsequent event under GAAP arises when the subsequent event provides additional evidence about conditions that existed at the balance sheet date and requires adjustment to the amounts reported in the original financial statements.

A primary example is the impairment of an asset finalized after year-end.

- Suppose an asset's fair value or recoverable amount was uncertain at year-end due to market conditions or other factors, but shortly after year-end, additional information becomes available (such as a finalized sales price or a confirmed impairment indicator).
- If this new information confirms that the asset was impaired at the balance sheet date, GAAP requires the company to adjust (revise) the financial statements accordingly, reflecting the impairment.
- This ensures the financial statements present an accurate and faithful representation of the company's financial position as of the balance sheet date.

Important Characteristics of Such a Revision:

- Condition existed as of the balance sheet date: The key point is that the condition (e.g., the asset's impaired value) was already in place; the subsequent event merely clarified or quantified it.
- Requirement to Adjust, Not Just Disclose: When the event confirms a prior condition, GAAP requires adjusting the financial statements, not merely adding a footnote.
- Objective: Ensure the financial statements do not misstate assets, liabilities, or results of operations based on hindsight evidence that validates prior assumptions or estimates.

Contrast with Non-Revision Events:

Not all subsequent events trigger a revision:

- Changes in financial markets affecting future operations — These represent new conditions and are disclosed only.
- Announcement of a merger—This is a significant event but typically only disclosed, unless underlying conditions existed at year-end.
- Unrelated litigation initiated after year-end—New litigation unrelated to year-end conditions is disclosed, not recognized or revised.

Summary:

A reason to revise financial statements for a subsequent event is when new information after year-end provides evidence about a condition that already existed at the balance sheet date, such as the finalization of an asset impairment.
GAAP requires that financial statements be adjusted to reflect this updated and confirmed information, maintaining the integrity and accuracy of the financial reporting.

3. Why might auditors need to customize lawyer's letters regarding subsequent events?

ANSWER: Auditors may need to customize lawyer's letters regarding subsequent events because generic templates may omit critical details about specific litigation matters or contingencies that are crucial for an accurate audit assessment.

In particular:

- Standard lawyer's letter templates are often boilerplate documents that do not address the nuances of significant subsequent events impacting the client's financial statements.
- If the lawyer's response is too general, it may fail to provide the specific evidence auditors need to evaluate the financial implications of subsequent events, particularly those requiring recognition or disclosure under GAAP.

- Tailoring the request ensures that the lawyer addresses specific pending or threatened litigation, regulatory matters, or settlements that have developed or been finalized after the balance sheet date but before the issuance of financial statements.
- Customized inquiries enhance the reliability of the legal confirmation and support the auditor's opinion regarding the completeness and appropriateness of disclosures or adjustments for subsequent events.

Key Points Supporting Customization:

- Event Specificity:
  Auditors must obtain information about specific cases and not just rely on broad legal generalizations. Tailoring helps focus the lawyer's response on matters that have accounting significance.
- Risk Mitigation:
  Customized letters help auditors meet their responsibilities under AU-C Section 560 (Subsequent Events), ensuring sufficient appropriate audit evidence is obtained.
- Estimate Confirmation:
  Many subsequent events involve finalization of estimates (such as litigation settlements), and auditors must confirm these developments with precise legal feedback.

Summary:

Auditors customize lawyer's letters regarding subsequent events to ensure litigation and contingencies are adequately and specifically addressed, because generic templates may omit important details. This targeted approach strengthens the quality of the audit evidence and supports proper financial statement recognition or disclosure related to subsequent events.

PART 2. AUDITING

Auditors' Report: A Review of Reporting Choices

Welcome to the second and final program session of the A&A portion of this month's program. In this session, we'll provide a comprehensive exploration of the significant changes introduced by SAS 134 to the auditor's report structure and language. Focusing on both unmodified and modified reports, we'll outline the redesigned format intended to enhance clarity, transparency, and usability for report users. We'll examine the sequencing of report sections, the new emphasis on highlighting key information early, the introduction of section headers, and the impact on the auditor's opinion of various client circumstances—such as GAAP departures, going concern issues, and scope limitations. Through detailed guidance and real-world examples, participants will gain a deep understanding of how to correctly structure and issue auditor reports under the revised standards. Now let's join Susan Longo, CPA, once more as we delve into the auditor's report.

Ms. Longo

Hello, I'm Susan Longo. This particular webinar is going to discuss the new auditors report found in SAS 134. We're going to talk about the structure of the various components of that report. We're going to talk about an unmodified report and we're going to illustrate a lot of different modifications and how we might stack multiple modifications should that client circumstance require that.

So let's start with unmodified reports and the basic structure of the of the report there. This particular series of slides is designed to actually outline all the aspects of the report and to identify the requirements of each of the sections. And we might get the vocabulary right to the very beginning. We don't have paragraphs anymore in a report. We have sections. Some sections may have one paragraph and some sections may have multiple paragraphs, but we will have sections and not paragraphs. So the basic report and the changes that are included in it were directly a response from the marketplace. A number of things. First of all, we all know that we get all kinds of notifications electronically on our phones and tablets and everything else. And we tend to look at those very quickly and respond to what I call the headlines, the first line of whatever it is. And if it looks interesting, we'll do a couple of more clicks to figure out what that is. The old auditor's report was did not accommodate that. It was just sort of stream of consciousness, kind of one paragraph after a paragraph after a paragraph. We really didn't know what was there until we got all the way done. In journalism, when you're going to use those headlines, the rule is don't bury the lead. So you put the most important things first in order to entice people to read the rest of it. And so the old auditors report, again, not accommodating that because it was the last paragraph that says in our opinion. And so by restructuring the report so that the opinion paragraph comes first, we accommodate much more of the current mode of information search. Auditors reports are filed. They're filed in all kinds of electronic formats. And that means that they need to be able to be busted apart in the component pieces or database. And that's why we don't have paragraphs anymore. We have sections and section headers in order to be able to utilize different sections of the report. So for all of those reasons, the Auditing Standards Board opted to restructure the report and to do so in the following order. So first of all, we do have to have a title and the title depends upon whether we are in the PCAOB world or not. But for most, it would be an independent auditor. The addressee is those charged with governance. Please be careful. We do mean those charged with governance. It does not mean the executive director. It does not mean the HR function in an employee benefit plan. It sometimes doesn't even mean the CEO. Those charged with governance is the board. And so we have to be careful that we have the right addressee. You will know if you have the right addressee when you look at the engagement letter and the Rep letter, and they better equal what you've got on the report. The first section is the opinion section. It hasn't a header. It will say opinion or opinion on the financial statements and it will change depending upon the type of opinion. So if it is an unmodified opinion, it will just say opinion, but if it's qualified then it'll say qualified. If it's adverse, it'll say adverse and if it's a disclaimer, it will say a disclaimer. The opinion section is made-up of two paragraphs. The 1st is our work product and the 2nd is our opinion. The first paragraph will identify the name of the entity, the title of financial statements, the fact that we have footnotes, the fact that the statements were audited, the financial reporting framework, the date and period covered. The second, the opinion paragraph, the wording has not changed, that was vetted, it has been in use for a long time, it is withstood legal challenges and it is well accepted and known. That piece is the one piece that remains stable in the report. Immediately following, immediately following the opinion section has to be the basis of opinion section. They must follow one after the other. It too has a header. It identifies that the audits were conducted in accordance with generally accepted auditing standards in the United States. It refers to the auditor's responsibility section, It identifies compliance with ethical responsibilities, including independence. And it says that the basis for our opinion is audit evidence that is both sufficient and appropriate.

What happens next is the function of #1 whether you are in the PCAOB world and #2 whether there are requirements based upon client circumstance. So the first is key audit matters. They are considered to be by professional judgment, selected communications to those charged with governance that need to be publicly acknowledged. The key audit matters is what the AICPA designates these items. The critical audit matters is what is considered to be the language for the PCAOB. The section will have a header. There will be multiple paragraphs in that section. If you are in the PCAOB world, critical audit matters are a requirement. If you are in the AICPA world, a non-public entity by and large does not include key audit matters. However, you may be engaged by the client to provide those in which pace they would be included.

Now what we have for key audit matters or critical audit matters are things that deal with significant risks, areas where there is significant judgment on the part of either the client or the auditor, significant events or transactions that have high impact on the financial statements. And for each we will talk about what they are, what the effect was on the financial statements and how the issue was addressed in the audit. If there are no key audit matters to be communicated, then we indicate that is the case. So we don't delete that section. But again, key audit matters only when you are engaged to provide them.

Now, what happens next is extremely important in the following order. In the following order we have going concern, we have emphasis of matter, and we have other matters. Going concern is addressed in this report not once, not twice, but three times. Two of those are required. One only occurs when events and circumstances raise substantial doubt. So key audit matters would make a reference. We would follow it up with a further explanation in the Going Concern section. Emphasis of matter will have its own header. The header will always be a title, a subject title. It will never say emphasis of matter. The header will never say emphasis of matter. It will have a subject title such as litigation, subsequent events, a GAAP departure. It will have a subject title. It can include any kind of uncertainties. It can include a significant related party transactions. The key to emphasis of matter is everything is related to a financial statement disclosure. It can be face or it can be footnote, but it is directly related to something that's going on in the financial statement. Other matters are a separate section and it's anything relevant for the user. Generally the other matters deal with the report. Examples would be this is the first year you're providing the audit services and there was a predecessor who issued a report so that there would be a paragraph that would indicate that the prior year was audited by and here is the report, it was issued on this date. If there were any modifications or special footnotes of note, we would indicate that. Or we had a predecessor and as a result of our audit we made certain modifications, corrections to that predecessor's report. So the financial statements as reported. So these numbers, we're now going to show something else and you can find an explanation for that in footnote X. It may be that last year was a review and this year is an audit. So they're generally things that that deal with the reports or if you will, anything else that we think is relevant to the user. So opinion section, basis of opinion section, key audit matters, then, in order, going concern, emphasis the matter, and other matters.

Once we've completed that and the next section is the management responsibility section. It has a header. It talks about the presentation and preparation of the financial statements in accordance with the appropriate the applicable financial reporting framework. Talks about the design and implementation of internal controls. Reference the fact that management has evaluated going concern. That is immediately followed by the auditor's responsibility section. That section has three parts to it. An opening paragraph that talks about the objectives of the audit, defines reasonable assurance, defines risk assessment, defines materiality. The second paragraph is a series of bullet points indicating what do we mean by an audit conducted under generally accepted auditing standards, professional judgment and professional skepticism, risk assessment, the evaluation of internal controls, the evaluation of accounting policies, accounting estimates and disclosures, the evaluation of the overall presentation, the financial statements, and the evaluation of going concern. And then the third paragraph is the required communication with those charged with governance.

Following the auditor's responsibilities are three extra sections: required supplemental information, supplementary information, and other information, in that order. Each section has a header, each section identifies the information, each section identifies the procedures performed, and each section either indicates that there is an opinion or indicates there is not.

There is a part 2 and a part 1, so part one is the report on the financial statements, part 2 is any other reporting responsibilities. The primary example of that is reporting on compliance and controls under government auditing standards. There is a signature of the firm that differs again, depending upon the auditing standards under which the report is issued. There is an indication of where the report was issued, city and state. Again, if you have the appropriate stationary, you might not need to do that as long as that has been indicated as part of the header, if you will, and then there's a date. Now the dating, the auditing standards really did hit hard on auditors are not creating the appropriate date. The date is when you have sufficient appropriate evidence. And we will tell you that we have dates that still are closely tied to when people have been doing field work. So let me tell you, when you don't have a date. You do not have a report date if the signing partner has not reviewed all of the work papers and completed the appropriate supervision and review. You do not have a date if significant work papers have not been completed. You do not have a date if the disclosure checklist has not been completed. And you do not have a date if the client has not approved the draft of the financial statements. A separate approval, not one where gets the report and the rep letter and there's an exchange that goes on. It is a separate evaluation that must be done of the draft. So we need to be sure that you read that section of the standards and you really do practically understand what it means to have the appropriate report date. There are some significant changes to other auditing standards that are clearly tied to this report date. So again, rep letters have to be coordinated to this report date. But for instance, our standard on accounting estimates now require subsequent events to apply to all significant accounting estimates up to the report date. So this report date becomes critical in looking at all of the new auditing standards of 134 through 149.

So here is a standard report and an opportunity to look at in highlighted form what has actually changed from what we had been doing before. So you can clearly see that we now have section headers where before we did not. You can clearly see that the opinion and basis of opinion sections flow one directly into the other. We have our title, we have the appropriate addressee, and we have part one, which is the report on the financial statements. Please note, if you will, that the AICPA prefers particular formatting, that we have larger fonts, that we have some fonts in bold, some fonts bold and italics. And that is to draw the eye as well as the mind through the various subsections of the report. With respect to the Opinion, 2 paragraphs, one workflow and one the wording of the opinion. And as we said, that wording did not change. The basis of opinion. We've always said that we were operating under generally accepted auditing standards. That didn't change. What did change was references to the auditor's responsibility section, rather than trying to detail that under the basis of opinion. Most importantly, we now have a positive assure assertion. We have a positive assertion that we are independent and we have met our ethical responsibilities. This is not a simple wording change. This has major implications and we need to remind all of you of those implications because sometimes I think people have a fairly laissez-faire attitude toward are we independent or not. It's a small client. The controller isn't real good. I'm going to do 186 adjusting journal entries, but I'm still independent, even though I have drafted everything in the financial statements. Well, you may not get there if you really do the evaluation. So let's remind everybody. We signed a contract. That contract is our engagement letter. The contract is the engagement letter. Now that engagement letter, it said that we were independent and we met our ethical responsibilities, clearly in the contract. Our report is the deliverable under that contract. We say we are independent in the engagement letter and now we're saying independent in the report. If you are not independent, yes, it is an ethical violation, and yes, it could be a license problem, but it is a contract violation, and that means you are subject to civil and criminal suit, you are subject to a lawsuit. So this should, you know, be a word of caution that when you say you are independent, you can really satisfy the independence requirements as well as any other ethical requirements. So be very careful about that.

Now with respect to the management responsibilities section, the new paragraph that says management is required to evaluate going concern. Management is making an assertion and we are evaluating that assertion no differently than the assertion of collectibility of receivables or the valuation of investments or inventory. This is a reminder to management, to the auditor, and to the users. Management is required to evaluate. Auditors, if management doesn't evaluate, this standard gives you no option. If management doesn't evaluate, you are required to issue a modified report. Not a emphasis a matter, not a management letter comment, a modified report. Auditors are reminded that the evaluation is based upon what evidence management has provided and it must meet our standard of sufficient appropriate audit evidence. The users have assurance that both management and the auditor have done their jobs and they have also identified the time period and the financial reporting framework. Please remember it doesn't matter if you're using a special purpose framework. Auditing standards require an evaluation of going concern.

With respect to the auditors responsibility section, it's all about defining reasonable assurance and defining our risk assessment. We do expand our definition of fraud to make sure people understand the risks related to fraud. And we embed in the financial statements the definition of materiality as issued by the FASB and adopted by the AICPA. So the FASB came out in August of 2018 with the definition and the AICPA in SAS 138 adopted that definition.

Then we determine that we need to disclose what we mean by generally accepted auditing standards and in bullet point format we provide that information. Professional judgement and professional skepticism. Identifying, assessing, and responding to risks. Understanding internal controls but not expressing an opinion thereon. The appropriateness of accounting policies. Reasonable list of accounting estimates and the overall presentation of the financial statements. And then an evaluation of going concerned. This evaluation is a test of a management assertion. It is not our own opinion. It is a test of a management assertion.

Then there is the required communication about the scope of the audit, the significant audit findings, and internal control related matters. Part 2 is other regulatory reporting requirements. That is your yellow book report, for instance. Then we sign it, we identify where it was issued, and we date it. So the items in, in, in gold are the major changes.

So having looked at that basic structure, what we want to identify now is other instances when the report itself might not look like that, and we want to start with when they may not have a period that looks like the standard fiscal period.

So sometimes the period is less than 12 months and sometimes the period is more than 12 months. The period may or may not end on the fiscal year end, but the wording is going to be the same and what you need to do is clearly indicate the period covered. Now the period may be different, but it also may relate to the fact that what you have is actually an initial audit. So when the business actually started may be reflected in the language that we utilized in the report. So we may have an annual period ending December 31, but you begin operations in November and so instead of doing a two-month period, you actually do a 14 month period. All of that would be reflected. Now as we go through a lot of these examples, what I'm going to try to do is two things. One, give you the basic principles that are included in the standard. What is it that we have to do? And then show you lots of examples of how that might happen. A word to the wise, you can get overwhelmed by all the possibilities and you can certainly spend a lot of time engagement by engagement coming up with answers to this. Generally what I would say is that for most practices there's probably two dozen or less in terms of audit reports that you issue during the course of the year. So what ought to happen is there ought to be reporting templates that have been vetted by your QC department that are on your firm's intranet. So that when we need to draft a report, you're going to go out under the intranet and find them as opposed to starting from scratch to create your report or to draft from some other example. So you need a repository of report examples. In order to generate that repository and to make sure that you have in fact crafted something correctly, there are lots of technical guidance out there, audit report guides, that are very useful to acquire, and they have dozens of examples. Now the standard itself did a pretty good job of giving you examples, but you know, obviously not 300 or more of them. So wherever you can acquire that, it is useful to get an auditor's report guide to give you lots of examples. But what I'm going to do is summarize the rules and then provide some of those examples as we go through the materials.

So here's an interim that is less than 12 months. And what we do to modify the report is merely insert in the first paragraph of the opinion section the number of months as it relates to the statements of income, retained earnings, and cash flows. Not applicable for the balance sheet because that's as of a particular date. So it's the flow statements that need to identify the number of months. The opinion paragraph will also need to be modified with the number of months.

When we have an initial accounting period, we can issue an unmodified report. But what the introductory paragraph says is that we have a period from inception. Just a reminder, a technical reminder, and that is we often limit our reporting package to a balance sheet, income statement, and statement of cash flows. But a statement of stockholders' equity would be a requirement in that initial accounting, by virtue of the fact that there would be changes from day one in that equity section. The opinion paragraph would also have to change. The opinion paragraph would indicate for the period then ended. So two language changes in the introductory paragraph and in the opinion paragraph, and we can illustrate.

So we've audited the balance sheet as of a date. Income, stockholders' equity, cash flows, from inception to the end of the fiscal. So that's change one. And then in the opinion it is the results of operations and cash flows for the initial period then ended. So the rule followed by an example.

Now we may not always stick with the fiscal period as it was originally designed when we founded the entity. As an example, more and more nonprofit organizations moving from 6/30 year ends to 12/31. The 6/30 was a convention that was adopted because of workload compression. That is, CPA firms have a lot to do between January and June and they don't have a lot to do between July and December. And so we moved things to the second-half of the year in order to space out the workload and of course the billings. It was also because a lot of nonprofits were in the educational space and in the government kind of space and those tended to be 6/30 year ends. However, 6/30 doesn't match often times the donor patterns and service patterns. And so a lot of nonprofits moving to a 12/31, which also makes administration a whole lot easier for things like payroll and that sort of thing.

So when there's a change in the fiscal year, first of all, make sure that there's an appropriate disclosure. If the disclosure is not in accordance with the GAAP requirements, that would result in a modified opinion. So if it's not disclosed or if the disclosure is inadequate, then we would have a GAAP disclosure departure. Now when comparative statements are presented, the short year statements can be sitting next to the full fiscal period. And all you're going to do is appropriately caption the column headings. That's all you need to do. Now the report will say for the period then ended, and that will be in the introductory as well as in the opinion paragraph. An emphasis of matter for a change in fiscal year is not a requirement of the audit standards. But as I said, a modification would occur if we don't have adequate disclosures.

So here's an example. We have a balance sheet. The current year is 12/31, preceding was June 30th. So what it does is it lets the reader look at it and go, oh well, we've only got six months going on. And if you have done that correctly, then down here December 31 and June 30th, and then you see the modification, which is 6 months and 12 months then ended. So the reader should have been able to do the math, but if they didn't, we make sure that there's no doubt in anybody's mind. It's total transparency that in fact we have a one year presentation for one column and six months for the other.

So, those are not considered to be modifications to the report. They are just adjustments to the opinion by virtue of particular dating that might be information that the reader might want to have. And so that is the purpose behind those. When it comes to modifications, however, now we're looking at something very different. So, what we have to identify is whether or not the modifications result in a change in the opinion or they result in an emphasis of matter section. There was always a conundrum under the old reporting, which was if I said anything different in terms of adding paragraphs, when did I have to change my opinion, and did the paragraph go before or after the opinion paragraph? So if I was going to make a modification, when did it change the opinion and where did I place that paragraph, before or after the opinion? So this structure eliminates that conundrum. If you're going to modify the opinion, then in fact the first two sections, the opinion section and the basis of opinion section, they're going to change. Anything after that point is additional modifications, like key audit matters, going concern, emphasis of matter, other matters. And you may say the opinion wasn't modified for this issue by virtue of the fact that it comes after the opinion. And if you wanted to modify the opinion, you would already have done so. So let's look at some of those modifications.

The first are the GAAP departures. The information should be part of the financial statements. The information should be as management has prepared those financial statements. Now, the information must therefore correspond to what the requirements are in our GAAP standards. So we have two types of departures from GAAP, a measurement departure and a disclosure departure. We'll tell you that in either case there's pretty much of a formula as to how you write the disclosure. You will always reference the footnote where all the bells and whistles, the details of the circumstance, will be outlined. So what you need in the report is a brief description followed by an understanding of the effects on the financial statements. Now, a comment about the effects on the financial statements, the client as management and you as the auditor. No GAAP standards. It is not appropriate to say the effect has not been determined. You could do that if you were doing an emphasis of matter on a new standard that has not yet been implemented. But for GAAP standards that have been implemented, you are the GAAP guru. So stating that the effects on the financial statements have not been determined is not appropriate. If you say it was impracticable, you have to state why, and the why is not because the client didn't want to do it, or you didn't want to do it because the client wouldn't pay the bill. There's only two reasons why something is not practicable. Only two reasons. One is the information to make that determination is not available. Now, be careful. If you say that and you're talking about information related to the current period, that will automatically mean you need a scope limitation. That means you couldn't get a enough significant appropriate audit evidence. So be careful. You don't want to go down that track. The second is that the information was related to decisions made by management in prior periods, which is no longer available. Again, caution you, for your small clients, what you're actually saying is no member of management, no owners, that weren't present when that transaction occurs are available for consultation. They're not around. We don't get that many changes. And the other is that the information in hard copy form or electronic form doesn't exist anymore. Did you have a major warehouse fire and everything was burned to the ground? So when we talk about not practical, it doesn't mean that we don't want to go through the effort to figure it out. It means we literally don't have the information available. But be very careful as you say that because in all in circumstances, you're going to have to evaluate whether or not you have a scope limitation. That's a measurement departure.

Now, we can have disclosure departures, something required by GAAP was omitted. So let's go back to our going concern issue and that is there were events and circumstances, there were those, you know, negative trends that are listed in the GAAP requirement and management worked hard and mitigated those. And so we don't have substantial doubt. Management says since we don't have substantial doubt, I don't want any disclosures. We fixed the problem. We don't need the footnote. Well, GAAP requires the footnote. It means you're going to have two paragraphs in the footnote, not three. Three would be, first paragraph, substantial doubt, second paragraph, events and conditions, third paragraph, management's plans. But the disclosure would be required. Management doesn't want it. That's a GAAP departure. It could be that the disclosures were not presented in accordance with GAAP. You're required to have fair value disclosures and you don't. You kept it a cost basis. The information required by GAAP is not there. The statement of cash flows or the statement of comprehensive income has been omitted. The modification will explain what has been misstated, what has been omitted, and whether or not this is affecting the scope of our audit procedures. So again, whether it is a measurement departure or a disclosure departure, you have to marry the emphasis of matter with an understanding that there also might be a modification of the opinion by virtue of the fact that we have a scope limitation.

So, let's illustrate the various types of things and try to create an understanding of two things. One, the structure of how it shows up in the report, and the other is the decision making that went on as a result of it. So, in this particular case, the opinion has been modified. It's a qualified opinion. So notice when we have a qualified opinion, the section header changes, the basis of opinion section changes. So therefore, in the opinion paragraph, the reference to that section also has to change. Now, under the basis of opinion, what we have is a description of what has happened. So accounting principles require that inventories be stated at lower of cost and net realizable value. And here's the effect if they had done what they were supposed to do, because they opted to do it at cost. Now, we have to look at the second paragraph which indicates that we're fine because we have sufficient appropriate audit evidence to base our qualified opinion. So notice that when we've done this, we will have to indicate it's not the basis for our audit opinion, it's the basis for our qualified audit opinion.

Now here's another basis for a qualified opinion where you're unable to obtain statements with regard to the value of an investment in a foreign affiliate. And again the effects on the financial statements have been provided and again the basis for our qualified opinion was identified.

Now here's another example, and this time what we're going to do is sort of stack things. And the importance here is for you to understand the structure of the report and an appreciation of how the decision-making of where particular sections go and in what order, and the content of each section of that, that is so structured now that it really, once you learn the rhythm of it, it becomes much easier than it's ever been before. So in this particular case, we have a qualified opinion and we reference that qualified opinion and the basis of that opinion. We have a basis for a qualified opinion. And here we're saying inventory is at cost, should have been at lower of cost and net realizable value, and here are the effects. Okay. And again, sufficient appropriate audit evidence for a qualified opinion. Now, what we said was, after we have done the qualified, the opinion section and the basis of opinion section, we have the possibility of three things happening: key audit matters, going concern, emphasis of matter, and then if needed in another illustration, other matters, in that order. So we do not have key audit matters, we don't have going concern. What we have is emphasis of matter. Now what we said about an emphasis of matter is that it follows after the basis of opinion. It follows after the opinion. So consequently, appropriate to say, our opinion is not modified with respect to this issue. If it was going to be, it would not be sitting here, it would be sitting in the basis of opinion. So totally appropriate to say that. The other thing we said was that an emphasis of matter paragraph has to have a subject title in the header. So this is a paragraph that talks about litigation and so the section has the appropriate title "Litigation uncertainty." An emphasis of matter section and the related paragraph will always reference the footnote where more information can be found. So the contents are section header with a subject title, a paragraph that starts with a reference to a footnote, a quick description of what's happening, and a statement, a positive statement that says the opinion has not been modified.

Here is another example. This is a departure from GAAP and what we have is a qualified opinion and the basis for a qualified opinion, one right after the other. We have the basis for the qualified opinion referenced. Now the basis indicates that what happened in this case was a variable interest entity was not included in the financial statements and GAAP requires it. Now this one is done with malice of forethought, if I will. I want you to notice that it says the effects could not be determined. That is not appropriate. You must determine it. They hold an interest, which means they have some investment in it. They have some contact because they are the primary beneficiary. The fact that you didn't consolidate, that's one issue. But not understanding or not disclosing, not appropriate. So I just put this in here as an illustration, not to give you the green light to say, oh, that's an example she had and we can do that. And the answer is no, you cannot do that. And we want to make sure that when I said before you can't, that you clearly understood what we mean. That is not appropriate. You would have to prove it's not practicable, which means that there is no information exchange occurring between the entities at all.

All right, now, sometimes when we have a GAAP departure, it's not a qualified opinion, it's actually an adverse opinion. The significance, the pervasiveness, requires not a qualification but an outright statement that says we do not present fairly. So notice that the section header will now say adverse. We will still reference the basis of opinion section, but we will change the opinion to say do not present fairly. The structure remaining the same, with the exception of instead of present fairly, do not present fairly.

The basis for the adverse opinion will again follow the basic rule, which is let's do a reference to the footnote, let's identify the differences between the income that's reported and what should have been reported. And so we have details on all the differences that occurred. And then what happens is instead of saying a basis for a qualified opinion, we're now going to say we have the basis for an adverse opinion. So, the language changes in the opinion, it's a reference to an adverse opinion. It's the statement of an adverse opinion, does not fairly present the headers. The section headers change, references to the footnote and the effects on the financial statement follow the same format as does the indication that we have audit evidence is appropriate.

Now, an interesting issue is should you have an adverse opinion when you have supplemental information which always sits after the auditor's responsibility? If that adverse opinion affects the information being included in the supplementary information, in this case property and equipment, which is being done on a tax basis instead of a GAAP basis, then the supplementary information section and its related paragraphs would also have to change.

So in this particular case, what we're talking about is property, plant, and equipment is carried at appraised values and appreciated as such as opposed to the GAAP rules.

And because that affects the schedule property and equipment and accumulated depreciation and supplementary information, we have to make reference to the fact that we also had an adverse opinion.

All right, here's another example. This is an adverse. Notice, we have the section header “Adverse Opinion,” section header “Basis for Adverse Opinion.” We reference the basis for adverse opinion and we indicate that the statements do not fairly present. In the basis for adverse, we indicate that some an entity has not been consolidated and that the investment is held at cost. Again, what it says here is that the failure to consolidate has not been determined and again we ought to know the answer to that. And that final paragraph says we have a basis for our adverse opinion. So again, absolute structure, and the knowledge you can just sort of flow through this.

All right. Going concern. It's addressed in the responsibility of management section, in the auditor's responsibility section, and in in its own separate disclosure section. When you have going concern, the header is substantial doubt about the entity's ability to continue as a going concern. You need to highlight the notes in the financial statements where we disclose this just like you would in an emphasis of matter. We can say it's not modified with respect to this matter because it flows after the opinion and the basis of opinion. So it is shown immediately following the basis of opinion. So it flows before emphasis the matter and other matter. Now, if there is a qualified or adverse because of inadequate disclosure of going concern, then there is special language that would indicate. The basis of opinion is required to state either that the substantial doubt exists or that substantial doubt has been alleviated by management but the disclosures are inadequate. Again, a reminder, if management doesn't evaluate, that does require an opinion modification.

So, just again to make sure you see the structure, after the basis of opinion, we would have this header: “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern.” It will reference a footnote, and that footnote will have three paragraphs: the repeat of this, a paragraph on the events and circumstances that were evaluated, and management plans. And again, the opinion is not modified. And we know the answer to that because this is sitting after the opinion paragraph and the basis of opinion paragraph.

So those are modifications that are fairly straightforward and they tend to crop up fairly frequently. I do emphasize the going concern one at the present time because in 2021 and 2022, I think most practitioners were fairly lenient about issuing going concern because it was COVID and everybody was going to recover from COVID and all of that justification. But we are now looking at 2023 reporting and that justification is not valid. So we should see more going concern if the clients have not worked their way out of the COVID hole that they were in.

So, we also can have in addition to GAAP departures, we can have scope limitations. There's lots of means for a scope limitation. It generally means that whatever the audit procedures we should have applied, we were unable to do so, either the nature, timing, or extent could not be appropriately applied. So, failure to apply the required procedures would mean that you do not have sufficient appropriate audit evidence and you need to so state. So, just to give you some examples, dare you to confirm, to observe, to communicate with predecessors, to communicate with legal counsel, to get written representations, to get evidence about related parties, the accounting records are incomplete, or the prior years are incomplete, the carrying amounts, there's no evidence for them, there's no evidence on entities under common control, we don't have information from service organizations, we don't have properly vetted information from specialists. Those are examples, as would be fair value accounting, income tax accruals, VIES, and failure to communicate to those charged with governance.

So when we have a modification because of an inability to obtain sufficient appropriate audit evidence, here's what happens. The header would be either a qualified opinion or a disclaimer. So hopefully you remember that qualified opinions are appropriate for both GAAP departures and for scope limitations. When that violation is pervasive, then it's an adverse opinion for the GAAP and it's a disclaimer for the scope. So you need to recognize that we don't get to walk away and say no, I don't have an opinion, when it comes to GAAP. But we can when it comes to whether or not we have actually performed the appropriate procedures. The basis for opinion changes to qualified or disclaimer. Again, the word “qualified” applies in the basis of opinion section as it relates to sufficient appropriate audit evidence. But when there's a disclaimer, as you're going to see, the whole thing gets rewritten. So disclaimers, almost absolutely every part of the report is changed and we will illustrate that.

So, you could issue a qualified opinion when management imposes a scope limitation if it's still possible to determine the effects on the financial statements and that they are in fact not material or certainly not material and pervasive. But if you can’t obtain sufficient appropriate audit evidence and you are in a group audit environment, you have nothing to do but withdraw.

So let me give you some examples of scope limitations. Qualified opinion, basis for qualified opinion, a reference to the qualified opinion section, and an indication that the evidence relates to our qualified opinion. In this particular case, there was not sufficient appropriate audit evidence about the carrying value of the investments in a particular company as well as that company's net income for the year end, and we were unable to determine any adjustments to those amounts. Now, in order for you to only have a qualified opinion, we need to identify if the consolidation should have occurred and the valuation should have occurred, we're just not sure the numbers. If this were to be an amount that is material and effects all of the financial statements, it's pervasive, then we would not have a qualified opinion, we would have a disclaimer.

Here is another example, and this time we want to illustrate how different the report is when in fact we have a disclaimer. So first of all, notice that the opinion section says "disclaimer," as does the basis of opinion section, but everything else starts to change. First of all, we're engaged to audit.

Qualified opinion says we audited.

A disclaimer says we were engaged to audit.

Qualified opinion says in our opinion.

The disclaimer says we don't express an opinion. It still references the basis of opinion section. That doesn't change. But it does say now we have been unable to obtain sufficient appropriate audit evidence. Before we said, before we said, yep, we got that. It's just for a qualified opinion, not a unmodified opinion.

Now the next, the basis of opinion, remember that two paragraphs, one describing what's going on and the other indicating our responsibilities under generally accepted auditing standards. And under a disclaimer, we identified that we just didn't take a physical count and we had no audit procedures related to inventory. And that's all there is. We don't have any of those bells and whistles. We didn't say we were using generally accepted auditing standards. We didn't say we had sufficient appropriate audit evidence. We didn't say anything about ethics. We said we didn't do it. We're done. That's it. That's all that happened.

Here's how we address it. Management responsibility doesn't change. But the auditors responsibility section, remember, had three paragraphs: an opening paragraph that talked about reasonable assurance, a bullet point list of what generally accepted auditing standards math, and a paragraph on communications. And here all we're going to do is say our responsibility is to use generally accepted auditing standards. And then we reference the basis of disclaimer section and say, again, we can't get appropriate sufficient audit evidence. So we're saying it a second time. Now, we do assure everybody that we're still independent and met our legal ethical responsibilities, but it is included in the auditor responsibility section, not in the basis of opinion section.

So the disclaimer looks quite different. We're engaged. We don't express an opinion. We don't have sufficient appropriate audit evidence.

The responsibility section only has one paragraph saying, this is what generally accepted auditing standards require. We were not able to do that, and so we don't have sufficient appropriate audit evidence. But we are independent and met our ethical responsibilities.

Here's another example of a disclaimer. We were engaged. We don't express an opinion. The basis of opinion section tells you more, but we did not get sufficient appropriate audit evidence. What happened here is we have a joint venture and we were unable to determine adjustments that were necessary for the proportional share of that joint venture.

Again, going to the auditor's responsibility, we're supposed to be using generally accepted auditing standards. Because of that disclaimer, we could not obtain the evidence, except we're independent, and we met our ethical responsibilities.

Now sometimes we ask ourselves, do we need some sort of reporting because of consistency. And consistency is different from comparability. So comparability means the qualitative ability to understand the similarities and differences in different items. So it's a comparison between two line items. Consistency refers to the methodology that is being used from period to period. So comparability is how we would look at two inventory line items, and consistency would be to indicate that the valuation methodology might have changed between them. Generally what happens is that we have a change in accounting principle or a change in accounting estimate or an error correction or a change in reporting entity. All of those require an emphasis of matter section, and remember where that sits.

So, the question is, if we have a change in accounting principle, when do we use emphasis of matter and when do we have a qualified opinion? So the emphasis of matter is when there's a material effect of the change in the principle, there's prior period restatement, or there's an election of an accounting treatment. Let me remind you, we have the revenue standard and we have the least standard, and, you know, in the recent past, there were innumerable examples where the audit report did not have an emphasis of matter section. And the justification was, well, the journal entry that we wrote was just for small numbers. It was immaterial. And the answer is, not according to the audit report language. Anytime you restate, you will have an emphasis of matter, any time you restate, because we don't have the consistency. It is not a function of the larger total assets, total revenue sliding scale. It is a function of the fact that the principle on which the financial statements were based is different from year to year. Now, a qualified opinion is when there's a change that's made without justification, the change is incorrectly reported, the principle is not in conformity with GAAP, or there's inadequate disclosures. Then you have a qualified opinion.

Consistency can apply to initial audits, but only when there's inadequate accounting records, or a client imposed scope limitation, or the prior year accounting records are not in accordance with GAAP.

When there's comparative financial statements, if the auditor had previously modified their opinion because of a departure and the prior statements are now restated to conform, that is they corrected it, and what would happen, would be an other matters section. Again, this relates to a report, so that's where it shows. The other matters section's always dealing with reports. What's the previous report, what was previously expressed, what's different now, and what's the opinion on the restatement?

So here's an example where we actually have a stacked report where we have opinions related to the balance sheet, but we are auditing that balance sheet. However, we're only engaged for the statement of income, stockholders' equity, and cash flows because we have a disclaimer on the results of operations and cash flows. Then we would have an opinion on the statement of financial position. So we have an opinion section, multiple, where we have a disclaimer and an opinion.

That would require the same thing with respect to the basis of opinion. And the reason for the disclaimer is fairly obvious, which is that we weren't engaged until after year end and therefore couldn't observe the counting of physical inventory. And in this case, we would refer to the fact that we have only an unmodified opinion with respect to the financial position.

Now sometimes we have an uncertainty and the issue is do we have to modify the opinion. And the answer is, as long as the disclosures are in accordance with GAAP and as long as there's sufficient appropriate audit evidence, then there is no modification to the report. However, if there is insufficient evidence, then you have a scope limitation. Now please understand, an emphasis of matter or a note is not a substitute for a qualified or disclaimed opinion because of a scope limitation. You have to modify the opinion.

So, emphasis of matter, again, significant relation, transactions with related parties, subsequent events, major catastrophes, uncertainties about litigation, the components of another entity, a standards change, liquidation basis, a change in an estimate, all those things. Emphasis of matter.

The section should refer to a qualified report. It can refer to that covenants, business combinations and concentrations, a change in accounting principle. There's lots of different reasons for an emphasis of matter.

All right. So, again, if we have an emphasis of matter, remember, the section always has a subject title. It does not say emphasis of matter. It always has a subject title. And again, the placement is important. So opinion, basis of opinion, key audit matters, going concern, emphasis of matter, other matters … just sort of keep that in your head. This is an emphasis that matter. So, notice the subject titled is related to going concern, "Recurring Operating Losses and Capital Deficiencies." We refer to a footnote and so therefore we indicate that deficiencies that are events and circumstances we're using for evaluation, and management's plans, which are also outlined, and remember, because of its placement, we can say our opinion is not modified. So we're not at the going concern or we would have used that appropriate type. But things are bad enough, we want people to make sure that they read that particular footnote. It's a highlighter.

Here's another example. Again, it's an emphasis of matter, so it has a subject title. And this indicates that per note X we have a new accounting principle. And again, because it's after the opinion, our opinion was not modified.

Here's the correction of an error. It's the same kind of thing. A title, a subject title, a reference to a footnote, and the fact that the statements have been restated. Again, emphasis of matter always applies to something in the financial statements and it always has some sort of subject that we have to address.

There's a subsequent event, you have written these, oh, for many years. Notice the placement. The placement is not odd. The placement is right after the basis of opinion, provided you don't have key audit matters, and you don't have go in concern.

Now here's an example of an "other" matter. This would fall after the emphasis of matter. And notice again, there's always a reference to a footnote. And what happened is they revised the financial statements. And what we're looking at is that previously we had one opinion, and now we have a revised opinion which is different. So other matters generally related to reports and what makes the report different.

Here's another issue that we need to make sure you understand, and that is that sometimes we can have multiple changes going on. We can have an opinion that's qualified and a change in accounting principle. The opinion will happen first, qualified opinion, basis for qualified opinion, and then an emphasis of matter which will have a reference to a footnote but will say our opinion was not modified. We can have a qualified opinion, a change in accounting principle, and going concern, and my issue and my question to you is: where does the going concern? Be sure that you understand, the going concern is going to go before the emphasis of matter. So, we need to make sure that you understand the beauty of SAS 134 and it's structured. It's not only that we have found a way now to create almost a template, if you will, for the content of the paragraphs, but we have in fact created an order to everything in the report. So we don't have to concern ourselves about what comes first, what comes second, what comes third. There is no creative writing.

All right. There are some other things that we need to consider. What happens if we have comparative financial statements? We need to make sure that the information from the prior period has sufficient detail. If the opinion on the prior period differs, then we use an "other" matter paragraph. The date that identifies the previous report, the opinion, the difference, and the new opinion, which is the example that we illustrated.

Now, what happens when the prior period is audited by a predecessor, and what happens in particular is that the successor auditor is going to change something in the financial statements. So what happens is we use an "other" matter section. And we'll identify that the prior period was audited by a predecessor, the opinion expressed including any modification, any emphasis of matter or other matter paragraphs, and the date of that report. And then the successor auditor will indicate the changes that the firm made.

So here's an example of a comparative financial statement. Pretty easy. You just have the comparative amounts and dates apply.

So the opinion, the only thing that happens is the dating. Here's what happens, however, when we have an unmodified current year and a qualified prior year. So we have an opinion, we audited, we have the opinion on the comparative basis that has been applied. Now the opinion is on the balance sheets and the statements of income and retained earnings and the results of operations. But notice that the results of operations is only for one year. So financial position is for multiple years but operations only one year. We have a qualified on the statement of income and cash flows which we describe in the basis of qualified. We have a basis of opinion and a basis of qualified opinion. So the first thing that we need to do is to always marry up the relationships. Do we have an opinion and a basis of opinion?

We have a qualified opinion and the basis of a qualified opinion. We always have the current year first and the prior year second. So current year, prior year, you stack them in that order. So we had an unmodified for the current year and a modified for the second. and that's how they get stacked.

Here's another example, current year audit, prior year review. So we have an opinion and basis for opinion and notice that the opinion is on the balance sheet for one year and for the flow statements, income, stockholders' equity, and cash flows, for one year. The basis of opinion, no change. The other matter, remember it relates to a report, indicates that the financial statements were reviewed either by us or by somebody else. Here's the review report, here's what the review report said, there weren't any material modifications, and an indication that the review was less than an audit. So an opinion on the current year, an indication the prior year was a review report.

Here is the same thing, only what's happening is that the predecessor had a report on a particular date that included an emphasis of matter paragraph about the computation of depreciation and everything else was unmodified. So again, other matters clearly relating to reports.

Here's another "other" matter in that what happened is part of the financial statements were restated from the other auditor and we audited just the footnote that applies to the restatement. So that kind of experience, we all have noted in our practices. Notice again opinion and basis of opinion on the current year, no change, strictly an "other" matter related to the report.

So consolidation, if the subsidiary has a different fiscal year less than three months, you use the subsidiary's year end. If two reports are presented and one is qualified, you can provide two separate sets of financial statements and reports if you want to. If that report on the company is qualified, but the qualification is not material, you can add an "other" matter paragraph. Other than that, we use "ed" if we're consolidated and "ing" if we're showing the information together.

So here's a look at a consolidated where what we do is use the appropriate consolidated words as many times as we can find them in the report. And then supplementary information would indicate this is where the consolidating information is constructed.

Supplementary information can have all of the bells and whistles, a regular report tab. I can modify the report for misstatements, GAAP departures, scope limitations, going concerns, adverse opinions, disclaimers, prior data from another auditor, all of those sorts of things can apply to supplemental information.

The language remains the same that we are used to seeing. The opinion is an in relationship to opinion. Most important thing, make sure that you clearly identify all of the information that is considered supplementary.

There is no prohibition to actually issuing a separate report on supplementary information. That is a standard audit report upfront, the basic reporting package, a blank piece of paper, a report on supplementary information, and then separate reporting package on that. No prohibition against doing that.

Other information in the audit report. This is primarily the kinds of things that you might have for a non-profit when they have an annual report and there's a lot of donor information that's in the back of the report. Management is responsible for that information which we described in detail. Our opinion does not cover that information. However, what we did do was read it looking for material inconsistencies which we would tell you about if they occurred.

Here is an example of a GAAP departure that affects supplementary information. It is a repeat of what we had done up front, just showing you that because the qualified opinion on the property, plant, and debt occurred, then in the supplementary information, we had to do the same thing. So it's a repeat of an example we showed you up front.

Here is an example of a disclaimer. In this particular case, they didn't report physical inventory. So notice what happens, the supplemental information, we again say we were engaged, not that we have audited. And because of the significance of that disclaimer, we don't express an opinion, not even an in relationship to opinion.

Required supplementary information, again, we identify the applicable financial reporting framework and the body that requires that information, identify what it is, identify why the standard setter wants it, indicate that we don't express an opinion on that required supplementary information. And so we have, you know, several modifications that can occur to that. All of the bells and whistles we could on any disclosure.

Just a final comment about special purpose frameworks. They require a separate emphasis of matter section. It first of all states the basis of presentation. It refers to the note that explains the basis and indicates that the basis is not GAAP. The opinion paragraph expresses an opinion on whether it's fair presentation within the basis of the opinion. So, not with respect to GAAP.

So here's an example of income tax basis. We have clearly identified income tax basis related to all of the statements. The opinion indicates that it is for income tax purposes. The basis of opinion will likewise indicate that we have sufficient audit evidence. Then we have an emphasis the matter. Remember, it's always related to the topic in the financial statements, always has the subject title, always references a footnote, tells the world it's something other than GAAP. But again, it's after the opinion, so we are not modifying the opinion because of that.

Auditors’ Report: A Review of Reporting Choices

by Susan Longo, CPA

There are no supplemental materials for this segment. Go to the next page for discussion questions.

GROUP STUDY MATERIALS

A. Discussion Questions

1. When are key audit matters required in a report under AICPA standards?
2. What does an adverse opinion indicate?
3. When should a disclaimer of opinion be issued?
4. In what order should these sections appear when included in a modified report: Emphasis of Matter, Opinion, Key Audit Matters, Going Concern?
5. How is the auditor's responsibility section structured under SAS No. 134?
6. What triggers an adverse opinion as opposed to a qualified opinion?

B. Suggested Answers to Discussion Questions

1. When are key audit matters required in a report under AICPA standards?

   ANSWER: Under AICPA auditing standards, key audit matters (KAMs) are not required for nonpublic entities. Instead, their inclusion in the auditor's report is optional and occurs only when requested by the client. This distinguishes AICPA standards from the PCAOB standards, where critical audit matters (CAMs) are mandatory in audit reports for certain public entities.

   Understanding Key Audit Matters (KAMs):

   KAMs are defined as matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. They often relate to:

   - Areas of significant management or auditor judgment,
   - Significant risks identified during the audit,
   - Complex accounting estimates, or
   - Major events or transactions during the period.

   While KAMs enhance transparency and provide insight into the audit process, they are not inherently required under the AICPA's Statements on Auditing Standards (SASs) for nonpublic entities.

   When Are KAMs Required Under AICPA Standards?

   - For public entities regulated by the PCAOB (not governed by the AICPA): KAMs (as CAMs) are required.
   - For nonpublic entities under AICPA standards: KAMs are included only when:
     - The client specifically requests them, or
     - The auditor is engaged to communicate KAMs as part of the audit contract.

   If included, a separate "Key Audit Matters" section is added to the auditor's report, which explains:

   1. What each key matter is,
   2. Why it was considered significant, and
   3. How it was addressed in the audit.

   Importantly, if no KAMs are determined or applicable, and the auditor is engaged to provide them, the report should still contain a KAM section that explicitly states "No key audit matters to communicate."

   Summary:

   Under AICPA standards, key audit matters are required only if the auditor is engaged to report them, typically by client request. They are not a default requirement for audits of nonpublic entities and must be presented in a structured format only if applicable. This provides flexibility in tailoring the audit report to the client's needs while maintaining professional transparency when desired.

2. What does an adverse opinion indicate?

   ANSWER: An adverse opinion is the most severe type of auditor's opinion and indicates that the financial statements do not present fairly, in accordance with Generally Accepted Accounting Principles (GAAP), the financial position, results of operations, or cash flows of the entity. This opinion is issued when the auditor concludes that there is a material and pervasive misstatement in the financial statements due to a departure from GAAP.

Key Features of an Adverse Opinion:

Material and Pervasive Misstatements:

A GAAP departure must be so significant that it affects the entire set of financial statements, not just one area.

The result is that the statements are misleading or unreliable for decision-making purposes.

Wording of the Report:

The auditor explicitly states:

"Because of the significance of the matter described… the financial statements do not present fairly… in accordance with GAAP."

This language contrasts with the more moderate "except for" used in a qualified opinion.

Basis for Adverse Opinion Paragraph:

The auditor must explain the specific reasons for the adverse opinion and detail the effects of the GAAP departure, unless it is impracticable to do so.

Example Circumstances Leading to an Adverse Opinion:

The entity fails to consolidate a material subsidiary that it controls.

The financial statements are prepared using appraisal values instead of historical cost for major assets.

The entity does not record deferred income taxes or grossly misstates revenue recognition policies.

Pervasive omissions or departures from GAAP that distort multiple line items across statements.

Contrast with Other Types of Opinions:

Opinion Type	**Indication**
Unmodified	Financial statements are fairly presented in all material respects.
Qualified	Financial statements are fairly presented except for a specific material issue that is not pervasive.
Disclaimer	The auditor could not obtain sufficient appropriate audit evidence and does not express an opinion.
Adverse	Financial statements are not fairly presented due to material and pervasive misstatements.

Summary:

An adverse opinion signals that the auditor believes the financial statements are materially and pervasively misstated and therefore do not provide a fair representation of the entity's financial condition in conformity with GAAP. It is a red flag for users of financial statements and reflects serious deficiencies in financial reporting.

3. When should a disclaimer of opinion be issued?

   ANSWER: A disclaimer of opinion should be issued by an auditor when the auditor is unable to obtain sufficient appropriate audit evidence to form a basis for an audit opinion, and the possible effects of the undetected misstatements could be both material and pervasive to the financial statements.

In a disclaimer, the auditor declines to express an opinion on the financial statements because the auditor cannot conclude whether the financial statements are fairly presented in accordance with GAAP.

Key Conditions Leading to a Disclaimer of Opinion:

1. Scope Limitation:
   - The auditor faces a significant restriction or inability to gather sufficient audit evidence.
   - Scope limitations could arise from management-imposed barriers, circumstances beyond anyone's control (e.g., natural disasters destroying records), or inability to perform necessary audit procedures.
2. Material and Pervasive Impact:

- The limitation affects a material part of the financial statements, and
- The auditor cannot determine whether adjustments are necessary, affecting the overall reliability of the financials.

3. Examples of Scope Limitations That May Lead to a Disclaimer:
   - Failure to observe inventory counts and inability to verify inventory by alternative procedures.
   - Inaccessibility of key documents or legal records.
   - Destruction or loss of accounting records without adequate replacements.
   - Denial of access to personnel or client facilities necessary for audit evidence.

Wording in a Disclaimer Report:

- The opinion section would state:

"We do not express an opinion on the financial statements."

- The basis for disclaimer of opinion paragraph would explain the specific reasons for the inability to obtain sufficient evidence.
- The report avoids the standard positive assurance language because an audit conclusion is not possible.

Summary:

A disclaimer of opinion is issued when a material and pervasive scope limitation prevents the auditor from obtaining sufficient appropriate evidence to form an opinion on the financial statements. In such cases, the auditor cannot conclude whether the financial statements are fairly presented under GAAP and does not express an opinion.

4. In what order should these sections appear when included in a modified report: Emphasis of Matter, Opinion, Key Audit Matters, Going Concern?

ANSWER: Under AICPA auditing standards (specifically SAS No. 134), a modified auditor's report must follow a structured and standardized sequence to enhance clarity and consistency for the users of financial statements.

When the report includes sections such as an Emphasis of Matter, Going Concern, and optionally Key Audit Matters (KAMs), the required order is as follows:

1. Opinion Section
2. Basis for Opinion Section

3. Going Concern Section (if applicable)
4. Key Audit Matters Section (if applicable and included)
5. Emphasis of Matter Section
6. Other Matters Section (if applicable)

Detailed Breakdown of Each Section:

1. Opinion Section:
   - Always comes first.
   - States whether the financial statements are fairly presented, including any modifications (qualified, adverse, or disclaimer).
   - Example phrasing:

     "In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report..."
2. Basis for Opinion Section:
   - Immediately follows the opinion.
   - Explains the standards followed (e.g., GAAS) and discusses independence and responsibilities of the auditor.
   - It must clearly support the conclusion stated in the opinion section.
3. Going Concern Section (if applicable):
   - If substantial doubt exists about the entity's ability to continue as a going concern, a separate "Substantial Doubt About the Entity's Ability to Continue as a Going Concern" section is included.
   - This comes right after the Basis for Opinion section.
4. Key Audit Matters Section (if applicable):
   - Included only if the auditor is engaged to communicate KAMs.
   - Follows the Going Concern section (or Basis for Opinion if no Going Concern section exists).
5. Emphasis of Matter Section:
   - Used to highlight important disclosures already properly presented in the financial statements (e.g., major subsequent events, litigation uncertainty).
   - Comes after KAMs and after Going Concern, before Other Matters.
6. Other Matters Section (if applicable):
   - For other relevant auditor communications (e.g., when referring to unaudited prior period financials, supplementary information).
   - Always placed last among these special sections.

Why the Order Matters:

- The Opinion section must come first to immediately tell users the audit conclusion.
- The Basis for Opinion logically follows to explain the rationale behind the opinion.

- Going Concern issues are critical and must be highlighted early, as they can severely affect users' decisions.
- Key Audit Matters and Emphasis of Matter sections provide additional context, but only after users understand the primary audit outcome.

Following the prescribed sequence ensures consistency across reports and helps users navigate complex audit findings more effectively.

Summary:

Under SAS No. 134, the correct order for a modified auditor's report that includes various special sections is:

Opinion → Basis for Opinion → Going Concern (if applicable) → Key Audit Matters (if applicable) → Emphasis of Matter → Other Matters.

This logical sequence enhances report transparency, consistency, and ease of understanding for financial statement users.

5. How is the auditor's responsibility section structured under SAS No. 134?

ANSWER: Under SAS No. 134, which modernized and clarified auditor reporting standards for financial statement audits in the U.S., the Auditor's Responsibilities for the Audit of the Financial Statements section must follow a structured, three-part format that includes bullet points detailing key audit elements.

This structure provides greater transparency and enhances user understanding of the auditor's role and the nature of an audit conducted under Generally Accepted Auditing Standards (GAAS).

The Three-Part Structure Under SAS No. 134:

1. Introductory Paragraph:
   - States the auditor's objective:

     To obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error.
   - Emphasizes that reasonable assurance is not absolute assurance and recognizes the limitations of an audit (e.g., audits may not detect all material misstatements).
2. Bullet Point List of Audit Elements:
   - A series of bulleted responsibilities that describe the key tasks performed during an audit, such as:
     - Exercising professional judgment and maintaining professional skepticism.
     - Identifying and assessing risks of material misstatement and responding appropriately.
     - Obtaining an understanding of internal control to design appropriate audit procedures (but not to express an opinion on internal control).
     - Evaluating the appropriateness of accounting policies and the reasonableness of significant accounting estimates made by management.
     - Concluding on the entity's ability to continue as a going concern and evaluating related disclosures.
3. Final Paragraph – Governance Communication:
   - Describes the auditor's responsibility to communicate with those charged with governance about:
     - The planned scope and timing of the audit.
     - Significant findings from the audit, including any significant deficiencies in internal control identified during the audit.

- Why SAS No. 134 Uses This Structure:
  - Enhances Readability:
    By using bullet points, it breaks down technical responsibilities into digestible parts for financial statement users.
  - Promotes Transparency:
    Clarifies that the auditor's role includes assessment, evaluation, judgment, but not guaranteeing that all material misstatements will be found.
  - Aligns with Global Standards:
    Mirrors the approach used internationally under ISA 700 (Revised), promoting consistency between U.S. and international audit reports.

Summary:

Under SAS No. 134, the auditor’s responsibility section is structured into three parts:

- An introductory paragraph,
- A series of bullet points covering specific audit tasks, and
- A final paragraph discussing communications with governance.
  This design promotes clarity, consistency, and user understanding of the auditor’s role and responsibilities

6. What triggers an adverse opinion as opposed to a qualified opinion?

ANSWER: An adverse opinion is issued by an auditor when there is a material and pervasive departure from Generally Accepted Accounting Principles (GAAP). This contrasts with a qualified opinion, which is appropriate when the GAAP departure is material but not pervasive. The difference hinges on the degree of pervasiveness—how deeply the issue affects the financial statements as a whole.

Key Trigger for an Adverse Opinion:

Material and Pervasive GAAP Departure

When an entity’s financial statements contain a significant misstatement due to a GAAP violation, and that misstatement affects multiple areas or undermines the integrity of the financial statements entirely, the auditor must conclude that the statements “do not present fairly” in accordance with GAAP. This determination results in an adverse opinion.

Examples of GAAP Departures Leading to an Adverse Opinion:

- Failure to consolidate a variable interest entity when required, affecting assets, liabilities, income, and equity throughout the statements.
- Recording property, plant, and equipment at appraisal values instead of historical cost, which distorts both the balance sheet and income statement.
- Omission of required deferred tax liabilities that materially impact financial results and position.

How This Differs from a Qualified Opinion:

A qualified opinion is issued when the auditor concludes that:

- The misstatement is material but limited in scope, and
- The rest of the financial statements are presented fairly.

Example:

If a company incorrectly measures inventory using cost only rather than the lower of cost or net realizable value, but this misstatement is isolated and does not undermine the overall reliability of the financials, the auditor would issue a qualified opinion, stating "except for the effects of the matter…"

Report Language Differences:

Opinion Type	**Language Used in the Report**
Qualified	"In our opinion, except for the effects of the matter described…"
Adverse	"In our opinion, because of the significance of the matter… the financial statements do not present fairly…"

The basis for opinion section is also labeled accordingly—e.g., "Basis for Qualified Opinion" or "Basis for Adverse Opinion."

Pervasiveness Matters:

The term "pervasive" refers to misstatements that:

- Are not confined to specific elements of the financials, or
- If confined, represent a substantial portion, or
- Relate to disclosures fundamental to users' understanding.

Summary:

An adverse opinion is triggered when a GAAP departure is both material and pervasive, making the financial statements misleading as a whole. This is in contrast to a qualified opinion, which applies when the misstatement is material but not pervasive. The auditor must exercise professional judgment in determining the breadth and impact of the issue on the financial reporting framework.

GLOSSARY OF KEY TERMS

Adverse Opinion—An audit opinion stating that the financial statements are materially and pervasively misstated and do not fairly present the entity's financial position in accordance with GAAP.

AU-C Section 560—Auditing standard detailing the auditor's responsibilities related to subsequent events and subsequently discovered facts in audits.

Available to be Issued—The date when financial statements are complete in form and content and all necessary approvals have been obtained for issuance.

Basis for Opinion Section—A required section in an auditor's report under SAS No. 134 that explains the auditor's responsibilities, independence, and provides the foundation for the audit opinion.

Disclaimer of Opinion— A report issued when the auditor is unable to obtain sufficient appropriate audit evidence and concludes that the possible effects on the financial statements could be material and pervasive.

Emphasis of Matter Paragraph—A paragraph included in the auditor's report that draws attention to a matter appropriately disclosed in the financial statements that is fundamental to users' understanding.

Going Concern Uncertainty—A situation where substantial doubt exists about an entity's ability to continue operations for a reasonable period of time, requiring special mention in the auditor's report.

Key Audit Matter (KAM)—A matter that, in the auditor's professional judgment, was of most significance in the audit of the financial statements; communicated only when engaged to do so for nonpublic entities under AICPA standards.

Management Representation Letter—A letter from management acknowledging responsibility for the financial statements, including disclosure and recognition of subsequent events.

Non-Recognized Subsequent Event—An event that arises after the balance sheet date and does not relate to conditions existing at that date; typically disclosed but not recognized.

Predecessor Auditor—An auditor who previously audited the financial statements of a company and may be asked to reissue their audit report when the financials are presented comparatively.

Pro Forma Financial Information—Financial data that reflects the impact of significant subsequent events as if they had occurred at the balance sheet date, used to supplement historical financials.

Qualified Opinion—An audit opinion stating that, except for the effects of a specific issue, the financial statements are presented fairly in accordance with GAAP.

Recognized Subsequent Event—A subsequent event that provides additional evidence about conditions that existed at the balance sheet date, requiring adjustment to the financial statements.

Revised Financial Statements—Financial statements that have been changed after issuance due to correction of an error or other GAAP requirement, with appropriate subsequent event disclosures.

SSARS (Statements on Standards for Accounting and Review Services)—Standards applicable to accountants' compilations and reviews, including procedures for identifying and disclosing subsequent events.

Subsequent Event—An event or transaction occurring after the balance sheet date but before the financial statements are issued or available to be issued; classified as recognized or non-recognized.

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

1. When must an entity disclose the date through which subsequent events have been evaluated?

   A. Always, regardless of status
   B. If the entity is not an SEC filer
   C. Only if the entity is a public company
   D. Only in audited financial statements

2. Which of the following events is not recognized in financial statements?

   A. Sale of inventory held at year-end
   B. Final valuation of impaired asset existing at year-end
   C. Business combination after year-end
   D. Adjustment to previously accrued litigation

3. What must be disclosed about a non-recognized subsequent event?

   A. The nature and financial effect, or a statement that effect cannot be estimated
   B. Only the date it occurred
   C. Management's intent to act
   D. Its impact on deferred taxes

4. What audit documentation must reflect evaluation of subsequent events?

   A. Budget variance analysis
   B. Income tax returns
   C. Only the signed representation letter
   D. Working papers and inquiries

5. Why is it important to understand how management identifies subsequent events?

   A. It affects control testing and audit procedures
   B. So auditors can prepare financials
   C. To prepare tax returns accurately
   D. To manage internal audit schedules

Continued on next page

6. Which section appears first in an auditor’s report under SAS No. 134 for an unmodified opinion?

   A. Basis for Opinion
   B. Key Audit Matters
   C. Opinion
   D. Management's Responsibilities

7. What must the header of an emphasis-of-matter paragraph include?

   A. The subject title of the matter discussed "
   B. The phrase "Emphasis of Matter"
   C. A reference to the auditor's ethical standards
   D. A disclaimer statement

8. What is required if management fails to evaluate going concern?

   A. A disclaimer of opinion must be issued
   B. A management letter must be issued
   C. A modified audit report is required
   D. An other-matter paragraph is added

9. Which of the following sections is found in all auditor reports regardless of modification?

   A. Emphasis of Matter
   B. Going Concern
   C. Key Audit Matters
   D. Opinion

10. Which of the following is not a valid reason to state that determining effects of a GAAP departure is impracticable?

    A. The client destroyed relevant records in a fire
    B. The client refused to pay for the analysis
    C. The information is from a prior period and no longer available
    D. There has been no information exchange between related parties

Continued on next page

11. What does a change in accounting principle without adequate disclosure require?

    A. Unmodified opinion
    B. Qualified opinion
    C. Emphasis-of-matter paragraph
    D. Disclaimer of opinion

12. Which of the following modifications affects the auditor's responsibility section the most?

    A. Adverse opinion
    B. Change in fiscal year
    C. Disclaimer of opinion
    D. Qualified opinion

13. If the prior year's financials were reviewed, not audited, how should that be disclosed?

    A. In the opinion section
    B. In the management responsibility section
    C. In an other-matter paragraph
    D. No disclosure required

14. Which of the following must be included when reporting on supplementary information?

    A. The preparer's name and contact
    B. A statement on whether the information is fairly stated
    C. A separate opinion on GAAP compliance
    D. A footnote reconciling the supplementary schedule

15. Under what condition would an emphasis-of-matter paragraph be inappropriate?

    A. Describing the impact of new GAAP guidance
    B. Highlighting a significant subsequent event
    C. To address a scope limitation
    D. When discussing a related party transaction

CPE Network®
Accounting & Auditing Report
Volume 38, Issue 4 **May 2025**

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	|______|	|______|	|______|	|______|	|______|	|______|
Small Business 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	|______|	|______|	|______|
Small Business 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, May 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: ______________________________

Group Study 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			FOR TR 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 December 31, 2023

Welcome to CPE Network!

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

This User Guide has the following sections:

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

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

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

Note: DVDs no longer ship with this product effective 3/1/2023.

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

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

The entire transcript is also available as a pdf in the Checkpoint Learning player in the resource toolbox at the top of the screen, or 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

Note: DVDs are no longer shipped effective 3/1/2023

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

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

Alternatively, for those without a DVD drive, the email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your "group internet based" session should be sent to Checkpoint Learning Network by 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:

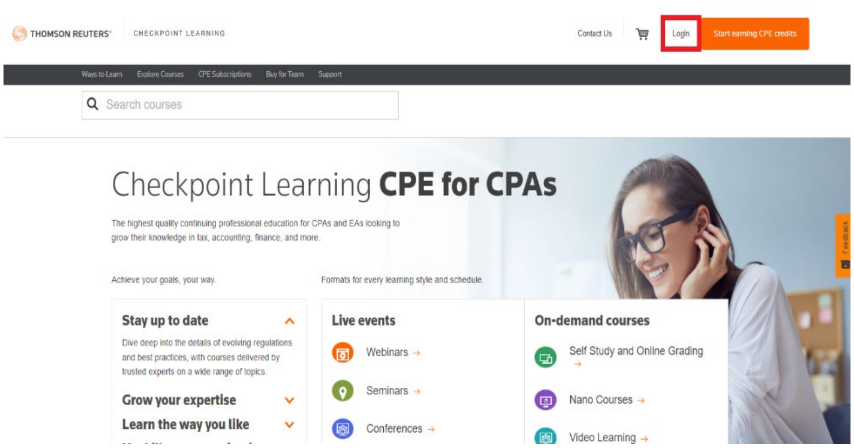
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

CPLgrading@cerifi.com

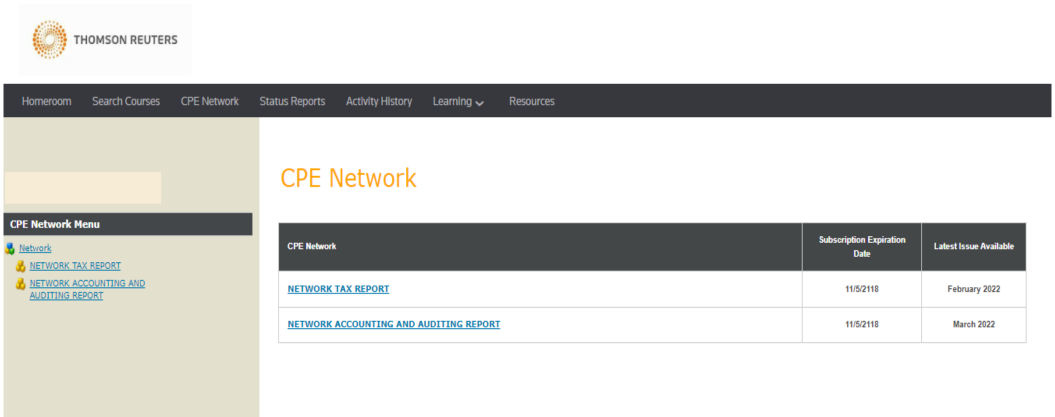
Self-Study—Online

Follow these simple steps to use the online program:

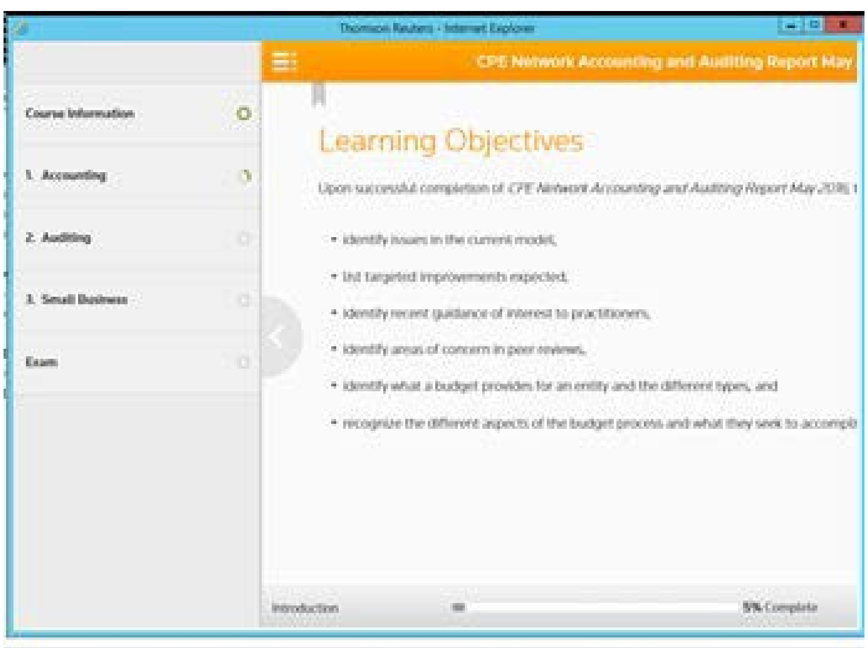
- Go to www.checkpointlearning.com
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

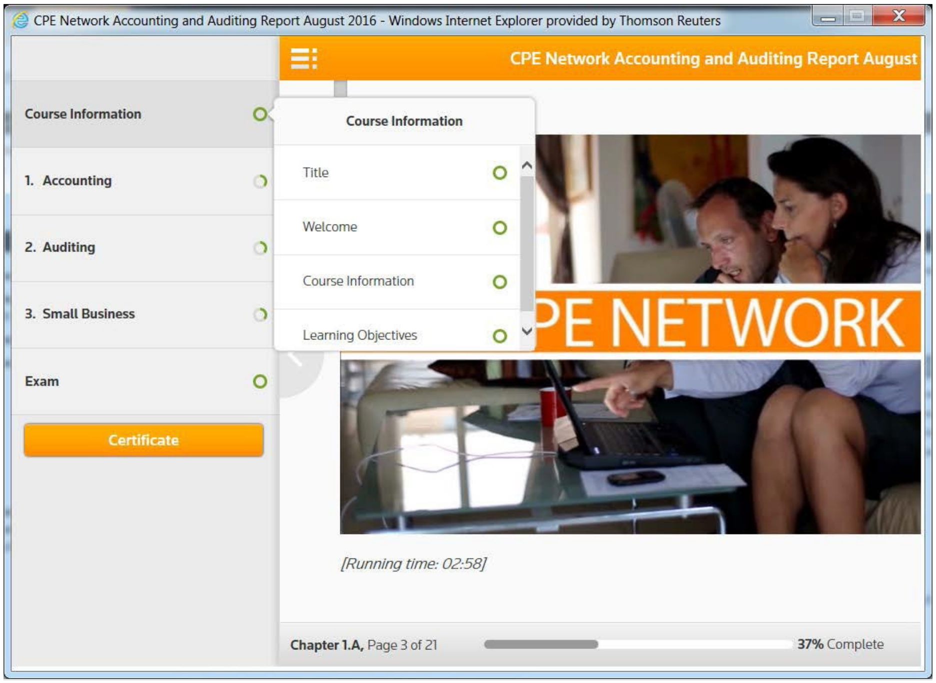


The Chapter Menu is in the gray bar at the left of your screen:

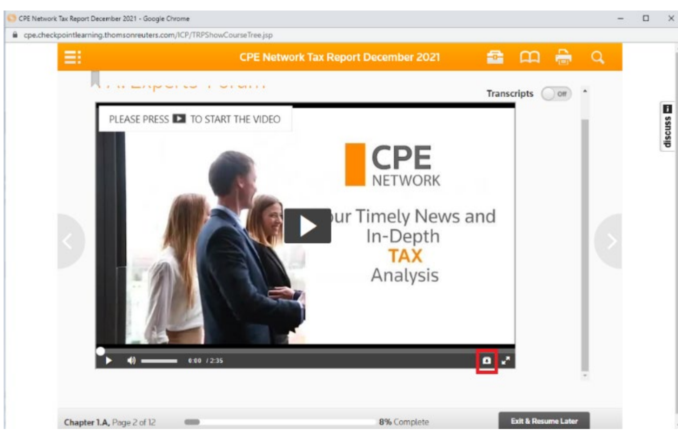


Click down to access the dropdown menu and move between the program Chapters.

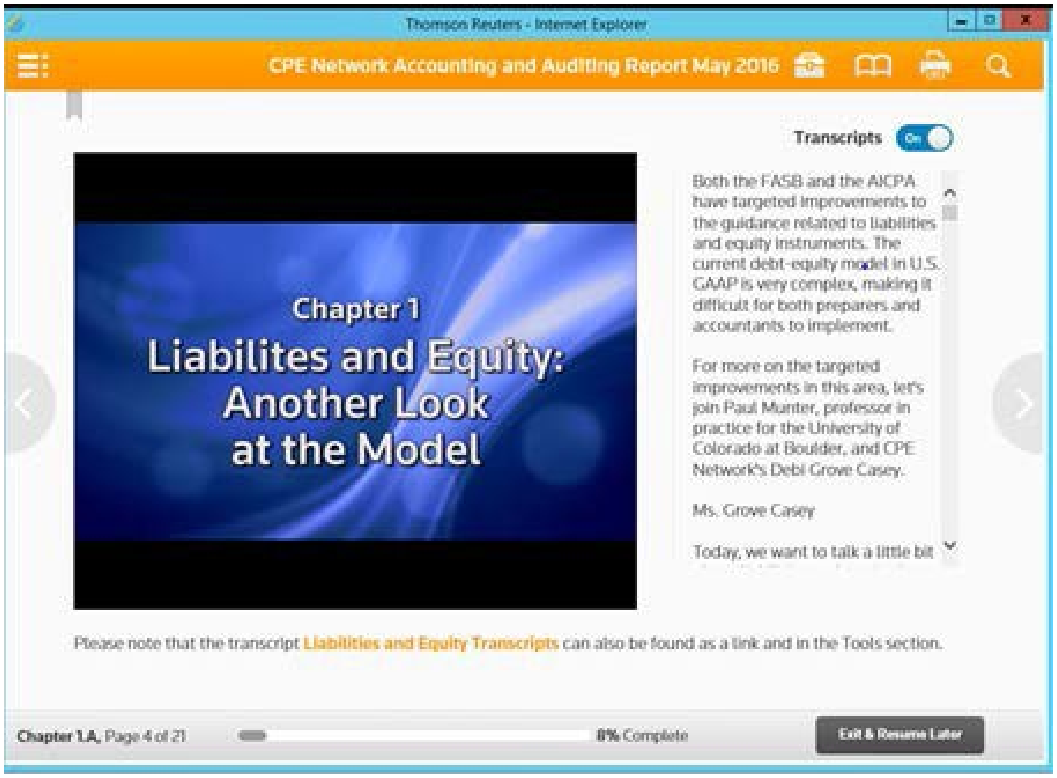
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



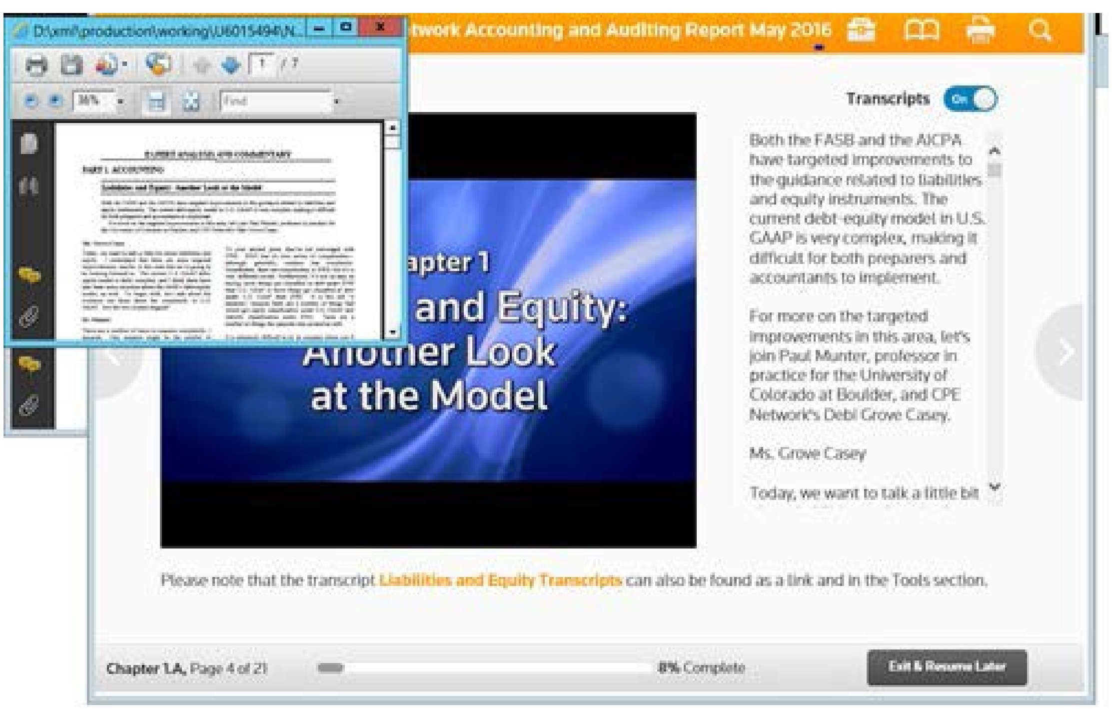
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This streamlined approach allows administrators and users to more easily access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



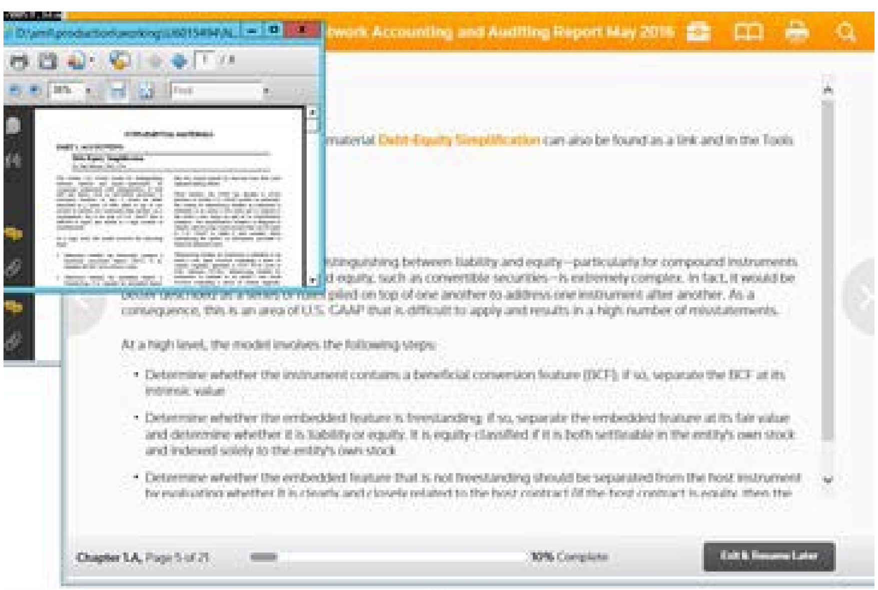
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



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

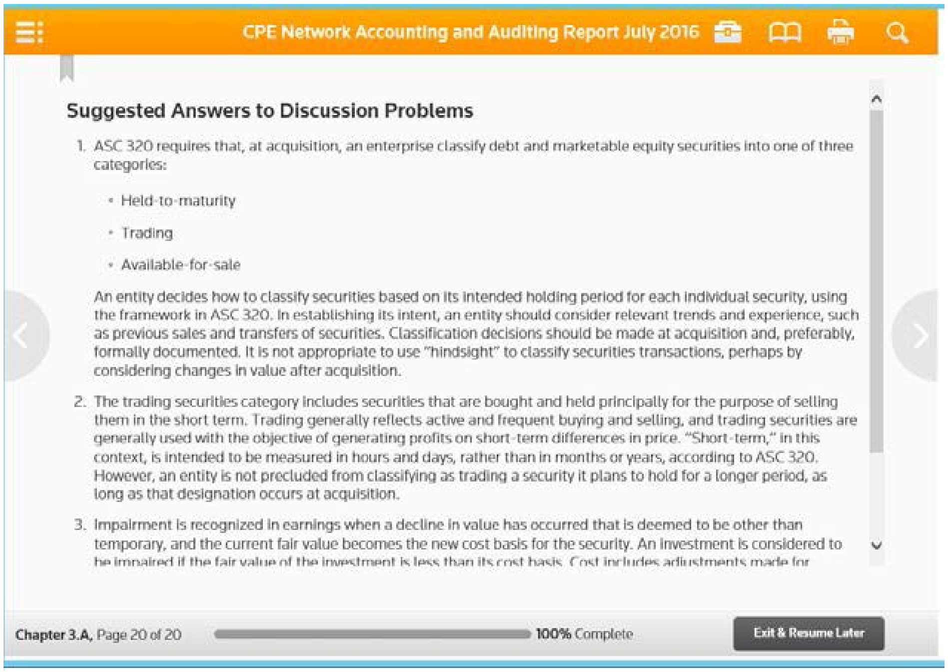


Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



Continuing to click the arrow to the right side of the screen will bring the user to the Discussion p roblems related to the segment.

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



Suggested Answers to Discussion Problems

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

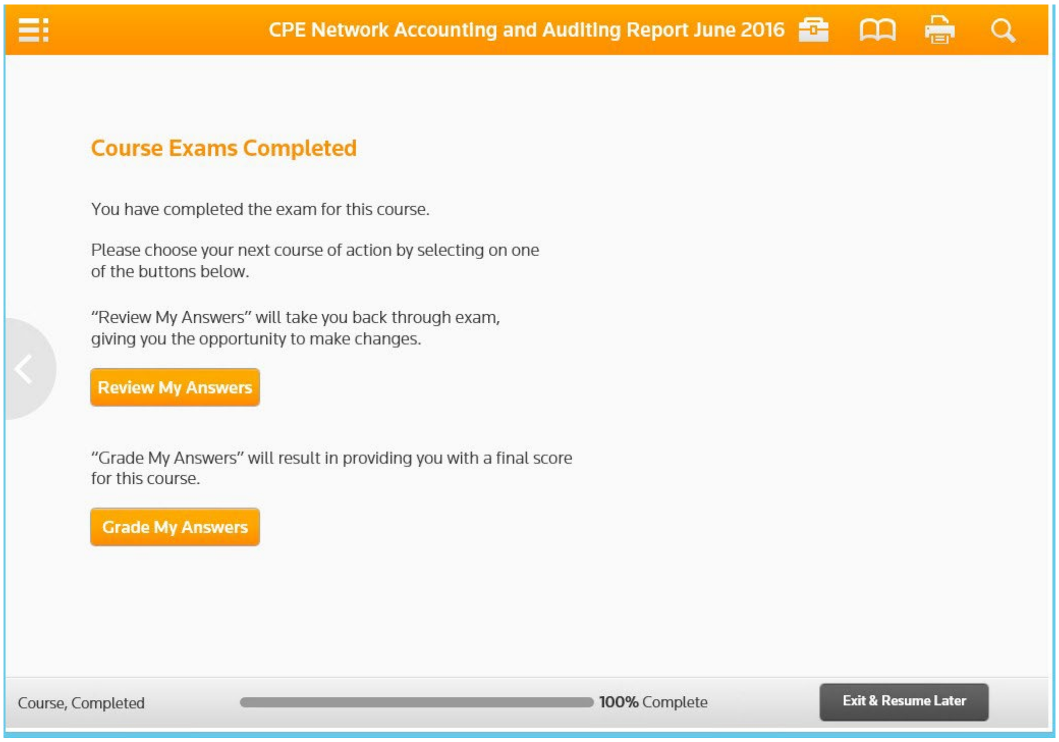
   An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.

2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.

3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

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.

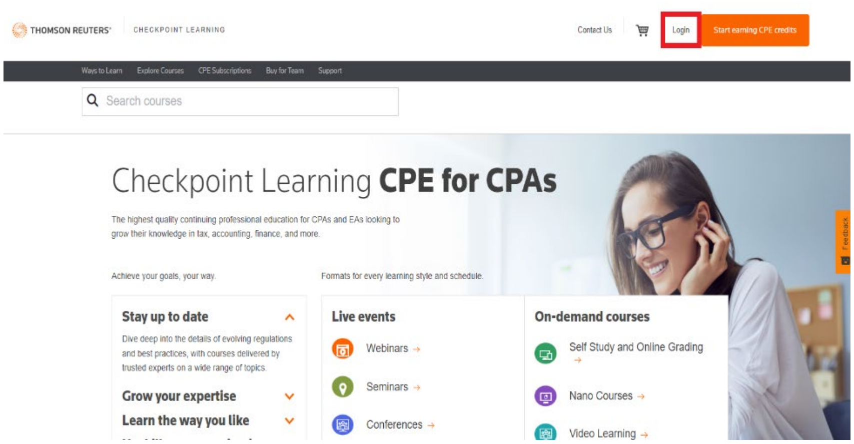
Print

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**.

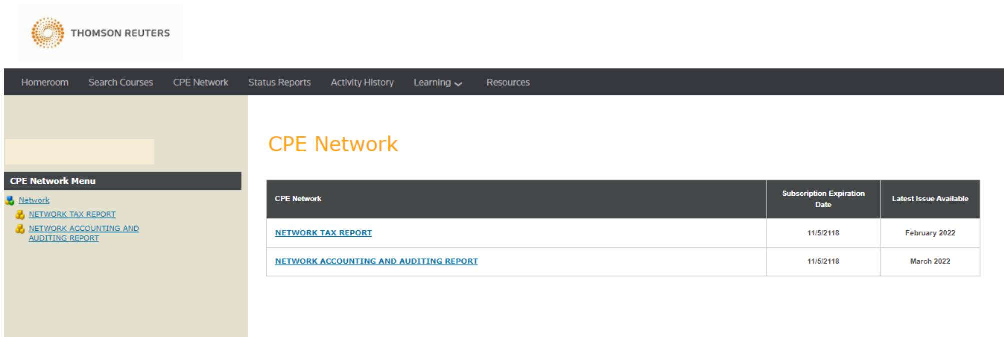
Transitioning From DVDs

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

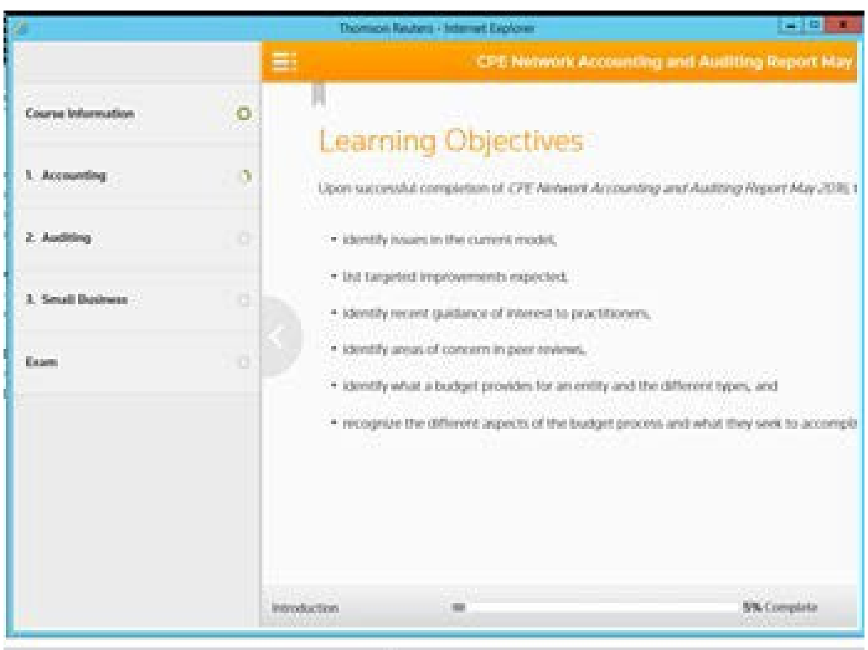
- Go to www.checkpointlearning.com
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login").



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

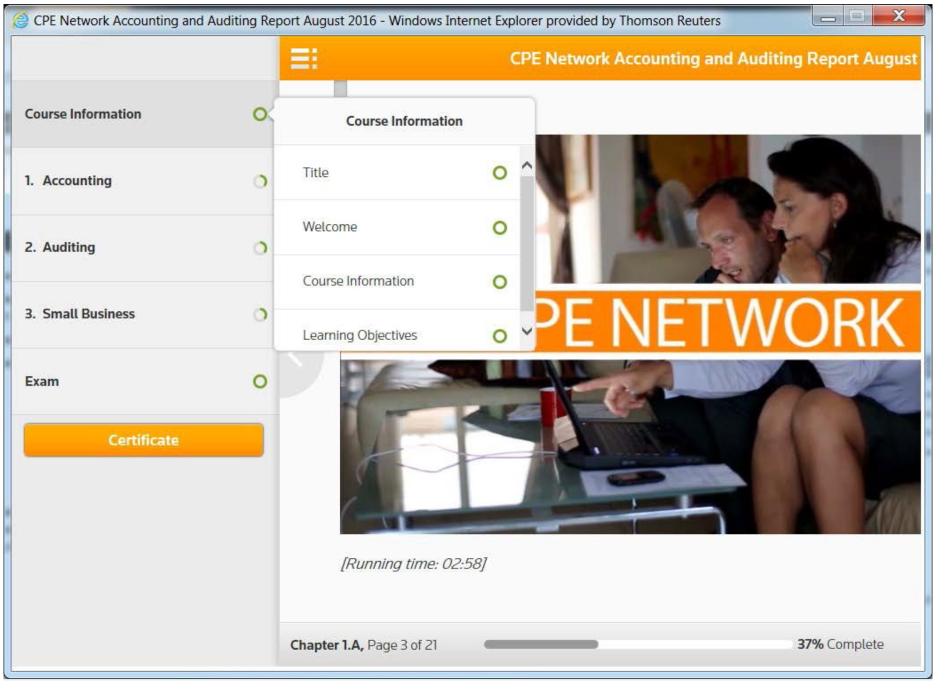


The Chapter Menu is in the gray bar at the left of your screen:

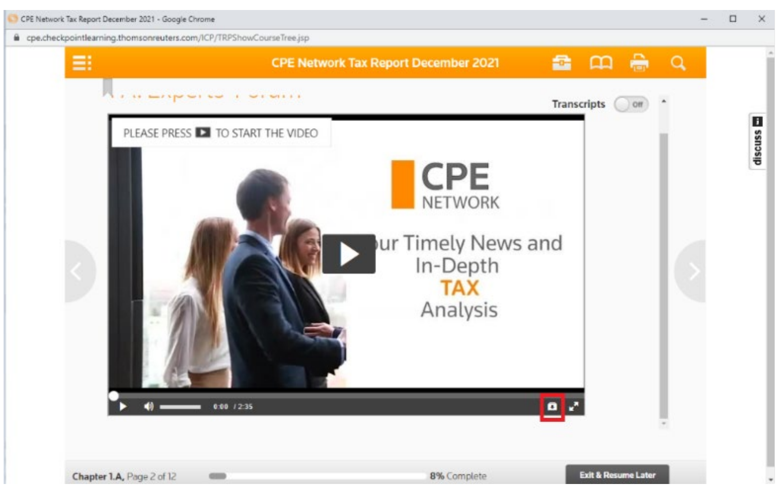


Click down to access the dropdown menu and move between the program Chapters.

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



- Each Chapter is self-contained. Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions.



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

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent to administrators with each release.

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

<u>Determining CPE Credit Increments</u>

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