

CERIFI CPE NETWORK

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EXECUTIVE SUMMARY

AUDIT & ACCOUNTING PART 1

New ASU on Interim Reporting 4

This segment provides a practical overview of ASU 2025-11, which amends FASB Topic 270, Interim Reporting, to clarify who must apply interim reporting guidance and how required disclosures should be evaluated. Jennifer Louis explains that the ASU does not fundamentally change interim reporting, but instead improves clarity around what constitutes GAAP-based interim financial statements and how entities should determine which disclosures are necessary to avoid misleading users. The lesson discusses applicability to both public and private entities, the distinction between full and condensed financial statements, and the minimum presentation expectations for interim balance sheets, income statements, cash flows, and equity information. It also covers important disclosure topics such as income taxes, unusual or infrequent items, seasonality, accounting changes, error corrections, subsequent events, contingencies, and going concern. Special attention is given to differences between SEC registrants and non-SEC registrants and to the judgment required in preparing fair interim financial statements. *[Running time: 42:20]*

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

- Identify the scope, purpose, and effective date provisions of FASB ASU 2025-11 as they relate to interim financial reporting under Topic 270.
- Recognize the minimum presentation and disclosure requirements applicable to condensed interim financial statements prepared in accordance with GAAP, including disclosures related to unusual items, income taxes, seasonality, and accounting changes.
- Evaluate when additional interim disclosures may be necessary to prevent financial statements from being misleading, including disclosures involving subsequent events, contingencies, going concern, and material changes since the most recent fiscal year-end.

AUDIT & ACCOUNTING PART 2

Professional Judgment Failures – When Audits Go Wrong..... 14

This chapter explores the role of professional judgment in audit performance and explains how flawed decisions in planning and execution can lead to poor outcomes, rework, inefficiency, and audit failure. Sunish Mehta focuses on practical judgment traps rather than reciting detailed standards, emphasizing that effective audits begin with sound decisions about materiality, risk assessment, and the nature of audit procedures. The course discusses why auditors should avoid autopilot thinking, revisit prior risk assessments, and select materiality benchmarks based on user relevance rather than convenience. It also explains how control testing, substantive analytics, and assertion-level judgments can improve scalability and efficiency when applied appropriately. Additional discussion covers IT risk assessment, system changes, projected and judgmental audit adjustments, and the implications of SAS 145 and SAS 146 within the broader quality management framework. Overall, the lesson encourages auditors to pause, think critically, and apply professional judgment intentionally so that good audits go right instead of wrong. *[Running time: 40:56]*

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

- Identify key areas in the audit process where professional judgment failures commonly occur, including materiality, risk assessment, and audit approach selection.
- Recognize how ineffective judgments related to materiality thresholds, risk assessments, control testing, and substantive procedures can contribute to scope creep, inefficiency, and reduced audit quality.
- Apply practical considerations for improving audit effectiveness and efficiency through better judgment, including reassessing risks, evaluating control reliance opportunities, and monitoring engagement quality under the quality management framework.

AUDIT & ACCOUNTING PART 3

Auditing Complex Estimates Without Re-Preparing Them 25

This segment provides a practical framework for auditing complex accounting estimates while preserving the distinction between management's responsibility to develop the estimate and the auditor's responsibility to evaluate it. Sunish Mehta discusses how estimates arise across many financial statement areas, including allowances for credit losses, leases, warranty reserves, useful lives, inventory valuation, sales returns, and fair value measurements. The course explains why estimates often present heightened audit risk due to subjectivity, bias, and estimation uncertainty, and it emphasizes the auditor's need to assess inherent risk and control risk separately under updated standards. The lesson also explores how SAS 143 clarified terminology and expectations for auditing estimates, especially around estimation uncertainty, management bias, and scalability. Practical guidance is provided on understanding client processes and controls, performing retrospective analytics, developing independent expectations, evaluating the reasonableness of assumptions and data, considering specialist involvement, and thoroughly documenting procedures, conclusions, and the linkage between assessed risks and audit responses. *[Running time: 41:27]*

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

- Identify key audit considerations related to complex accounting estimates, including management bias, estimation uncertainty, and the assertions most affected by estimate-related risks.
- Recognize how SAS 143 and SAS 145 affect the audit of estimates, including separate assessment of inherent and control risk and the need for scalable procedures tailored to complexity and subjectivity.
- Apply practical audit approaches for evaluating the reasonableness of management's estimates, including retrospective analytics, testing assumptions and data, considering controls, and documenting procedures and conclusions.

ABOUT THE SPEAKERS

Jennifer Louis, CPA, is President of Training Services at Emergent Solutions Group, LLC. She has more than two decades of experience in designing and instructing high-quality training programs. Most recently Jennifer was executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession.

Sunish Mehta, CPA, CGMA, is the founder of Mindful-CPA and Mindful-PRO and brings more than 25 years of experience in advisory and assurance services. His professional background includes roles with EY, PwC, and IBM Global Business Services. In addition to his client service work, Sunish has taught financial auditing and accounting courses as an adjunct instructor for the UCLA Accounting Certificate Program. He holds a business degree from California State University, Northridge, as well as an Inner MBA from New York University. He is licensed to practice in California and New Mexico.

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

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

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AUDIT & ACCOUNTING PART 1

New ASU on Interim Reporting

In this segment, Jennifer Louis explains the key provisions of FASB ASU 2025-11, which clarifies the requirements for interim financial statements and notes under Topic 270. The update is intended to improve consistency, navigation, and understanding of what entities must disclose when presenting GAAP-based interim financial information. The session reviews the scope of the ASU, effective dates, condensed financial statement presentation, disclosure principles, and the relationship between Topic 270 and SEC requirements. It also highlights important judgment areas, including seasonality, changes in estimates, unusual items, contingencies, and going concern considerations that may affect interim reporting.

Ms. Jennifer Louis

Hi, I'm Jennifer Louis and I want to talk to you today about the new FASB ASU 2025-11 that deals with Topic 270, which is related to interim reporting. This ASU was released in December of 2025. They snuck it in at the end of the year there. And the goal though of this new ASU was to do a couple of clarifications.

One is what do we mean by interim financial statements and notes in accordance with GAAP, thinking about the interrelationship of this requirement with what might be required by SEC, the Securities and Exchange Commission requirements for entities to where they have to do interim reporting, but then also doing some more narrow scope improvements to this section to try and improve the ability to navigate within it.

To know what's required to be disclosed versus not, and to also have more of a comprehensive listing of what disclosures should be provided when you're creating these GAAP basis financials on an interim versus an annual basis. It does clarify that the scope of this guidance is applicable to any organization that provides interim financial statements and notes in accordance with GAAP. If that's what your stipulation is, these are GAAP-based financials, then this would apply not just publicly traded companies that do have their own requirements through the SEC, but to any organization, whether you're for-profit, not-for-profit, public, private.

It also applies whether you're using the same level of aggregation or disaggregation that you do in your annual reports or are you doing condensed information at an interim basis in a monthly or quarterly way? The interim disclosure requirements could apply to those condensed financial statements, but yet even though they may be condensed statements, it is still a full set of statements.

It isn't intended for these to be minimum requirements if you're doing income statement only. It is a comprehensive listing of disclosures that would be required as you do have a full set of financials that may be condensed.

What is not changing? The objective was to provide more clarity and how to improve the application of current interim reporting requirements to get more consistency and who applies them, but the intent was not to change the fundamental nature of interim reporting or to alter current interim disclosure requirements.

Now I will say that through various ASUs that have been released in recent years, the FASB has been already altering to say what do we need to do at an interim basis? What do we need to have on an annual basis.

As an example with your allowance for current expected credit losses that on an annual basis you do a roll forward of the beginning of the year allowance to the end of your allowance. You don't have to do that roll forward in the interim reporting. The sense being that there are differentiations within the disclosure requirements within each of the different topic sections that talks about differentiating there, but they wanted to have more of a comprehensive understanding about disclosures that should be provided on that interim type basis.

The other thing that it does is the intent is to make sure that if I have my annual reporting period, that I'm going to disclose events since that annual reporting period that have a material impact on the entity. The goal was to help make sure that entities determine whether or not disclosures not specifically specified in Topic 270 should still be provided in interim reporting periods, such as subsequent events disclosures, going concern disclosures. This is modeled based on previous SEC disclosure requirements for that to be the case.

So, this new disclosure principle was added, but there really wasn't significant changes as far as specific disclosures beyond just clarifying what the intentions are.

The effective date for this is for public business entities to do this for interim reporting periods within their annual reporting periods that begin on or after December 15, 2027. This would mean if we were a calendar year end, it would start January 1, 2028. If you had monthly or quarterly interim reports after that, it would apply.

You have an extra year for all other entities, but early adoption is permitted. And you also have choices. I can either adopt this prospectively or retrospectively to any or all periods that might be presented. You may have a public business entity that adopts this retrospectively as it provides three years of comparative information to comply with SEC rules. And then you may have a privately held company that decides to start doing it prospectively because I only create the financial information to give for internal purposes or to give to the bank in compliance with some form of debt covenant.

I mentioned how it did clarify that while you have to have a full set of financials in order to use this disclosure guideline, that you can have condensed financial statements. So, a level that's presented at a more aggregated level than your annual financial statements. So there may be, as we look at things, there may be guidance on what my interim financials might look like because I'm regulated, like for example through the SEC and there's guidance that they have to consider there as I need to meet the needs of the SEC while also complying with this FASB principle.

An SEC registrant is an entity or an entity that's controlled by an entity that meets a certain criteria. It could be that it has issued or will issue debt or equity securities that are traded in some form of public market. It can be a domestic or foreign or over-the-counter marketplace. It can be regional or local markets. But there's debt or equity securities that are publicly traded.

It also could be that I am an SEC registrant because I am just required to file financial statements with the SEC based on the nature of my organization or provide financial statements for the purpose of issuing any class of securities in a public marketplace.

What is an SEC registrant? That definition has not changed. That was a pre-existing definition within the FASB. It continues though to be applicable here because of the fact that we may have a case where I am not an SEC registrant yet.

I may be required by the SEC to follow certain form and content requirements underneath SEC rules and regulations. So, there may be certain financial information that I have to provide. You do have to follow whatever requirements are specified by the SEC.

If I'm not someone that is an SEC registrant, if there are no SEC rules and regulations that apply to me as far as the form and content of interim financial information I provide, then I would follow Topic 270. And Topic 270 does first of all say, if you're going to have a condensed set of financials, then what should my condensed statement of financial position look like?

They do want you to separately present cash and separately present retained earnings and then have captions for each balance sheet component that is presented in your annual financial statements that is 10% or more of your total assets. So, depending on what your balance sheet component amounts are, it will either be a separate caption or not with that 10% or more of total assets threshold.

They also clarify that if you present a classified statement of financial position at the end of your annual period, you should also have a total for current assets and current liabilities. But what would be the aggregation? What would qualify as being a condensed statement consistently? These would be the criteria that we'd use to create that condensed statement.

Your statement of earnings does need to include a net sales or gross revenue, and it has to present each cost and expense category that is presented in my annual financial statements that exceeds 20% of that net sales or gross revenue.

You also are required to present a provision for income taxes and details about any discontinued operations. As far as your condensed statement of cash flows, you need to present a total at least for each of the three categories. Your operating, your investing, your financing, and I also need to show cash at the beginning and the end of the period and the increase or decrease in that balance. And these once again would be at a minimum what you would be presenting.

There also needs to be a statement that shows investments by owners, distributions to owners, where you would present. It could be in a statement or it could be in a note, but there does need to be an analysis of the changes in each caption that is presented in your statement of financial position.

And there needs to be an analysis of changes presented in the form of a reconciliation, the beginning of the balance for that period to the ending balance for that period. And you need to make sure that you're separately presenting any investments made by the owners or any distributions to the owners. These changes in those related accounts would be presented in the condensed statements.

And then as far as disclosures, in determining which disclosures to provide in condensed statements, you're going to look at the list of disclosures to determine whether a disclosure is required to be provided in an interim period. And that listing is provided in this topic section.

So, for example, when we look at providing information about costs and expenses. It is a little bit challenging with interim reporting because of the fact that there can be seasonality and other factors that may fluctuate widely. And revenues can fluctuate widely, costs can fluctuate widely, even certain things as we have a cost that might be incurred in one period, but it benefits multiple periods.

I may have something that relates to an entire year's activity, but it's incurred at infrequent intervals during the year. And so there may be a need to allocate to products in process or to other interim periods.

There also may be the effects of a disposal of a segment of an entity and other things that might be more unusual or infrequent in their occurrence that has an impact on the results of operations in an interim period where that might be more pronounced as you present it for a given interim period than it might appear once I blend it in in my annual financial statements.

It also in cases with interim reporting that there might not be the same amount of time available to do extensive reviews of individual inventory items or to be more precise related to income tax calculations. What might end up happening is that in a later period, we do subsequent corrections or refinements of estimates that might distort results of operations in a given interim period.

When we're looking at costs that are associated with revenues, costs of inventory may be determined on a FIFO, first in, first out, LIFO, last in, first out, or average cost basis.

What you generally want to do is you look at the cost of inventory is to use the same method at an interim date that you use for annual dates. Some entities though might use estimated gross profit rates to determine cost of goods sold during an interim period and they may use a different method on their annual inventory date. It is important if that's the case that you do disclose the method used at interim and you're also going to disclose any significant adjustments that result from reconciliations with the annual physical inventory.

So, you don't have to use the same method, but there'll be additional disclosures if you're not using the same method for your cost of inventory at an interim and annual date.

There also are going to be other costs and expenses that are going to be charged to income. And these costs or expenses, other than my product costs, are going to be charged to income and interim period as they're incurred. Or they can be allocated among interim period based on an estimate of time expired, benefit received, or activity associated with the period.

Procedures that you adopt for assigning cost and expense items to an interim period does need to be consistent with what you follow by the entity as far as reporting on an and reporting date as we think about the assigning things. However, if a specific cost or expense item charged to exhibit for an and reporting period benefits more than one interim period, it is permitted to be allocated to those interim periods.

Other things, arbitrary assignment of an amount of costs and expenses other than product costs to a particular interim period. To arbitrarily assign it to a period is not permissible. If I'm, we want to think about it when it's incurred or I may be able to allocate things based on activity benefit received, estimate of time expired, but I can't arbitrarily just put everything in one specific period.

Gains and losses that arise in an interim period should not be deferred to a later interim period within the same fiscal year. So similar to those that wouldn't be deferred at year end. I can't defer them. I need to go ahead and recognize them in that interim period. They can't be deferred as far as gains and losses, which is different as it relates to your costs and your expenses.

When seasonality is a factor, you're going to disclose the seasonal nature of your activities. And what may be the case is that we consider supplementing interim reporting with information for 12 months periods ending at an interim date for the current and preceding years. If that would be more useful information.

We want to avoid the possibility that interim results with seasonal variations at our material may be taken as something that might be a fair estimate of the full fiscal year.

We want to be clear that there is a spike in this period because of seasonality factors, at least disclosing the nature of that, making sure that qualitatively that's clear, but then consider supplementing with 12-month information to quantitatively show how it's not reflective of the full fiscal year.

If you have a change in accounting principle or change in my accounting practices, a change in my reporting entity, then I do want to highlight that change. I want to highlight the to let people know that this is different than the comparable interim period of the prior annual period. So if this is something that if I have first quarter financials, this is a policies and principles are different that will be applied in the first quarter of the prior period.

We also want to know that to make sure that we're clear if this is a change compared to any preceding periods that were reported in the current annual period. And is there anything that's different than the prior annual period? So different than your annual financials previously; different than any interim periods within the current period; or different from the comparable period in the prior year. There's a change of principle, practices, reporting entity.

When you have a change in accounting estimate, you're going to account for that change in the period in which the change in estimate is made. So, this is going to include as well a change in an estimated effective annual tax rate. You're not going to go back and restate and reissue previously issued interim financials and their related notes. The effect of a change in estimate, the effect on earnings would be made in that current period.

We do want to make sure though that we're disclosing the fact that we're making this change if it's material in relation to periods being presented. Whenever possible, entities should adopt any accounting changes during the first interim period of a given fiscal year. So, whether that's the first month or the first quarter that we try to make changes, if we, whenever possible, in that earlier period.

In addition, it's important when you think about materiality, if I'm looking at the materiality of the correction of an error, we want to also look at amounts as it relates to the full fiscal year, like its estimated income, but also the effect on any earnings trends. Changes that are material with respect to an interim period, but are not material with respect to the full fiscal year or to earnings trends will be separately disclosed in that interim period.

So, to be clear, when we think about my obligations, there are things where I have to think about the effect on that interim period and what needs to be disclosed with that correcting things in that period. But that will be different than as I think about correcting an error where it's material to the full fiscal year where correcting the error rather than just being separately disclosed would trigger a restatement.

So, it's not just a change in estimate, it's a correction of an error.

All right, let's talk a little bit about the required disclosures and I'm not going to go through things in extensive detail for that. You can go to the topic area to see that. But in general, we do want to have information about my sales or my gross revenues.

They also want to have information about your provision for income taxes and any significant changes in estimates or provisions for income taxes. They want to know information about your net income and your comprehensive income. So, am I having adequate disclosure about those items? In addition, what's the nature and amount of costs and expense that were incurred in an interim period that cannot be readily identified with activities or benefits of other interim periods.

So, unless items of a comparable nature are included in both the current period and the corresponding interim period of the previous year. But we do want to focus on things that are just hitting that period. In addition, information that's needed for an understanding of unusual and frequent items such as seasonality.

For the seasonal nature of activities, what are the variations that you can expect to see with revenue and costs and expenses? When the entity uses estimated gross profit rates to determine the cost of goods sold during the interim period or uses a method that's different than what I use at the annual inventory date, remember you also need to disclose the method that was used at the interim date and you also need to disclose any significant adjustments that resulted from reconciliations with the annual physical inventory.

In addition, any error corrections that are material with respect to an interim period but not material with respect to the estimated income for the full year or trend of earnings and finally a statement that interim financial statements are to be read in conjunction with the most recently issued annual financial statements and notes in accordance with GAAP.

So, in this case, that disclosure is applicable only for entities that are not SEC registrants and that I provide condensed statements like we discussed previously. Now, when you do something like quarterly financials, when I get to the fourth quarter, I may not do a fourth quarter set of financials. I might just do my annual financial statements.

If that's the case, in the annual financial statements, you are going to disclose disposals of components of an entity and any unusual and frequent activities that occurred in the fourth quarter. You're also going to disclose the aggregate effect of your adjustment center material to the results of that quarter, and you'll disclose any accounting changes made in that fourth quarter. So, these would be things you would just add to your annual financials

because I'm not isolating fourth quarter information while I was issuing quarter one, two and three information.

I'd like to talk a little bit more about the disclosure principle that I briefly mentioned, where we're talking about providing disclosures either on the face of the financial statements or in a company notes that are necessary in order to make sure that these interim financial statements and the notes in accordance with GAAP are not misleading.

An entity that is an SEC registrant can presume that users of interim financials and notes that the users have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosures for fair presentation may be determined in that specific content because I am an SEC registrant. I'm providing this information.

As far as with an SEC registrant, footnote disclosures that would substantially duplicate disclosures already contained in the most recent annual report may be omitted. So, things like a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year.

So, if it was already in my most recent report, I don't want to be redundant and duplicative of those disclosures. So that's only though if I'm an SEC registrant. In general, we want to focus on disclosing events subsequent to the most recent fiscal year that have occurred and have a material effect, impairment, restructuring.

Where material contingencies exist, we want to disclose those matters and even though a significant change since year end may not have occurred, the fact that I still have a material uncertainty with a contingency does still need to be highlighted.

Disclosures of subsequent events at an interim period are going to talk about any significant changes since the end of the most recently completed fiscal year as I think about accounting principles and practices, estimates that are inherent in the preparation of the financials, status of long-term contracts, how I'm financed, including new borrowings, modifications of existing financing arrangements. But also, is there any change in my reporting unit, like disposals or business combinations?

These are examples of what would be a subsequent event that would need to be disclosed. They say it should include at least these things, but it's not limited to those things. We need to think about what has happened with transactions and events subsequent to the end of the most recent fiscal year that have occurred and had a material effect.

So, there is somewhat of a checklist and somewhat of a sense of judgment. We want to disclose contingencies and uncertainties in the same way that's required for annual reporting periods. And I'll continue to disclose these contingencies and uncertainties until they're no longer material or they've been resolved, they've been removed. There may be significant judgment that might be applied, but I'm thinking about it in the same way as if it were my annual financial statements.

You should consider as we think about annual disclosure requirements in other topics. So, as we think about what should be disclosed related to my financial instruments where there is an allowance for current expected credit losses, you're going to, you know, think about, okay, there it says, here's what is interim, here's what is annual. But there are other areas that don't have things broken apart.

And so, I am going to think about focusing on what should just be captured underneath this broader base disclosure principle. All of the annual disclosure requirements may not be relevant to an interim period, but I should look at annual disclosure requirements and determine what do I think is relevant for the current interim period. There also may be cases where, for a variety of reasons, including maybe reclassifications, that changes have occurred in the manner or basis of presenting certain items for two or more periods.

And it would be necessary for information to be provided for that interim basis and the annual basis to explain the reason behind that change. This is a well-recognized principle that as we think about things that affect comparability are important to disclose.

When we are looking at these various items, it is important that there are going to be certain disclosures that I mentioned are going to be relevant in both an interim and annual basis. And we've mentioned discontinued operations. We've mentioned how there could be at any point in time an infrequent or unusual item.

There can be a material contingency or uncertainty. There could be going concern. The assessment about do I need to have the disclosure about going concern uncertainty where the entity might not be able to meet its obligations in the requisite look-forward period, which would still be your 12 months from the date from whenever your interim financial information is issued or made available for issuance.

Like I would apply the same look forward period. I would apply the same assessment about do I need to have a disclosure? What type of disclosure? What should be included in the disclosure from a quantitative qualitative point of view? It is things that are relevant. Like these are things that are substantively important enough that I should be providing this information as it's relevant.

Obviously, if there isn't any substantial doubt about the innate ability to continue as a going concern at an interim basis, I'm not going to provide it. And then in a future interim period or when I get to the end of the year with the annual financials, it may be relevant.

But also remember something like with going concern is that I have it and I discuss this uncertainty and then in a future period if the going concern goes away I'm going to have a disclosure that talks about why you're no longer seeing this conversation about this going concern uncertainty or risk.

If that happens from one interim period to the next, you do need to consider, well, in the annual financials, just because I disclosed it in the second quarter, I should disclose it in my annual financials as well, right? As I think about these things like infrequent or unusual items, discontinued operations, going concerned, like those things would be relevant, not just, I disclosed it on an interim basis, but also thinking about your annual financial statements.

There may be things like changes and reclassifications that would be probably focused on providing this in the period of change, the interim period, but also in the annual reporting period to explain this change so that there is full transparent information about the comparability of various financial statements.

So the sense of thinking about related parties, subsequent events, going concern, changes in estimates, like those things are things that I have to focus on and say, you know, should I be incorporating them into the annual financials? Well, at the same time, well, I think there's certain things that would be presumed to be there.

You also can think about a sense of materiality as it relates to some of these disclosures as I do focus on some of those factors as well. But the subsequent event disclosure, there's going to be more accountability for that disclosure to talk about what's happened since the most recent fiscal year that had a material effect on the entity to give information about material gain or loss, contingencies, even though a significant change hasn't occurred.

So, we do want to also when we're talking about an entity that is not an SEC registrant, we can't make the presumption that the user has had access to the most recent annual financial statements.

Remember, if you're an SEC registrant, they're like, hey, don't try to duplicate things if it was in your most recent annual report. But yet, we do want to still think about what would be useful to put at this interim basis. But if there hasn't been any significant changes, we don't want to be overly redundant, particularly for SEC registrants where there is a voluminous amount of information that you're providing relative to a private company.

There's already differences in the level of detail that might be provided, for example, with income taxes and the income tax disclosure of showing the looking at why do I have the difference between my statutory and my effective tax rate. There's more information already for a public business entity compared to a private company within the FASB codification.

So, the general objective is to make sure that things are not misleading. That if I'm giving you interim financial statements and I'm giving you notes in accordance with general accepted accounting principles, that I want to make sure that any of that information, whether it's on the face of the financial statements or it's in an accompanying notes, that I'm not being misleading. I'm not diluting the usefulness of that information to my readers.

As I mentioned earlier, the goal of this standard was, throughout the years as we're creating rules for specific topic areas, that when we look at disclosures for those topic areas, we're going to have here's things that should be interim, here's things that should be annual. And then we are going to create a mechanism of saying here's things that we think should be provided, kind of at that minimum threshold or things that you should consider while you're also considering what's in these various topic areas related to these disclosures.

Remember that you can do condensed statements. You don't have to do the statements at the same level of aggregation or disaggregation that you do on your annual financials. But we are considering that you have a full set of financials, including the statement of cash flows and the related notes as we are thinking about what is really useful if I'm saying I'm providing GAAP basis interim financials, that at least we have this condensed information that they've laid out on what should be the minimum elements in these condensed statements and what should be the minimum things that you're disclosing related to those condensed statements.

And judgment will still come into play as you're now making sure that you're doing the preparation and fair presentation of those statements. Alright, well hopefully you got a little bit more information about this interim reporting.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why does ASU 2025-11 matter even though it does not fundamentally change interim reporting?
2. What are the most important judgment areas when preparing interim financial statements under Topic 270?
3. How does the lesson distinguish between the responsibilities of SEC registrants and non-SEC registrants in interim reporting?

B. Suggested Answers to Discussion Questions

1. Why does ASU 2025-11 matter even though it does not fundamentally change interim reporting?

ASU 2025-11 matters because clarification can be just as important as substantive change in financial reporting. According to the lesson, the ASU was issued to improve consistency in how entities interpret and apply Topic 270, especially regarding what qualifies as interim financial statements and notes prepared in accordance with GAAP. In practice, confusion often arises when entities prepare monthly or quarterly information on a condensed basis and are uncertain which disclosures remain necessary. The ASU helps organize those requirements and reinforces that condensed interim statements are still a full set of financial statements, not a partial presentation. It also introduces a clearer disclosure principle focused on whether omission of information could make the interim financial statements misleading. That is especially important for issues such as subsequent events, contingencies, going concern, and unusual items, where explicit interim disclosure requirements may not always be listed in a narrow checklist. As a result, the ASU improves judgment, comparability, and usability of interim reports for both preparers and users, even without dramatically changing the underlying reporting framework.

2. What are the most important judgment areas when preparing interim financial statements under Topic 270?

The lesson shows that interim reporting involves substantial professional judgment because interim results can be affected by timing, seasonality, estimates, and unusual transactions. One major judgment area is deciding which disclosures are necessary beyond those specifically listed in Topic 270 to ensure the statements are not misleading. Preparers must evaluate whether items such as subsequent events, contingencies, going concern issues, changes in estimates, or reclassifications are material enough to require disclosure. Another important area is cost allocation. Some costs benefit multiple periods, while others should be recognized as incurred, and the transcript makes clear that arbitrary assignment of costs to a period is not permitted. Seasonality also requires judgment because interim results may not reflect expected full-year performance, making qualitative and sometimes supplemental quantitative disclosure important. Estimates involving income taxes, inventory methods, and later refinements can also distort interim results if not properly understood and disclosed. Finally, judgment is needed in assessing materiality, since an item may be material to an interim period even if it is not material to the full fiscal year. These factors make interim reporting highly judgment-driven.

3. How does the lesson distinguish between the responsibilities of SEC registrants and non-SEC registrants in interim reporting?

The lesson explains that both SEC registrants and non-SEC registrants may fall within the scope of Topic 270 when they issue GAAP-based interim financial statements, but their reporting context differs. SEC registrants must also comply with applicable SEC form and content requirements, and the ASU acknowledges that interplay. One important distinction is that SEC registrants may presume users of interim statements have access to the audited annual financial statements from the prior fiscal year. Because of that presumption, footnote disclosures that substantially duplicate the most recent annual report may be omitted. This reduces unnecessary repetition while still requiring disclosure of material developments since year-end. Non-SEC registrants, however, generally cannot assume users have access to prior annual statements, so the interim reporting package may need to stand more fully on its own. The lesson also highlights a disclosure stating that interim financial statements should be read in conjunction with the most recently issued annual financial statements, which applies to certain non-SEC registrants using condensed statements. Overall, SEC registrants may omit more duplicative information, but both groups must ensure interim reporting is not misleading.

AUDIT & ACCOUNTING PART 2

Professional Judgment Failures – When Audits Go Wrong

In this segment, Sunish Mehta examines how professional judgment failures can undermine audit quality, increase inefficiency, and cause otherwise sound engagements to go wrong. Rather than focusing narrowly on technical standards, the lesson emphasizes the practical realities of audit decision-making, including bias, scope creep, ineffective planning, and overreliance on prior-year workpapers. The discussion highlights three especially important areas of auditor judgment: materiality, risk assessment, and audit approach. It also addresses testing controls, substantive procedures, IT risk assessment, and the evolving quality management environment. The result is a practical framework for performing more effective, efficient, and higher-quality audits.

Mr. Sunish Mehta

Hi everybody, and welcome to our session on professional judgment failures where good audits go wrong. I'm your instructor for this session. My name is Sunish Mehta. I'm a CPA and CGM from California and New Mexico.

I'm a long-time speaker with CeriFi. I've been with them since 2010. I'm a national speaker in the space of accounting, auditing, and other things, including mindfulness for CPAs. Having worked in the big four back in the day and then the big five and then the big six, I guess, going the other way around and having worked with smaller firms for almost 20 years in terms of instructing audiences and the audit practice around the country and virtually, I've been able to capture over the years some core, what I would call learnings, lessons and commonalities that I find people certainly experiencing when it comes to all things auditing.

So my goal here is to really focus in on, you know, looking at real situations where, you know, things can go wrong, not getting too much into what is required by the standards, but really judgment traps, biases, perhaps decision-making errors that I've seen over the years. And then we'll talk a little bit about, you know, also how do we make our audits a little more lean? Many of you are working with tight budgets.

We all know that, you know, with a fixed cost audit invariably with our highest level of assurance, things can perhaps go out of hand in terms of scope, creep, budgets getting blown, realizations getting hammered as well. Of course, staffing, how do we staff, how are we effective and efficient? You know the two e-words that we all love to use when it comes to all things in the professional universe. And so the thought process here is in my mind you know, many people use these two words interchangeably, efficiency, effectiveness.

And to me, over time, I've kind of said that I think for us in the audit profession, in our public accounting profession, regardless of whether we're doing an audit or maybe a tax return or doing a SSARS engagement, to me, ultimately, it's going to come down to what I would call effectiveness that comes before efficiency. Because to me, effectiveness is about being in compliance with the standards, in terms of doing good quality work that naturally will lead to efficiency in terms of what I would consider good realizations profitability.

You know, quality and E & E are again two terms that many firms, many practices simply think that there is no way to balance good quality work at the same time being effective and efficient. And I tend to not think that way. I like to think of ourselves as innovators, creative people, as much as people think accountant or not. I think you and I know how creative we can be and we need to be in terms of the work that we do after all with audits. It's all about risk assessment. It's all about trying to figure out where truly the risks are versus kind of just going through the motions year over year though sometimes our audits do feel that way. But I think if we build consistency in our approach in terms of how you and I approach what we do where we always try and do things a certain way, judgment, risk assessment, those things will change. But how about thinking about what we do, which is to say that I'm going to do certain things a certain way, and then of course I'm going to adapt.

But doing that, think, is so much better than just kind of doing what was done in the work papers the prior year. So, we'll talk a little bit about how can we make our jobs a little more leaner? How can you manage scope creep? And ultimately, what is it that we should be monitoring in this age of quality management, which of course we know is in place with SAS 146 being the new audit standard to bring, of course, all of the audit standards in line with the new quality management framework is SQMS 1, 2, and 3, one being the system of quality management, two being how do we do engagement quality reviews, and SQMS 3, course, just being some addition, especially in the space of group audits.

So, it's a big goal. We'll try and approach things from a very practical perspective. And hopefully all of us enjoy this session and get something out of it.

So big picture when we think about audits, I'm always going to break this down into three key phases. With audits, of course, we're going to think about what we would consider to be the risk assessment procedures, that is everything you and I do to get ourselves up to date about the client. What is taking place this year? What is at risk this year? Not last year, not next year, but this year. What am I going to do with that in terms of churning and figuring out where truly the risks are?

And then of course responding to the risks with our audit procedures depending on of course the choice we make in terms of, you know, whether we're going to do a substantive audit, are we going to benefit from the test of controls in certain jobs etc.

So, when we think about the entire audit life cycle and we think about planning. think planning needs to be looked at in a little more granular fashion. Too many times, for many firms, planning just becomes what we call this exercise that we go through quickly, update our understanding, boom, boom, bring in the audit program and be done. And I know that for many industries, especially governmental type work or maybe not for profit work or maybe even for that matter, school districts, et cetera, things may not change year over year.

But I've always maintained that an auditor has two key friends. One is materiality and one is risk assessment. If we nail down those two and we use good judgment, we get those two right, then our audits can go right versus going wrong. And I think always remembering that ultimately whatever you're opining on, we're opining simply on the financials of the clients are free of material misstatement, reasonable assurance, right?

Reasonable assurance is the highest level of assurance, but it doesn't mean 100% assurance. We're not in the mode of perfection. We're doing the best we can and assessing the risks as best we can, and then of course responding to those risks.

So, let's take materiality, because that's always going to be a biggie in terms of a discussion point and where I see sometimes that auditor's judgment doesn't quite work well. Or if not done correctly, could it be that simply put, that results in a big scope creep because once you determine materiality at perhaps a lower level, then you're going to have to do more work because your scopes are going to be lower. Your sample sizes are going to be perhaps impacted in terms of bigger sample sizes, et cetera.

So given the fact that many of you probably use a practice aid, certainly PPC, been around a long time, CCH with Knowledge Coach, has been around a long time, RSM was a methodology that so many of us used for many years till they kind of undid their licensing. And so a lot of firms are now using the new CPA.com's methodology called Dynamic Audit Solutions, DAS.

Regardless of all these different methodologies, or maybe you don't even subscribe to a methodology, you're doing your own thing. It doesn't really matter. Ultimately, audits are audits are audits. So when it comes to planning materiality, which is of course what we consider also as overall financial statement material, let's just take that for a few minutes and let's break that down.

We know technically that we need to keep the users in context when it comes to planning materiality. What I often see times happening is materiality is built or assessed or calculated on a benchmark or perhaps keeping in mind the conveniences to us as an auditor versus what we might consider the actual impact on the user.

So, for most organizations that be audit, most entities, invariably revenue is going to be a big factor. Even with a not-for-profit, we know that ultimately their contributions, their donations, everything that they actually collect and gain and then use to do the work that they do is important. And more often than not, from a benchmark perspective, I think revenue will always be a good one.

Now you may have situations where total assets make more sense or maybe some other figure on the balance sheet or income statement makes most sense. The goal is to use a benchmark that is most what we would call suitable, substantial, and more importantly, relevant to the user as an auditor.

Let's never be in a situation where I've seen over time where people will say, we chose planning materiality, the benchmark for planning materiality as total assets because it was bigger than total revenue. You can't do that, right? That's not a measure.

We always want to think about the business. We want to think about what is the risk to that business, that entity. So that's number one, something we always want to consider. I also think there's a lot of tools available out there that are plug and play tools where you think about your total revenue, you plug that into a certain table or a formula, and then that form or that practitioner calculates whatever your materiality is.

I'm not a big fan of using what I would call shelved tables or you know certainly calculators to build materiality out. I think we need to use our own judgment because that is where you can really change your judgment year over year and you can really be effective at perhaps trying to increase planning materiality ever so often when we truly don't have something that is truly as risky perhaps as what we might think.

So, anytime I have the choice of saying, I'm going to go and say, I'm going to pick overall financial statement, finding material as 1.5 % of total revenue. I'd rather use my own judgment to do that versus plug and play. You'll find yourselves certainly benefiting. A classic case could be, for those of you who use PPC, you know what I'm talking about, table one and table two. Table two is your judgment, table one is a plug and play.

Many of the other methodologies don't have table one, they simply have your judgment. So that's an important thing to consider. Second, more often than not, I see what firms do, which is to say, okay, if my planning materiality is, let's say \$100,000, and it was 1% of total revenue, let's say. By default, they're going to go to 75% for performance materiality. That is to say that if I were to assess everything at that high level of materiality, I'm going to miss things.

So, I'm going to lower it a little bit that I can truly apply to different cycles that I'm working on, different sections that I'm working on. And we default to reducing by 25% at 75%. I think that works. But I think at the same time, when you do do that, keep in mind that by section or by cycle, you may consider the simple fact that I may need to perhaps calculate or assess my scope or my sample size, a little more what I would consider at a customized level for that area, for that section, for that cycle, because just lowering it to performance material and going with that may not be enough.

And that's why some of us will go in and say, okay, I'm going to do performance materiality by the risk assessment, whether it's high, moderate, or low, or it's, you again, in some cases maximum, slightly below maximum, moderate and low, or maybe it's, you know, against significant or not significant, higher, lower, whatever your methodology is in terms of risk assessment, be aware that a blanket 75% is good to get that materiality worksheet done, but you may need to adjust scopes and adjust materialities based on each section.

Clearly, trivial threshold is something that we always consider. Again, most of us probably use 5% of planning materiality, which I think is perfectly good. I have seen firms go up as high as 10%.

There are firms that have done that and they've suffered greatly in the sense that they've done a lot of rework because 10% simply was too high. Keeping it too low leads to efficiency or inefficiency, like 1%, you have to propose everything and anything. But if you keep it at 10%, chances are that you're going to miss things.

So, we want to be careful with that. Something else that the standards talk about that most of us probably will not ever think about is evaluation materiality. The standards say, that the auditor should always consider what they call subjective or qualitative factors in how you come up with materiality. And I think it's, in my mind, it still then comes down to professional judgment.

And what we're saying here is that there might be situations where primarily materiality, of course, is a quantitative analysis, but you may have certain things that you may have in mind that you want to think about that are qualitative in nature to where regardless of an item, whether it's totally immaterial or not from a quantitative perspective, you believe it's material because of other factors.

So that's one of our great friends, materiality. We nail that down, we use right judgment, the audit will go right. Our second friend is risk assessment. Now, we know that with risk assessment in an audit, there's a lot of work ahead.

There's lot of stuff that we do. And of course, the risk assessment summary is an important document that we need to create that leads to, of course, what are we going to do in terms of responding to the risk, in terms of the nature, the extent, and the timing of our procedures.

I'm going to call risk assessment in plain English as picking our battles with the client. Now, what do I mean by that? Do I have the time? Do I have the budget? Do I have the inclination to go in and think of maybe 25 things that can go wrong and address all of those. I simply don't. So, I'm going to pick my battles with my client.

What is truly at risk this year based, of course, on context of last year, but not just because it's last year and not worrying about what's happening next year. Now, one thing that we notice with risk of material misstatement and risk assessment is when something is assessed as high because of let's say a specific situation that was taking place two years ago or one year ago. Once it's high, it remains high forever. I'm a big believer in revisiting high or higher or significant risk assessments.

Because what if the client has gone through changes? What if they've addressed a risk through changes in their internal control? What if they have a situation that came and went and it's no longer a risk. Once high, it does not need to remain high because all that does is it creates extra work. And for every single cycle that you assess risk at high or by assertion, it doesn't matter. When it doesn't need to be, there's a good chance that we're not focused on something where you truly need to be focused on this year.

Now with SAS 145, we know that we think about the magnitude of the potential error or fraud. And we think about the likelihood, we call it the spectrum of inherent risk. We know that formally we have to assess inherent risk separately than control risk. Inherent risk, of course, is the first thing we worry about in terms of the audit risk model. Inherent risk, of course, is a risk of material statement before the consideration of control controls. Plain English, it's baked in the cake. It's already there whether you are the auditor or not

And then we think about control risk, which is to say that the client's control controls potentially do not prevent, detect, or correct something from going wrong. And so from our perspective, that comes down to, of course, looking at what the client has in place. Now, that's going to largely depend, of course, on your client. If you have an SEC client, you have a bigger company, you have a mid-sized company, things may have better internal controls in place, but if you're working with a small to mid-sized business, chances are segregation of duties are not great, chances are there's a lot of perhaps SOD violation, and more importantly, what we would consider preventive controls are not very effective.

So, we then think about, of course, detection risk. Detection risk is the risk that we miss or catch something, in plain English. And the way we control detection risk is by the nature, extent, and timing of what we do. So, we know the risk-compatible statement is made up of inherent risk times control risk, right? And we might be the only profession in the universe that thinks we can multiply letters and come up with something. We don't quantify it, but we certainly assess it. And then we respond to it by the only thing you and I have control over, which is detection risk.

So, when it comes to risk assessment, as I was mentioning earlier, that's my second best friend. So, for one, once something's high, it does not need to remain high. Look at it and adjust it. It's okay to lower risk. Now, that's a caveat that I'm going to throw in there because one of the things the auditing standards say, whether it's a PCAOB or it's the FASB is to say that by default, revenue should always be fraud risk and it should be high.

If you are going to assess inherent risk at lower than high or significant or fraud for revenue, we better justify why. And that's all there is to it, right? So again, for most of us by default, revenue will always be high or significant. And remember, another important thing when it comes to how we do risk assessment that sometimes is a failure. With fraud risk, fraud risk by definition is significant.

However, significant risk does not always mean fraud risk because a client may have a situation that happens, let's say it's a discontinued operation or they've moved their manufacturing from the U.S. to overseas or from in-house to a third party vendor or they've decided to go with a different lender, a different bank. Could it be, could it be that that significant risk is not fraud?

It's just significant that you and I need to pay attention to this year. So that's something we want to always bear in mind. With SAS 145, two other things that I want to mention. What is a significant risk? In plain English, if you were to assess anything as significant, it better be very high on the spectrum of inherent risk.

That is to say, that it is highly possible and it's going to be big in magnitude. So in plain English, the highest of the highest risks is the way I think about significant risk. Significant risk, as soon as we assess it, by definition means I'm going to have to do a lot more work. And so we know, for example, that we cannot do analytics alone, we must perform test of details when it comes to substantive testing.

Second, SAS 145 finally allows us, and this has of course been in place since the end of 23, to make assertions not relevant. That is to say that if we were to assess an assertion as not relevant, there is no testing required for that assertion. So the contrary to that is going to be what? If I were to assess, risk, even low for an assertion, we must perform some level of testing.

I'm a big fan of SAS 145's not relevant assertion clause or provision, because I do think we have the opportunity to greatly streamline our audits and not always have to assess all the assertions minimally at low.

Now, of course, the great Auditing Standards Board and the powers that be will always tell us that, wait a minute, they do have a stand back requirement. That is to say that if you have a situation where you make an assertion not relevant, however, that balance is material. Let's say fixed asset additions. Big picture, balance, material. Fixed asset additions for the current year that I'm auditing, not material.

I'm going to make existence not relevant. But given the fact that the gross balance of fixed assets or PP&E is material or high, I need to stand back, look and make sure am I truly okay not even testing those additions? I've seen mixed results on that. Some firms have been very aggressive with SAS 145 to make things not relevant. Some firms are a little bit nervous, they still, and I say nervous in a good way, right?

They're more cautious is what I really mean. They will go in and do some testing relevant to an area where the assertion is not relevant, but that stand back requirement makes them do that. A classic case of where clearly an assertion could be made not relevant is a company or entity that has no foreign operations. There is no foreign exchange gain or losses.

And so for cash, valuation would be not relevant because a dollar is a dollar is a dollar. Now you and I can quibble about how much a dollar is worth today or not, but from a financial perspective, a dollar is a dollar. So yeah, completeness, existence cut off perfectly for cash, but the assertion of valuation certainly would be not relevant

So, let's step back a little bit and let's think about what we've talked about so far. We've discussed two-bit concepts.

That judgment is required on in an audit. That is to say, nail down the materiality, get it right, nail down your risk assessment, get it right, those two things together will make your good audits go right. So now let's talk about some other things where judgment perhaps is going to play a big role.

It's interesting folks, right? When you think about, you and I do all the work that we do in auditing to essentially do the work that the standards tell us. And at the same time, we want to cover ourselves, right? Because this day and age, we're concerned about litigation. We do live in a highly, and I never know how to say this word, litigious, I think is the right way to say that word, fancy word for me. But we live in that world. So we're covering ourselves at all times. And we want to be in compliance with the standards. So what happens then is we land up doing a lot of busy work sometimes.

And then in that case, our judgment drives us towards perhaps quantity over quality. We do use our judgment because after all, you and I are making assumptions when it comes to, let's say, expectations on an analytic, or we're certainly making judgments or using our professional judgment when it comes to allowances and such.

So at the end of the day, when you think about any proposed adjustments that you and I would come up with, that we would summarize in our summary of audit differences or the PAGI, or as one firm calls it, the SOPA. I've never heard that before. The Summary of Proposed Adjustments. There's all kinds of acronyms that we like in our world.

Let's think about the three kind of adjustments that you and I would propose in an audit.

We certainly would have what we call factual adjustments that we'll propose based on fact. The client did not accrue for an expense. We found that in the search for unrecorded liabilities. They clearly should have accrued that expense last year or the year of the audit. They didn't. Fact-based. Second is judgment. Many a times auditors find what I would consider judgment-based adjusting entries to be hard because the client's going to push back. So for example, in my judgment, the allowance or credit losses should be increased by half a percent because clearly there's more bad debt write-offs taking place, et cetera.

And then the third type of adjustment you and I would propose would be a extrapolation or a projected adjustment that is driven by sampling. Whether you're using statistical sampling like MUS, monitor unit sampling, for many of us that use non-stat sampling, just basically using, you know, percentage method or the numbers method of just projecting what the errors are by looking at certain amounts of items in a sample like that say confirmations for AR etc.

We're going to project and extrapolate that error, the sampling error, onto the population and propose an adjustment. Now with all three, I think factual very hard for the client to push back on. Judgmental, they will. Sometimes projected, they will. But projected, I've always have a ready answer. I know it sounds a little you know, too little smart, whatever you want to call it. But the simple thought is fine.

Well, I can always work another hundred hours and test every single thing that is in the population. And the goal would be that chances are I'm going to come up with the same error that I'm projecting. Right. So again, these are things that we play with. But from our judgment perspective, the big question then to ask ourselves is once I'm done with our materiality, once I'm done with my risk assessment, what approach am I going to use on this audit?

Do I want to use testing controls? Now we're not serving a full pecan pie of evidence, are we? I may have a slice of pecan pie, strawberry rhubarb, apple, banana cream, Oreo, I don't know, we have different flavors because I don't have to do one thing for the entire audit. I could test controls for sales cutoff and revenue and I may choose to do a fully substantive audit when it comes to cash disbursements and the payment cycle.

So, the goal here would be, does it make sense for me to test controls? Now, we know with public clients and any client that undergoes a PCAOB audit, we have to test controls. Different topic at hand that is driven by Section 404 in SOX. If you're doing governmental work, of course, compliance-based testing is required. For those of you who work with non-public entities, smaller entities, the thought process would be, do I get the benefit of reducing substantive testing by testing controls specific to, let's say, sales cutoff?

Now, how do we determine that? You and I know that we have to update our understanding of control for all significant classes of transactions every year. Certain things we always look at, financial reporting, revenue, those two we always look at. Anything else we're going to ascertain or deem to be a significant class of transactions that we're going to look at in terms of updating our understanding of internal controls

And so then the question begs, does it make sense or not? For many of us, we're going to default to doing a substantive audit because that's what we've always done. And there's a good perhaps explanation for that because again, our clients tend to be smaller businesses. Inherently, if we start relying on controls, we're going to have to test controls.

When we test controls, we're going to find all kinds of goofy stuff going on. So we're happy simply doing our walkthrough, move on and do a substantive audit. I would ask all of you to start looking for opportunities, even if it's one section, it's one cycle, to see if you can test controls. Because if you can test controls, then think about the benefit you would get.

For one, the goal would be to reduce substantive testing. How do we reduce that?

Well, you could certainly increase your scopes. You could lower your sample sizes. You could do more analytics in the substantive space, which surely saves us time.

Second, think about your realization. Think about being effective and being efficient, even if it's one area. The other great thing about testing controls is you can rotate testing controls for every three years, unless, of course, there's a change in risk or there's a big change in how the client operates that specific cycle in terms of maybe a system change, maybe in terms of process change.

So I think there's always an opportunity to test controls. And then we know that testing controls does not eliminate test of details or substantive testing rather. So what can I do? I can lower all that stuff or maybe I can do a good solid substantive analytic.

And a nice combination of TOCs, tested controls, and substantive analytics can nail down the risk and I'm done. The other thing keep in mind is you can test controls at any time of the year. So you could go at an interim date and you define what that interim date is. Midway, third quarter, doesn't matter.

So that's the other advantage is not being completely overwhelmed at year end and maybe as a firm, as a practice, you can take on more jobs.

When it comes to analytics, remember preliminary analytics and substantive, I mean, final analytics are required by the standards, substantive are optional, and we always want to make sure that if it is a significant risk, we must do test of details. I've often seen that the risk is high or significant, still the client, the auditor will simply do an analytic. That won't suffice. But I'm always going to go back to saying, think analytically first, because even if you are dealing with fraud risk, an analytic might help you in terms of nailing down the timing, the location, the accounts, what kind of fraud is it that you need to look for in your test or details.

At the end of the day, there's a whole bunch of other stuff that we can think about in terms of using judgment. But I do think the three big things, materiality, risk assessment, and what approach you're going to use are always going to be important. And let's not be in autopilot mode for those. Because if we, again, are in the autopilot mode. We're going to increasingly do extra work. We're going to have scope creep. We're not going to have enough time. People will eat time, which is not good, because that doesn't reflect the cost of doing work. Your realizations are going to get hit as well.

Now, given the fact that depending on your client, depending on their size, depending on your firm, and what kind of clients do you work on?

The other important thing to keep in mind is scalability in terms of what you do. For example, IT. We know that IT risk assessment is something that is required by the standards. Now if I was dealing with the audit of Disney or Pepsi or Coca-Cola, think about the amount of time that EY or the other auditors spend in the space of IT. Matter of fact, they probably have IT auditors that go in and do all the extra work, and then the financial auditors go in and do the work.

You and I, we're going to do the basic IT risk assessment. And there's forms that we fill out, et cetera. And maybe for our clients, their IT environment is something that is quite simple. QuickBooks Online, maybe ADP for payroll. If it's a benefit plan, they have a TPA and there's a SOC report, System and Organization Controls report that you can get, et cetera. Now, to me, a lot of auditors go through the motions on this.

This is an important one. Whenever clients do change systems or customize systems, let's make sure our clients are fully aware that the first person they need to get in touch with is us. Because we're going to need specifically documentation or evidence or proof that the closing numbers from QuickBooks Online have been correctly incorporated into Great Plains if they were moving to Great Plains, let's say.

We want to make sure they've gone through the testing. We want to make sure that they're customizing a report that actually makes sense. So from our perspective, the integrity of information being so very important, let's not be in a autopilot mode when it comes to IT risk assessment. Let's truly think about what's in the cloud versus what is local for the client. And let's make sure that they are aware.

That they need to be in touch with us before anybody else when it comes to system changes, customizations, so that we can sign off on it from the perspective that at least we know in advance versus being caught off guard later on. One of the things I always recommend in terms of being a good method to use is what I call developing the financial reporting landscape.

And now all I'm asking you to do is that anytime when you start an audit, update this, and of course you're creating it for the first time, that's fine. Talk to somebody in finance and simply maybe doodle on a piece of paper or on a whiteboard, on a sketching app, on your smart tablet, the flow of data. What is going where and which systems are involved. I've always done that on all my audits, reviews, comps, et cetera. An audit, of course, it can be added in your work papers on SSARS engagements, other engagements, I would not add it. I do it purely as a point of efficiency because I refuse to accept PDFs from a client in terms of PBCs without knowing where they came from. If it's a fixed asset roll forward, sure, the client built it in Excel, perfectly okay. And the source data is let's say from QuickBooks or Sage or what have you.

But I always want to know where that PDF is from because that gives me the opportunity to look at perhaps the breaks that can happen in terms of the flow of data. And I doodle together a picture for my own sanity so that I understand where the information is flowing from. And that goes right into your IT risk assessment as well, especially if you have clients that are dealing with, let's say, a software for their accounting and have a different software for manufacturing, and they've outsourced their payroll to say paychecks or ADP, et cetera.

So that's something else that I think is important that we think about. Now the big question when it comes down to it as we wrap this session up is what about quality management and what about monitoring things that potentially are important? SAS 146 is the audit standard that brings in line audits with SQMS 1, 2, and 3 from a quality management perspective where we build a new quality management system that has eight factors versus six that we had on the quality control system prior to this, and then two, the EQR process, where we're dealing with how do we manage engagement quality reviews? And of course, 2026 is the first calendar year that we need to worry about.

So, the good news is that we're no longer in a static control checklist mode of saying check, check, check, check, check. These are the things that I have in place to be a member of the AICPA. I know I need to have this in place.

With quality management, it's much more dynamic where you can decide which engagements are truly at risk that could be potentially mitigated by an engagement quality review. So we have the ability to say that these audits, I believe, truly should go through an EQR versus these should not. This is going to be important for us to think about in terms of judgment.

Now, the AICPA is supposed to release a whole bunch of stuff from a peer review perspective in mid-2026.

And those are going to be the checklist that you and I will use to ensure that we're in compliance with peer review, which we know audits are of course subject to. So be aware that that will be coming out in the middle of 2026, or it already is out if you're listening to this later in the year. And you want to make sure you look at those checklists because that's going to help you to be in compliance with the SQMS2 EQR and peer review for 2026.

It's a lot of bureaucracy. It's a lot of work for us because this is a change that we're going through. But I think it's important that we stay on top of it. It's not like you and I have a choice really. So we need to really think about our firm, your firm-level metrics. What do you think is important in terms of the jobs that you truly believe that should be subject to EQR that most likely the peer reviewer might agree and might pick anyway.

So, big picture as I wrap up. Keep in mind that judgment matters, right, in an audit. And there's a term we use which is professional judgment. Use that. My big belief always has been in everything that I do and I'll probably ring in a little bit of mindfulness in this is pause ever so often because that gives you a chance to ponder and that gives you a chance to pivot, to be effective and to be efficient on this year's to where you don't fall into those traps biases and decision-making errors but rather you make good audits go right and not wrong. Thanks everybody. I hope to see you another one of these sessions and again take care.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why does the speaker believe materiality and risk assessment are the foundation of a good audit?
2. How does the lesson connect professional judgment to audit efficiency and scope management?
3. What does the lesson suggest auditors should do to avoid “autopilot mode” in their engagements?

B. Suggested Answers to Discussion Questions

1. Why does the speaker believe materiality and risk assessment are the foundation of a good audit?

The speaker presents materiality and risk assessment as the two most important drivers of audit quality because they influence nearly every major planning and execution decision. Materiality determines what matters to users of the financial statements and helps the auditor decide how much work is necessary. If materiality is set too low, the engagement may suffer from scope creep, larger sample sizes, and unnecessary work. If it is set poorly because the benchmark was chosen for auditor convenience rather than user relevance, the engagement may be misdirected from the start. Risk assessment then builds on that foundation by helping the auditor identify where the true risks of material misstatement exist in the current year. The speaker emphasizes that auditors should not simply carry forward last year's conclusions or leave risks assessed as high forever without reconsideration. Together, these two judgments shape the nature, timing, and extent of procedures. When they are handled thoughtfully, the audit is more likely to be effective, efficient, and responsive to the current engagement. When they are handled poorly, even a technically compliant audit can become bloated, misfocused, or less persuasive.

2. How does the lesson connect professional judgment to audit efficiency and scope management?

A major theme of the lesson is that good judgment is not separate from efficiency; it is what makes efficiency possible. The speaker argues that many firms assume there is a tradeoff between quality and efficiency, but he challenges that assumption. In his view, effectiveness—meaning quality work in compliance with standards—comes first, and real efficiency flows from that. Poor judgment, by contrast, often produces scope creep. Examples include setting materiality too low without a sound reason, failing to revisit risk assessments, defaulting into a fully substantive audit when control testing might help, or simply repeating what was done in the prior year. Each of those habits can add unnecessary procedures, increase sample sizes, and reduce realization. The lesson also ties efficiency to better planning decisions, such as using assertion-level thinking under SAS 145, considering when an assertion may be not relevant, and identifying targeted opportunities to test controls. Even understanding the client's IT environment can reduce wasted effort later. Overall, the course frames efficiency not as cutting corners, but as the product of thoughtful, well-supported professional judgment that keeps audit work focused on what truly matters.

3. What does the lesson suggest auditors should do to avoid “autopilot mode” in their engagements?

The lesson strongly warns against autopilot mode, meaning the habit of repeating prior-year approaches without enough current-year thinking. To avoid that trap, the speaker encourages auditors to pause regularly and apply deliberate professional judgment at key decision points. First, auditors should reassess materiality using benchmarks that reflect the needs of users and the realities of the business rather than blindly following tables or formulas. Second, they should revisit prior risk assessments and ask whether risks remain high, significant, or even relevant in the current year. Third, the auditor should think carefully about the audit approach—whether substantive procedures alone are appropriate or whether control testing might improve effectiveness and efficiency. The same mindset applies to IT risk assessment, where changes in systems, cloud platforms, payroll providers, or data flow can significantly affect the engagement. The speaker also recommends mapping the financial reporting landscape so the auditor understands how information moves through the client's systems. More broadly, he emphasizes mindfulness: pausing often enough to ponder and pivot. That reflective habit helps auditors avoid bias, reduce wasted effort, and make better engagement decisions in real time.

AUDIT & ACCOUNTING PART 3

Auditing Complex Estimates Without Re-Preparing Them

In this segment, Sunish Mehta explains how auditors can effectively evaluate complex accounting estimates without taking ownership of management's process or re-preparing the estimate themselves. The segment focuses on the auditor's responsibility to assess the reasonableness of management's assumptions, data, methods, and related disclosures while maintaining professional skepticism and avoiding cognitive bias. The discussion highlights the role of valuation, completeness, and presentation assertions, along with the importance of risk assessment, estimation uncertainty, retrospective review, and documentation. The session also addresses SAS 143, SAS 145, management bias, and practical audit strategies for testing estimates in a thoughtful, scalable manner.

Mr. Sunish Mehta

Hello, welcome to our session titled Auditing Complex Estimates Without Re-Preparing Them. I'm your instructor for this session. My name is Sunish Mehta. I'm a CPA and CGMA from California and New Mexico.

And I've been a speaker with CeriFi and CPE Network for a long time and been doing this nationally throughout the country with different firms in-house, both in public forums as well.

I'm an auditor by origin and I worked with EY and I went on to work with PWC and went on to work with IBM Global Business Services and then in 2010 I decided to work for myself. So, I've been in the learning business a long time and I've been working with CPA firms both in the U.S. and overseas and learning how to use mindfulness as a tool to bring balance, to bring creativity, to bring a sense of space and time to ourselves, especially those of us involved in the world of auditing, in the world of public accounting, in the world of finance, in the world of client services, etc.

So our topic at hand, of course, is estimates. And when we think about auditing, we certainly need to think about estimates as being an important factor of an audit. After all, we even opine on estimates in many ways, where it's mentioned in the engagement letter, it's mentioned in the audit report as well, where we talk about the audit also including evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.

So, the work that we do, of course, is in the space of providing that opinion of reasonable assurance, never 100%. And in our opinion, we're opining on the actuals in terms of what the clients may have in terms of gains, losses, expenses, certainly revenue, income and of course everything else that goes into a set of financial statements that reflects a business.

But we're also talking about from a U.S. GAAP perspective what the client might need to accrue for in terms of estimates. And when you think about estimates, so many things come to mind of course in the nature of the estimates that our clients certainly are dealing with, whether it's leases, whether it's revenue, especially for long-term contracts where we're talking about performance obligations and trying to allocate the right transaction price to that performance obligation within the context of course of a larger contract, whether it's what many of us have had to work with, which is what we used to call the reserve for doubtful debts. Now we call it the allowance for credit losses.

Anytime we're dealing with valuation, certainly as an assertion and an audit that we're opining on the reasonableness that the client has materially asserted. What is it behind their numbers when it comes for example, inventory, whether it's impaired inventory, whether it's obsolete, whether it's unsaleable inventory. Certainly when you think about useful lives with PP&E, that's an estimate driven as well because we're depreciating that specific asset, whether it's again PP&E or an intangible where there's amortization taking place over what we would consider the useful life of that specific line item.

Accruing bonuses, sales returns and allowance, warranty reserves, maybe for that matter allocation of overhead to G&A, overhead of certainly what we think about in terms of cost of goods sold as that's allocated to direct labor, indirect labor, direct materials, indirect materials as well. And then certainly allocation of expenses between different accounting periods is something that we certainly have to contend with.

So, as we know in an audit, we're dealing with of course assertions, we're dealing with our audit plan and estimates can be pretty darn daunting at times because there's a level of uncertainty. There's a level of subjectivity which we need to maintain professional skepticism around. And most importantly, always knowing that I'm not going to go ahead and own that estimate. That is a client's estimate. And it's not my job to re-prepare that estimate or come up with what we believe the estimate should be. It's always the client's estimate.

But my job as an auditor is to make sure I understand the assumptions, the data, the credibility of the assumptions and data the client has used in coming up with that fair value of a level one, a level two, a level three, for example, investment and/or other products like that.

So, we know in an audit, typically as we go through the life cycle of an audit, our big concern is to make sure that we are methodical about it, that we're maintaining what we call a lack of cognitive bias, right? We're always professionally skeptical. Cognitive bias is something that many times builds into especially the space of estimates because sometimes a client's business can be pretty darn complex.

They can be involved in perhaps very unique contracts, very unique line items that are on their financials that require that specific appraisal that they might hire a specialist for, we might hire a specialist for, in terms of coming with what we believe should be the value of that PP&E, of that line item, of that investment, of that financial instrument, et cetera.

And so for us, this is important because cognitive bias can come through many different ways. It could be simply the bias that the client knows their business. I'm going to trust them and I'm just going to go with it. Bias could develop from an auditor from the perspective of, I don't have time. I've got limited time budget, realizations matter. Let me just get this over with.

Cognitive biases, of course, can be built through what we would consider the color of the lens that I have on maybe because of my past experience. And you'd be amazed as to what I see out there when I work with firms around the country leading audit classes, audit workshops. Sometimes they're three-day workshops. Sometimes it's a one-day workshop.

I've pretty much worked with at this point hundreds and hundreds of firms and thousands of auditors since 2010. Been doing this a long time. And so, what's interesting to me in all of this is to always realize that estimates is that tricky part. And the operative word that is perhaps the most important word that you and I care about from an auditing perspective is going to be the four-letter word bias, B-I-A-S.

We're always concerned with does the client have a bias to over accrue to under accrue to bias or use bias in how they come up with that subjective estimate.

And that's what makes estimates a little bit different than, you know, maybe just auditing accrued expenses or auditing payroll or auditing, you know, certainly cash or other line items that are much more factual in nature.

You know, when we think about proposed adjustments that we may certainly come up with, you know, you think about factual adjustments that could be simply the client does not accrue for an expense and we find that out in the search for unrecorded liabilities when we test AP but it could be judgmental.

That's the space that we're in in our conversation right now, which is judgment. In my judgment, that estimate needs to be increased by 1%, that allowance needs to be increased by 2%. In my judgment, that estimate needs to be increased or decreased based on the assumptions. And our goal is not only just to maybe do a recalc of whatever that appraisal is, whatever the client has, but to specifically examine what is it that they have used in terms of the data and the rationalization

Is it rational? Right? That's what we really care about. So, when we think about the big picture in terms of auditing, we think about certainly the three key phases where we do our risk assessment procedures. We look at everything that's taken place last year. We're looking at any updates for this year. That leads us to that second phase of risk assessment.

And of course, risk assessment. These days risk assessment can be done at the assertion level. Certainly, methodologies exist where risk assessment done is at the cycle level and assertions are secondary. But we know that at the end of the day as auditors you and I are auditing the assertions.

What is the client asserting behind the number versus whatever the client may have in terms of value, right? For me for example I may have a small to mid-sized entity where \$5,000 is material. You may doing an audit of a national company, a global company, a big company where maybe \$500,000 is material.

Numbers don't matter but what's behind it matters. And when we think about assertion, certainly what comes to mind in terms of our standard assertions would be what we call existence and occurrence, completeness, valuation, which again directly relates to estimates, rights obligations, certainly classification, cutoff, and this day and age, presentation and disclosures matter.

So, from an assertion perspective for our topic at hand, I would like to focus in on valuation, which I think is important because we're thinking about bias, and we're also thinking about presentation and disclosure. Completeness, of course, is important as well because if an allowance is not completely stated, could it be that we are overstating, for example, accounts receivable?

And when we think about the audit risk model, ultimately all things auditing come down to the simple equation that we've built and we're probably the only profession in the universe that can get away with this where we think about audit risk equaling inherent risk times control risk times detection risk.

And, with inherent risk since we've had SAS 145 in place from the end of 2023 we certainly come on to consider the spectrum of inherent risk that is to say that where is this number on the spectrum of inherent risk in terms of what we would consider magnitude and what we would consider likelihood.

The other important thing that SAS 145 makes available to us, of course, is that we can make certain assertions non-relevant when there is no risk.

So with the audit risk model when it comes to inherent risk, I think that's where we certainly want to think about is the client inherently biased to overstate or understate that estimate?

And then if it is an estimate that is a regular part of the client's business, let's say the allowance or credit losses, which is something most businesses that sell a product or services would have in place, then do they have controls around building or evaluating or reevaluating or assessing or calculating that estimate.

And we want to certainly understand any internal controls that they may have in place around that if it is a substantial important estimate that is part and parcel, like sales returns and allowances, allowance or credit losses, warranty reserves. And of course, control risk being the risk that the client's internal controls do not prevent, detect or correct something from going wrong.

And so, from our perspective, we want to make sure we also look at those controls. And then we know that the only thing you and I have control over in the audit risk model per se is detection risk.

And detection risk is a risk that we might miss something. And how do we control that? We control that via, of course, the nature, the extent, and the timing of our procedures. Nature being what we do on a day-to-day basis, whether it's inquiry, of course, an audit inquiry must be corroborated, whether it's inspection, know, again, vouching, tracing for existence or completeness, whether it's observation, observing a process, maybe not as likely to apply to, of course, estimates, re-performance could be the situation where we might do something, but we want to recalculate that estimate.

And then of course confirming that would be directly with say for example AR balances and or cash etc. Analytics can be very useful in the space of estimates. The extent of course is how frequently is that control for example used by the client if we're looking at the extent in terms of testing and internal controls and with estimates we typically might land up doing test of details because if it is a significant estimate or a estimate with high risk we know that we cannot do analytics alone.

We must do test of details. And then timing of course comes down to are you going to do interim testing? Are you going to do year-end testing, etc. So, there's a lot of different things that we do in auditing and of course when we develop our plan and our strategy for auditing we are going to decide whether we're going to test controls or not for private businesses.

Of course, if you're doing the audit of a PCAOB company then you would need to test controls after all that is a requirement for 404 or SOX testing. For non-public entities, it's going to be a choice. And if we're going to test controls, the goal always would be for non-public entities to reduce the level of substantive testing.

And with estimates in mind, if we truly believe we can test controls, I think that's always a good idea, because testing attributes of a regular process that the client is going through on a regular basis, always a good thing.

But many a times with smaller businesses, mid-sized businesses, their controls and their processes will not be as robust. And so then we say, know what, it's better to use a substantive approach.

If we go substantive, we know that if the risk is significant or if it's a high risk, I've got to go above and beyond analytics. But I'll never shy away from doing analytics, especially with estimates. And we'll talk about retrospective analytics, which I think is perhaps the most effective way to go about testing bias around an estimate from a client's perspective.

And then of course, details testing is where we get into doing ISI based on scope, maybe based on risk attribute as in individually significant items. And of course, what I would always say is the last resort that we should always have is sampling, whether it's non-statistical for many of us or statistical.

So, one of the things that happened as of late in the last several years, we've had so many revisions and updates to auditing standards. They've been in the space of what we would consider is the guidance explicit versus perhaps previously implicit.

So, a lot of these updates have been in the space of what they call clarification. And the big one that came down the pike was SAS 143 that deals with auditing, accounting estimates and related disclosures that have made certain things much more explicit when it comes to auditing estimates.

They went about defining certain new terms to make them again very explicit. And they also talked about the scalability of SAS 143 as it would apply to maybe big companies versus small companies. The goal is this essential concept that we need to remind ourselves of, which is the estimation uncertainty.

Now, fundamentally, when you think about it, we aren't changing the way we audit estimates. mean, there was always uncertainty. But we call that estimation uncertainty under size 143.

That is to say is how uncertain is that estimate and, of course, the big thing that SAS 143 did, which goes hand in hand with what SAS 145 did, SAS 145 being risk assessment and AU-C 315 being clarified, is it requires us to assess inherent risk and control risk separately for estimates as well. And of course, I would think about that in terms of simple to complex, in terms of scalability. It also includes enhanced guidance to help us address more complex accounting estimates, which is really a topic at hand.

And what is it that we need to do from a risk assessment perspective? How do we tailor our audit procedures remembering that skepticism, professional skepticism should always be maintained?

And why did all this happen specifically? Why did 143 come out? Well, SAS 143 really was rooted in the fact that accounting guidance includes estimates that in the modern day of business estimates are becoming much more complex, right? Gone are the days where estimates simply were the allowance for doubtful debts, for example, or maybe sales returns and allowances.

Things have gotten to be more complex depending on the businesses that your clients are in. Just the way data is used, just the way analysis is done, data visualization is used, and now we're in the space of generative AI and how is that going to play a role in all of this is going to be interesting.

And estimates typically sometimes pose higher risk areas on an audit, typically high risk or what I would consider significant risk. Again, a lot of variety in terms of how firms were approaching all of this. And one of the big reasons why SAS 143 was released was just this pervasive peer review comments that were coming at all different levels, including PCAOB enforcements and actions and comments related to estimates.

And so one of the big things that I always want to make sure because this is sometimes lost when we're working with small to mid-sized entities and I don't blame ourselves for getting lost on this because invariably when you're working with smaller businesses what happens is you land up sometimes taking ownership.

Well, we want to be very careful with that because we know ultimately it's management of the entity that establishes that process for preparing the estimates and they make the estimate of my job as an auditor, our job is to evaluate the reasonableness of the estimate, right?

Again, depending on materiality, depending on our risk assessment, and always what we call reasonable assurance. And so getting into the mindset of the client as to what did they do, what data did they use, what assumptions did they make, and understanding their processes.

So, the big question then begs, what makes an estimate more complex or risky? Certainly, from an inherent risk perspective, it simply would be that there is a high likelihood and magnitude of material misstatement. And it's going to depend upon how, again, to what extent is it judgment-based?

What about the sensitivity of the estimate when it comes to changes in assumptions being made?

What about the existence of inputs that may mitigate what we call the estimation uncertainty?

What about the length of the forecast period? The amount of the reliance of data from maybe previous events or maybe future events for that matter? Credible sources. What about availability of reliable data from external sources? Because again, relevance and reliability matter. What do we say? Apples to apples, oranges to oranges.

And the extent to which we have inputs that we can observe or maybe inputs that we cannot observe because simply put, there's nothing in the marketplace that can be used and we have to get to that level three type of scenario, especially when we talk about financial instruments and valuation of financial instruments.

So I'm going to break this down into perhaps three big categories when it comes to estimates from our perspective. And what is it that we need to do when it comes to understanding the nature of the estimate? How complex is that estimate?

Do I need specialized skills or knowledge in terms of maybe us as a firm hiring a specialist to help us with this specific estimate? How subjective is that accounting estimate? As in how much judgment did the client have to use, which makes it more subjective in nature? Also, how susceptible is it to bias?

And then we have this third thing that really is a result of SAS 143, which is to say, estimation uncertainty, which quite simply could be defined as the lack of precision in measurement.

And precision is an interesting word because when you think about precision, we might think about analytics. For example, we know with substantive analytics, AU-C 520, the audit standard requires auditors to come up with an expectation and then compare that to the client's actual numbers. But how do we build an expectation that is precise? Am I going to have to use disaggregation where I need to break down that expectation of an allowance by different business units within my client's overall business?

Will I be able to come up with an allowance of credit losses? Say for example, I work for EY and doing the audit of Coca-Cola. Can I do that at a high corporate level when we know that Coca-Cola is probably made up of hundreds and hundreds of legal entities around the world that are in different businesses that have different risks? And would that be done at those unit levels, like maybe a group audit if they're using different systems or if they're all using a big ERP system like SAP, most likely it wouldn't be a group audit, but there would be that aggregation risk of these allowances which would need to be tested at that perhaps subsidiary level versus at the highest level of Coca-Cola.

And so, complexity is going to definitely require specialties, skills, right? Where we need to hire a specialist so we could use management specialist work, because they may have had to go in and hire somebody to come in and do that work in terms of coming up with that estimation, whatever that nature is of the estimate that they had to create maybe a complex model around. Maybe it's unusual, maybe it's infrequent, et cetera.

Again, we always have the ability to go in and hire our own specialist when we believe that we're simply not being able to understand what the client specialist has done. This was a big deal like maybe around 2014, 15, where we had the fair value standards get updated from an auditing perspective and also from a financial U.S. GAAP perspective.

And they had to actually come out with an amended audit standard that said, auditors, you can't just recalc what the client's appraisal shows. You've got to really get into understanding what is truly being assumed and what data is being used by that third party appraisal that the client might be providing to us as evidence that their estimate is not materially restated.

And so those are things we want to keep in mind. Subjectivity of course is going to come down to bias, primarily management's bias. We may also think about our own bias as I mentioned earlier. And again, it's going to come down to how do we go about this?

Now, what could be possible indicators that management may have a bias when you have big changes, big swings, or maybe they change their method in terms of what they are coming up with in terms of that estimate and their perhaps using a different method that may not be in sync with what they did before

Could it be that they're picking on maybe assumptions or data points that are more favorable to a good outcome, a favorable outcome, a more positive outcome than reality suggests, right? And I always joke about this with the auditors, but I always say auditors, we're the eternal pessimists. We always say, what could go wrong? That's the mode that we're in, but that's what we're charged with.

So that's important for us to remember. Using data that's favorable or selection of a point estimate within a range that may indicate a pattern. So, one of the things that we often think about is it's perfectly okay sometimes to come up with a range in terms of what you believe a client's estimate should be within.

Are they doing the same and then leaning lower or higher depending on of course the debit or credit balance in terms of what they do. So those are big things that we need to remember and remembering that analytics can help us greatly in this space but remembering that estimate is always going to be independent. It's going to be us doing that and then comparing it to the client's estimate.

And so, what do we do in terms of, you know, certainly addressing management bias? Well, part and parcel of audit standards include, of course, AU-C 240, which is the fraud standard as of now. That's going to get updated. And I think by 2028, we'll have an updated fraud standard. It'll be a superseding of AU-C 240, but it's still in the works.

But we need to discuss bias as part of our planning. We need to make sure we understand their analysis of any critical accounting estimates. We need to look at, again, what is it that they're using in terms of assumptions. We need to make sure we understand those assumptions. We also need to make sure that they have credible sources of data. What's amazing about estimates?

And when you think about analytics and coming up with expectations is regardless of what business your client might be in, you'd be amazed as to how there's always industry publications. They may be online. They may be again in the print printed source or PDFs, but there's always data that we can use.

And I reckon that when you build an expectation around an estimate, it's perfectly OK for us to use prior history because we may have audited that. I think it's OK to use the client's forecast, their budgets, if you believe that, you know, they're grounded and common sense. But most importantly, using at least one data point that is outside the control of your client is always going to be useful because from our perspective, that just adds a level of corroboration to the estimate that you may come up with in terms of your expectation.

So looking at reliable data is important and then documenting that from our perspective is equally important as well because that's one area that gets hit on peer reviews quite a bit which is developing expectations and not having good documentation of data and or assumptions that the auditor used.

And then we of course conclude on the reasonableness of their assumptions and then of course always evaluate whether there is bias in their results.

So, our goal ultimately would be for the estimate to what I call using the vacuum cleaner, right? The VAC as in the validity, the accuracy and the completeness of that estimate and making sure that everything is in sync and does that estimate contradict potentially the assertion that is behind that estimate, whether it's again valuation, whether it's completeness, whether it's existence.

And what is it that I have used in terms of my assumptions? Now, this term, estimation uncertainty, comes up quite a bit these days with SAS 143.

Let me do a little bit of a deep dive for a few minutes into what that means. So we're all very clear with this because I think it's an important term that you and I need to use and those of you who are using practitioner rates, let's say for example you're using PPC or using CCH, maybe some of you now switched to DAS which is the CPA.com's dynamic audit solution. All of their literature, all of their checklists, all of their audit programs, they use this term estimation uncertainty.

Now if you're not using one of those methodologies and you have your own, perfectly good. Start using the nomenclature and language that is in SAS 143, especially if you have a client that does have significant assumptions as a core part of their business.

So, estimation uncertainty. The simplest way I can define it would be susceptibility to an inherent lack of precision in the measurement. Pretty deep, right? Too technical.

Let's keep it plain English like I always do. You cannot directly measure it or observe it. It typically involves perhaps future events that are uncertain as of the time of the audit report. That's why you need an estimate. Examples, credit losses on loans, useful life of assets could be. Maybe another example that comes to mind could be just simply a pending lawsuit, class action or maybe specific type of lawsuit taking place. That can happen quite a bit.

What about insurance contract obligations? That could happen as well. So some outcomes of course are easier to predict. And again, we don't have to, we generally do not have the benefit of subsequent events, right? Because more often than not, they may happen too later, too much later rather in the following year.

Of course, if they do happen, type one, type two, we need to acknowledge that by either reissuing the financial at least including a disclosure. And there might be some data that simply is very complex where you're using complex models, you're having to use actuaries involved in statistical modeling, et cetera.

So, when we think about estimation uncertainty, our job is of course always look at likelihood, magnitude, because it's everything we do is based on risk. Again, we don't want to overdo the work, we don't want to under do the work. You certainly want to test the data and the assumptions, but you also want to consider a what-if analysis from your perspective. What if we had assumed this or what if you had assumed that? Again, do your research, which I think is important.

Look at maybe the fair value, always keeping in mind lost contingencies as well. And again, what is the outcome of an accounting estimate in terms of how do they get that settled? know, either it's going to be proven right or wrong through any activity. Ultimately, an estimate might be converted into an actual, like in terms of cash, or it simply could be written off, it could be adjusted, it could be remeasured, or maybe it's a transfer to an asset or liability in a future period.

So, I'm going to give you guys six steps that I believe would be helpful in terms of how about going, in terms of auditing, again, complex estimates from a client's perspective.

The six steps are going to be first things first, understand the process and controls. More applicable to maybe a decent sized organization versus a small business. Performing retrospective analytics or reviews. Always evaluating the risk of material misstatement. Responding to the risk and determining your approach. Number five, evaluating the reasonableness. And number six, most importantly, getting credit for the work that you do, which is to document procedures and results.

So, when we think about the first step one, understanding the process and controls, what information and data have they used? Is it complete? Is it accurate? Is it reliable? Are they appropriate in terms of the assumptions being used? When was it performed? How often? Who was involved? Who reviewed it? Who approved it?

Retrospective reviews. Again, from an auditing perspective and a substantive analytic perspective when it comes to estimates, we could say that SAS 143, and I love to use this word because it's to be explicit, but implicitly it is requiring us to do a retrospective review. That is to say, how can a prior estimate be settled in the current period? What is it that we would use?

We're going to look at management's estimation, we're going to look at reasons for changes, we're going to look at that estimation uncertainty, we're going to look at fraud risk and potential bias. And the way I look at that from a retrospective analytical perspective is to say that if I were to keep a three to five year rolling analysis of an estimate, where every year I drop the oldest year and I add a new year, then you can see bias because otherwise independent of doing a three-to-five-year analysis and I'm just doing a two-column fly by last year, this year, I cannot observe bias.

It is only when I start looking at things three to five years that it may make sense for me to say, there is bias. So, let's take the allowance for credit losses. Could it be that I could chart out in maybe three to five years the days in AR, how long is it taking the client to collect every single time? Number two; what is it that they have in terms of their bad debt write-offs? Number three, what is their allowance for credit losses? And if I were to compare those numbers over three to five years, could it be that you start seeing bias?

And here's the best part, you can do this in Excel. And more importantly, you could develop charts based on the data, because all you got to do is highlight the five columns and the three numbers in Excel, modern day version of Excel Office 365 will spit out a chart that you can start visualizing very quickly and that's more effective in showing the client as well.

And that's all I mean by a three-to-five-year retrospective review. Now when it comes to looking at the risk of maternity statement, of course, we do our discussion as part of our engagement team meeting. We do our preliminary analytics where you can use some of these techniques when you're looking at tranches say within AR, aging, AP. And then we know we need to separately and, you know, assess inherent risk and control risk.

The big question would be based on what you're seeing in your preliminary analytic and your quantitative update, do you see a reason to elevate the risk to significant? Looking at the controls, looking at the fraud procedures, again, always inquiring of management when it comes to fraud and also asking the question, is there any kind of soft pressure to hit a certain number?

And once I do all that, then I can decide, okay, here's the way I'm going to approach this. If they truly have an ongoing process that they do 12 months a year with high frequency or at least monthly frequency, could it be that I could actually test internal controls, rely on the attributes of that process, lower my control risk and thus do less substantive work?

If not, then I'm going to go in and do analytics and I might have to do test of details if the risk is high or significant. I certainly always want to look at subsequent transactions, right? Especially with credit losses. Again, we all know that under FASB ASC topic 326, there's been some level of alleviation in 2025 with some of the ASUs that have come out for private businesses where, you know, things got to be so complex with the allowance for credit losses and not taking into account what may have happened in terms of subsequent collection within the first 60 days after year-end.

Now we can benefit from that. And then building those independent expectations is always, always useful. Now what do we do with evaluation of reasonableness of the estimate of the client? Making sure that the data and assumptions are consistent year over year and with each other. Making sure that we conclude whatever we're doing in terms of our opinion based on good solid audit procedures that you know, again, can be contracted or expanded depending on the risk.

Again, evaluating the evidence, determining if the evidence supports that point estimate, or maybe a range, which is perfectly okay. What factors do I need to evaluate for reasonableness? Again, it could be seasonality, it could be non-financial factors as well, in addition to just numbers, right? It could be certainly, likelihood, could be seasonality, it could be economic, it could be, I don't know, pandemic.

That changed things for many of us over the last several years when COVID was rampant. It could be so many other things, location, square footage, depending on, of course, the number of employees. It all depends on what the estimate is around. How concentrated is a vendor relationship versus a customer relationship and the supply chain of a business? Those factors come to play as well.

And then what did they do and what did we look at in terms of the development of the methods, assumptions and again the data that they've used. What is it that they came up with their point estimate and how do we then respond to that with our own expectation and then making sure all disclosures are clear, are complete and are easy to read. And finally getting credit for all the work that we've done.

That is to say that I want to make sure I document my results. I document my procedures. So, what did I do in terms of updating my understanding of the entity from a quantitative perspective with a preliminary analytic and from a qualitative perspective and making sure that we always link stuff linkage to me is perhaps the most important word when it comes to auditing.

Linkage between what is it that we assessed, what is it that we observed, to what is it that we're going to do, and ultimately to what the result of that is. So, linking procedures with the risk and the rationale with estimates. And then responses when management, say for example, does not appropriately understand or address the estimation uncertainty. Are we going to call that out? Are we going to propose an adjustment?

Are we going to call out a control deficiency from an AU-C265 perspective, whether there is a material weakness or maybe simply put, there is a significant deficiency. What are the indicators of possible management bias and implications for the audit as well? And ultimately our determination of responsibility, what we would consider again, around those estimates and those related disclosures.

So, at the end of the day, when it comes to auditing estimates, I'm going to call it out in terms of maybe three to four big things. One, make sure you're up to date on SAS 143. Use updated language in terms of, again, estimation uncertainty, et cetera. Number two, retrospective analytics, three to five years. That's the only way you're going to know about bias. Number three, make sure you build your expectations on reliable data. And of course, you are looking at the client's point estimates and making sure they're using reliable data. And then number four, get credit for the work that you do in terms of documenting very specifically what is it that you used. If it means getting a screenshot of a URL, do it because we know this day and age that websites do get purged.

So, with all of that said and done, at the end of the day, when it comes to auditing complex estimates without re-preparing them, the goal would be to always remember it's their estimate, our job is to simply evaluate the reasonableness of that estimate.

It's been a pleasure to be here with you and I hope to see you in another session, another recording soon. Till then everybody, please take care. Thank you.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why is it important for auditors not to “re-prepare” management’s estimate when auditing complex estimates?
2. How does the lesson suggest auditors identify and respond to management bias in complex estimates?
3. What practical framework does the speaker provide for auditing complex estimates, and why is it useful?

B. Suggested Answers to Discussion Questions

1. Why is it important for auditors not to “re-prepare” management’s estimate when auditing complex estimates?

It is important that auditors avoid re-preparing management’s estimate because doing so can blur the line between management’s responsibility and the auditor’s responsibility. The transcript emphasizes that the estimate belongs to management, not the auditor. Management is responsible for creating the process, selecting assumptions, using data, and arriving at the recorded estimate. The auditor’s role is to evaluate whether that estimate is reasonable in the context of the applicable financial reporting framework and the available evidence. If auditors effectively take ownership of the estimate, they risk weakening professional skepticism and may become less objective in evaluating the result. They also risk creating confusion about accountability. This distinction is especially important in complex estimates, where high subjectivity and estimation uncertainty may already make the area difficult to audit. Instead of rebuilding the number from scratch, the auditor should focus on understanding the method, testing the data, evaluating the credibility of assumptions, considering whether management may be biased, and comparing the estimate to an independently developed expectation or range where appropriate. That approach preserves independence, supports audit quality, and reinforces management’s responsibility for the financial statements.

2. How does the lesson suggest auditors identify and respond to management bias in complex estimates?

The lesson treats management bias as one of the most important risks in auditing estimates. The speaker explains that bias may appear when management consistently uses favorable assumptions, changes methods without persuasive support, or selects outcomes within a range that systematically benefit the client’s preferred financial reporting result. To identify bias, the lesson recommends more than a simple one-year comparison. Instead, auditors are encouraged to perform a retrospective review over three to five years. This longer trend analysis can reveal recurring patterns that may not be visible in a two-column year-over-year comparison. For example, in the allowance for credit losses area, the auditor might compare write-offs, collection periods, and reserve balances over several years to determine whether the estimate has been consistently aggressive or understated. The lesson also recommends discussing bias in audit planning, challenging assumptions, using reliable data, and incorporating at least one source of evidence outside management’s control when possible. If bias is identified or suspected, the auditor may need to expand procedures, revise risk assessments, propose an adjustment, or consider control deficiencies and fraud implications. Bias is therefore both a technical and judgmental issue that requires skepticism throughout the audit.

3. What practical framework does the speaker provide for auditing complex estimates, and why is it useful?

The speaker provides a six-step framework that is useful because it gives auditors a structured but scalable way to evaluate complex estimates without overcomplicating the engagement. First, the auditor should understand the client’s process and controls, including what data and assumptions are used, how often the estimate is prepared, and who reviews it. Second, the auditor should perform retrospective analytics or retrospective reviews to identify patterns, changes, and possible bias over time. Third, the auditor should assess the risk of material misstatement, including inherent and control risk, with special attention to estimation uncertainty and fraud risk. Fourth, the auditor should respond to those risks by deciding on the audit approach, including whether control testing, analytics, test of details, or specialist involvement is appropriate. Fifth, the auditor should evaluate the reasonableness of the estimate by testing data, assumptions, consistency, disclosures, and the support for management’s point estimate or range. Sixth, the auditor should document procedures and conclusions thoroughly so the audit file shows clear linkage between risks identified, procedures performed, and results obtained. This framework is useful because it combines standards-based thinking with practical execution.

GLOSSARY

Change in Accounting Estimate—A revision of an estimate used in financial reporting, recognized in the period of change rather than by restating previously issued interim financial statements.

Condensed Financial Statements—A full set of financial statements presented at a more aggregated level than annual financial statements, while still including required statements and notes.

Estimation Uncertainty—The susceptibility of an accounting estimate to an inherent lack of precision in measurement, especially when future events or assumptions affect the recorded amount.

Inherent Risk—The susceptibility of an assertion to a material misstatement before considering the effect of related internal controls.

Interim Financial Statements—Financial statements issued for a period shorter than a full fiscal year, such as monthly or quarterly statements, prepared in accordance with applicable reporting guidance.

Management Bias—A tendency by management to systematically favor assumptions, methods, or outcomes that overstate or understate an estimate in a preferred direction.

Point Estimate—A single estimated amount selected by management or the auditor as the most reasonable value within a possible range of outcomes.

Retrospective Review—An audit procedure that compares prior-period estimates to subsequent outcomes or later information to assess the reasonableness of management's past estimates and identify bias.

SEC Registrant—An entity that has issued, or plans to issue, publicly traded securities or is otherwise required to file financial statements with the SEC.

Subsequent Events Disclosure—Disclosure of material transactions or events occurring after the most recent fiscal year-end that could affect users' understanding of interim financial statements.

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

1. If an entity uses estimated gross profit rates to determine interim cost of goods sold, what must it do?
 - A. Restate prior interim periods immediately
 - B. Disclose the interim method used and significant annual inventory reconciliation adjustments
 - C. Switch to FIFO at year-end
 - D. Eliminate inventory disclosures entirely

2. How should gains and losses arising in an interim period generally be treated?
 - A. Deferred until year-end
 - B. Deferred to the next interim period
 - C. Recognized in the interim period in which they arise
 - D. Recorded only if they exceed annual materiality thresholds

3. What is the general rule for a material change in accounting estimate during an interim period?
 - A. Previously issued interim statements must be reissued
 - B. The change is recognized in the period of change, with disclosure if material
 - C. The change is ignored until year-end
 - D. The change must be applied retrospectively to all comparative periods

4. For SEC registrants, which statement best reflects the disclosure principle described in the lesson?
 - A. They must repeat all annual footnotes in every interim report
 - B. They may omit disclosures that substantially duplicate the most recent annual report
 - C. They are exempt from all subsequent event disclosures
 - D. They are not required to consider whether interim statements could be misleading

5. What was the primary purpose of ASU 2025-11?
 - A. To eliminate most interim disclosures for private companies
 - B. To clarify interim reporting requirements and improve navigation within Topic 270
 - C. To require quarterly financial statements for all entities
 - D. To replace SEC interim reporting requirements

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6. What concern does the speaker raise about defaulting automatically to 75% of planning materiality for performance materiality?
- A. It is prohibited by auditing standards
 - B. It always results in under-auditing
 - C. It can only be used in governmental audits
 - D. It may not be customized enough for individual sections or cycles
7. According to the speaker, what is a common mistake in risk assessment?
- A. Treating every engagement as a first-year audit
 - B. Assuming that once a risk is assessed as high, it must remain high forever
 - C. Eliminating all significant risks from the audit plan
 - D. Performing walkthroughs every year
8. Under SAS 145, what does it mean when an assertion is assessed as “not relevant”?
- A. The assertion must be tested at a high level
 - B. The assertion can be ignored only for public companies
 - C. No testing is required for that assertion, subject to stand-back considerations
 - D. The auditor must perform analytical procedures only
9. Why does the speaker encourage auditors to look for opportunities to test controls?
- A. Because control testing eliminates all substantive testing
 - B. Because it may reduce substantive work and improve efficiency
 - C. Because standards require controls to be tested on every private audit
 - D. Because controls are always more reliable than substantive evidence
10. What practical advice does the speaker give regarding IT risk assessment?
- A. Auditors should understand the flow of data and pay close attention to system changes and customizations
 - B. IT can usually be ignored for small entities
 - C. Auditors should remain on autopilot because client systems rarely change
 - D. Only IT specialists should evaluate IT risks

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11. Under SAS 143, what term refers to the lack of precision in measuring an estimate?
- A. Control deficiency
 - B. Estimation uncertainty
 - C. Detection limitation
 - D. Projection risk
12. According to the speaker, what is one of the best ways to identify management bias in an estimate?
- A. Recalculate the estimate once and compare it to the client's number
 - B. Review only the current year's estimate in isolation
 - C. Perform a three-to-five-year retrospective analysis
 - D. Ask management whether they believe they are biased
13. When auditing a high-risk or significant estimate, which approach does the speaker say cannot stand alone?
- A. Inquiry
 - B. Test of details
 - C. Observation
 - D. Analytics
14. Which of the following is most consistent with the speaker's guidance on building an auditor expectation for an estimate?
- A. Use only management's budget and no external data
 - B. Use reliable data and include at least one source outside management's control when possible
 - C. Avoid historical information because it may create bias
 - D. Focus only on current-year actual cash activity
15. Which of the following is one of the six practical steps the speaker gives for auditing complex estimates?
- A. Understand the process and controls
 - B. Replace management's model with the auditor's own model
 - C. Eliminate all estimates from the financial statements if uncertainty is high
 - D. Default to statistical sampling in every case

Subscriber Survey

Evaluation Form

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

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

	Topic					
	Topic Relevance	Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Audit & Accounting Part 1	_	_	_	_	_	_
Audit & Accounting Part 2	_	_	_	_	_	_
Audit & Accounting Part 3	_	_	_	_	_	_

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

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

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

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

	Overall	Knowledge of Topic	Presentation Skills
Ms. Jennifer Louis	_____	_____	_____
Mr. Sunish Mehta	_____	_____	_____

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

Were the stated learning objectives met? Yes No _____

If applicable, were prerequisite requirements appropriate? Yes No _____

Were program materials accurate? Yes No _____

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

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

Were the supplemental reading materials satisfactory? Yes No _____

Were the discussion questions and answers satisfactory? Yes No _____

Specific Comments:

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

Welcome to CeriFi CPE Network!

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

This User Guide has the following sections:

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

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

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

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

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

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

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

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Email

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

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

grading-cpedge@cerifi.com

Self-Study—Online

Follow these simple steps to use the online program:

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

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

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

The screenshot shows the CeriFi CPEEdge website interface. At the top, there is a navigation bar with links: Homeeroom, Search Courses, CPE Network, Status Reports, Activity History, Learning (with a dropdown arrow), and Resources. Below the navigation bar, the page title is "CPE Network". On the left, there is a "CPE Network Menu" with a "Network" link and three report options: "NETWORK TAX REPORT", "NETWORK ACCOUNTING AND AUDITING REPORT", and "GOVERNMENTAL NONPROFIT ACCOUNTING REPORT". To the right of the menu is a table with the following data:

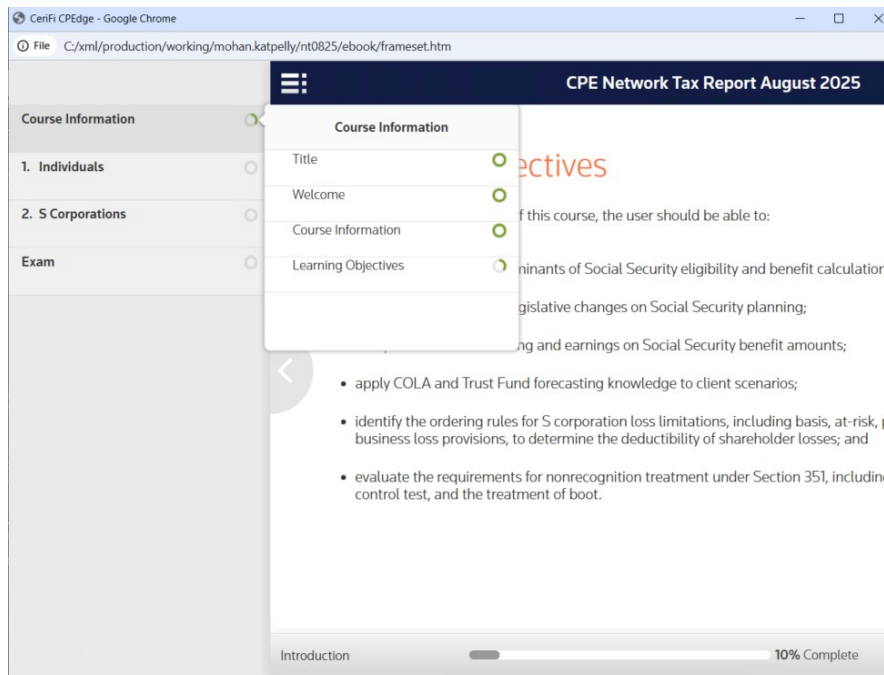
CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	July 2025
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	July 2025
GOVERNMENTAL NONPROFIT ACCOUNTING REPORT	9/19/2027	July 2025

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

The screenshot shows a course page in a browser window titled "CeriFi CPEEdge - Google Chrome". The page title is "CPE Network Tax Report August 2025". On the left, there is a gray sidebar menu with the following items: "Course Information", "1. Individuals", "2. S Corporations", and "Exam". The main content area is titled "Learning Objectives" and contains the following text: "Upon successful completion of this course, the user should be able to:" followed by a list of six bullet points. At the bottom of the page, there is a progress bar showing "Introduction" and "10% Complete".

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

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



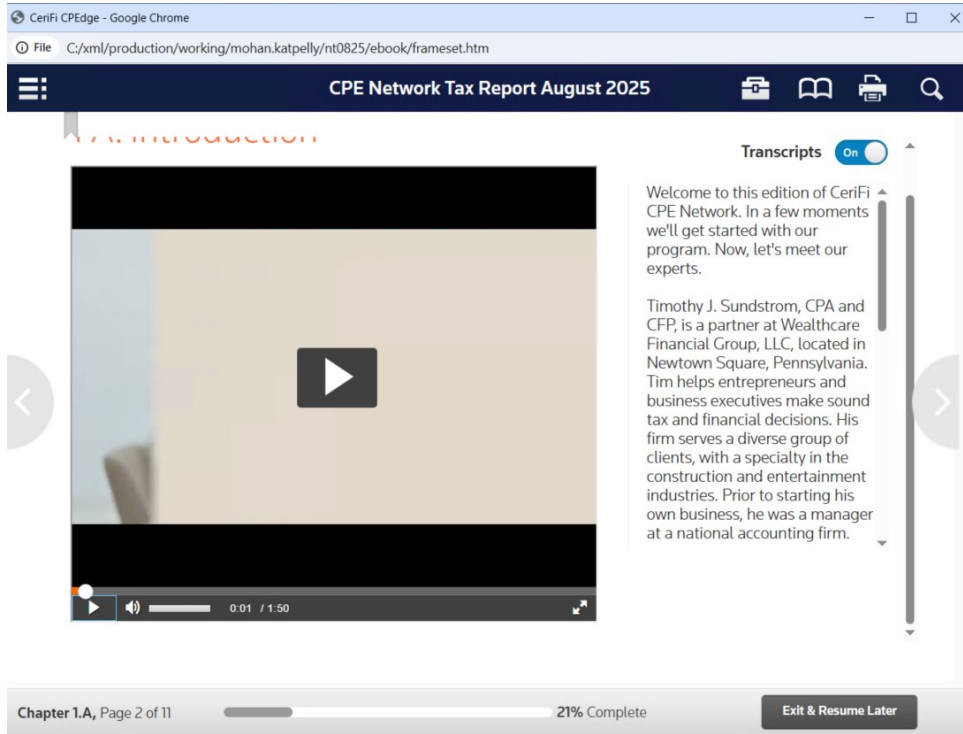
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access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



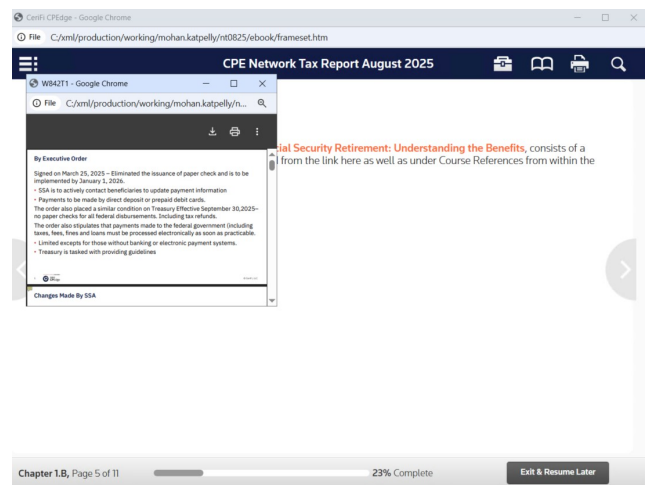
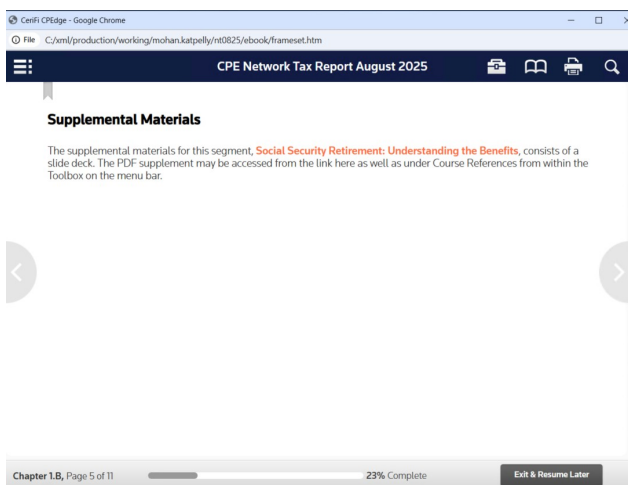
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

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

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



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



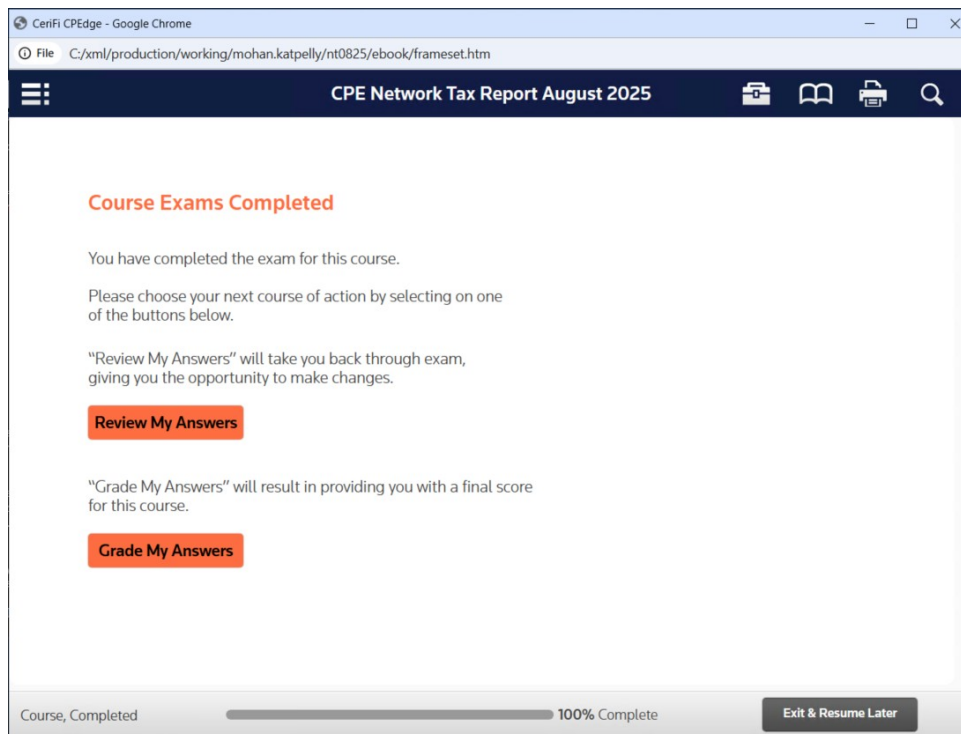
Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.

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

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

The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



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

Additional Features Search

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

Search Results are displayed with the number of hits.

Print

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

Determining CPE Credit Increments

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

Program Presentation

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

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

Disclose Significant Features of Program in Advance

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

Monitor Attendance

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Awarding CPE Certificates

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

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

Seminar Quality Evaluations for Firm Sponsor

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

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

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

Retention of Records

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

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

Appendix: Forms

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

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

Getting Help

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

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