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CPE NETWORK

ACCOUNTING & AUDITING REPORT

SEPTEMBER 2024 VOLUME 37, ISSUE 9

Topics for future editions may include:

- Sampling
- Personal Financial Statements

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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Kurt Oestriecher, CPA, discusses preparation engagements and what a practitioner should do in performing these services. *[Running time: 27:10]*

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

- Identify the location in the SSARS of the guidance on preparation engagements
- List the required elements in an engagement letter for preparation services
- Differentiate between the preparation and compilation engagements regarding independence requirements

PART 2. AUDITING

Jennifer Louis, CPA reviews recent proposals issued by the PCAOB related to firm and engagement metrics. *[Running time: 29:02]*

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

- Define the scope of firms subject to the proposed firm-level metrics and the proposed form
- Identify firm level and engagement level metrics
- Define what is the core engagement team for engagement-level metrics reporting

PART 3. SMALL BUSINESS

Jennifer Louis, CPA reviews the most recent ACFE Fraud Report to the Nations related to occupational fraud cases worldwide. *[Running time: 34:21]*

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

- Estimate the annual global cost of fraud
- Identify the median duration of occupational frauds according to the study
- Identify the most common method of detecting fraud
- Identify the most common red flags exhibited by fraud perpetrators

ABOUT THE SPEAKERS

Jennifer Louis, CPA, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

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

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PART 1. ACCOUNTING

Preparation Engagements

Preparation services have been provided by practitioners for some time, but until SSARS 21 preparers did not have authoritative guidance on these nonattest services.

For more on the requirements, reporting, and differences from compilation engagements, let's join Kurt Oestriecher, a CPA and a partner with Oestriecher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about what technically is probably the newest engagement that we have, and that's the preparation, although probably the one we've been doing the longest in actuality. So let's talk a little bit about where the guidance is for that, because we have been doing [these engagements].

Mr. Oestriecher

Well, this is under the SSARs. I've heard this described as the fourth level of service. I've heard it described as compilation light. I've also heard it described as what the heck is this and why did they do it? So I've heard the entire gamut, but it is in the SSARs, so it's in section AR-Cs, and specifically AR-C 70, is where you'll find this particular guidance. Now, when you are looking at the guidance, remember anything that we do in SSARs, you have the specific section like 80s for compilation, 90s for review, and 70s is preparation, but you also have to pay attention to ARC-60, which is the umbrella standard. So all of your guidance is going to be in section AR-C 60 and AR-C 70.

Ms. Grove Casey

Let's talk a little bit about the applicability of the guidance and what it is we're looking for there.

Mr. Oestriecher

What's the expression? There's the rub. When do you have to do it or is it always optional and everything? I will try not to go into too long of a rant on this, but there's a trigger that gets you in there. When the first compilation standard was issued in the 1970s, they couldn't make it engagement driven because then if someone walked into my office and said, Kurt, I want a balance sheet and income statement, I could say, well, would you like that audited? Would you like that reviewed? No. Would you like it compiled? No. So you just want to plan on a balance sheet and income statement. Well, here it is. That's what the whole compilation standards are trying to prevent because there is miscommunication or lack of understanding by users. They thought anything that came out of a CPA firm was audited and 100 % correct, which was the wrong assumption. So the whole point of the compilation was to force CPAs to attach a report talking about the limitations of the compilation and what we didn't do, not as much as what we did do, but as what we didn't do, because part of that we just put on audit and no one knew what that meant.

So for years, we had the submission issue, we were not in compilation standards, you had to use your judgment as to when you had submitted financial statements. Well, now that preparations and some people say it's really not the fourth level of service, but I think for this purpose, as it helps us to understand that's where the gateway is.

Now compilations, you only have to compile if you specifically agree with the client and the client agrees to have a compilation. It is the preparation that can become what I would call the accidental standard or accidentally not doing it.

So first of all, it says it’s applicable when you are engaged to prepare financial statements. But then the second paragraph in AR-C 70 says you have to use your professional judgment to determine when you have been engaged. And then there's an exhibit that gives us a bunch of different examples. But, we're just splitting hairs. Here's all you need to know. If someone comes to you and they want you to do work for them and the output is going to be a balance sheet or an income statement, whether it's going to management or third parties, trust me, you have been engaged to prepare financial statements.

Now, if someone just comes in and says, Kurt, I need you to do my payroll for me. I need you to write checks. I want you to maintain my general ledger even though they won't use that terminology. I want you to reconcile bank accounts. I want you to file sales tax returns. And I said, well, you know, when I do all that every month, I'm going to wind up having an adjusted general ledger. Would you like me to give you a report? We call those financial statements that will tell you where you're going. Nah, I'm just looking at my checkbook. I'm a sole practitioner attorney or I'm a farmer or something like that or a physical therapist. I don't want that. I just want you to make sure my sales tax returns are filed, every quarter I need you to do those stupid quarterly estimated taxes. Folks, you're not in the preparation engagement. You're doing nonattest bookkeeping. You're maintaining a general ledger. There are many reasons you maintain a general ledger that don't relate to actually getting the financial statement. So that's where there's confusion. There's people think, well, if I have the data,…

Ms. Grove Casey

Makes it a lot easier to pay taxes.

Mr. Oestriecher

And I can just push a button, shouldn't I prepare financial statements? No, not if the client doesn't want it. Of course, the biggest issue we now have is cloud-based. This is where a lot of judgment comes in because once I finish my work, well, the client can log on and print the balance sheet or income statement. There's nothing I can do about that. Now, what I would not do as a practitioner is say, look, I know you want financial statements, but if we go to the preparation under SSARS, I got to get an engagement letter. I got to do all this rigmarole and put no assurance provided and all these other things. We don't want to do that. So just shush; when I tell you I finished reconciling your bank account each month, if you want to go in there, you can just print your balance sheet and income statement and we just won't tell anybody. Don't do that. Okay. You're trying to work around the rules and your client is going to forget that conversation, if there's ever a lawsuit or some other regulatory proceeding or if they want to file an ethics complaint against you.

Ms. Grove Casey

That's digging a hole.

Mr. Oestriecher

That's your judgment, but just because you are in a cloud -based environment, if it doesn't appear the client has any intent to read the financial statements or print them, you're perfectly within your purview to say, okay, I'm using my judgment and there's all these other reasons why we're doing the general ledger and I don't think the client's going to do that. Now, if you are going to go in and direct this is Kurt's recommendation, I'm just taking Kurt's opinion here--I would get an engagement letter with the client. It won't be under SSARS because you're not in SSARS, just saying, hey, these are the things we're going to do for you each month. Then put a paragraph saying there's no intent of financial statements. If you ever need financial statements, please contact me and we will determine the appropriate level of service. That's just a best practices thing. There's no statements on standards for bookkeeping services. If there ever are, I'm leaving.

These standards, the SSARs, apply to financial statements, not accounting work. So use your judgment there. Use your risk as to how these can be used. It is a little bit, we were never going to have that bright line because if we ever put an exact bright line, then CPAs that don't want to comply with standards and worry with the engagement letters, then they're just going to structure their engagement with the client to be on the right on the side of the bright line that they want to that's why the judgment has to be exercised.

Ms. Grove Casey

Well, engagement letters are generally our friends. Right, that details it out for them and for us, what it is we're doing.

Mr. Oestriecher

Right. Properly drafted engagement letters are our friends. I've seen some pretty bad examples of some engagement letters that came back to bite them. Again, but that's why I want to be under SSARS, not because it tells you exactly what it has to be. I see SSARS as a warm blanket of comfort that protects me because if there is any question as to the work that I perform, I can say, no, the client agreed to these standards and I can demonstrate where I followed these standards. And yes, it means I have to get an engagement letter. Yes, it means they're subject to peer review. Yes, it means I have to issue a report if I'm doing a compilation, but that helps everyone involved. So I'm not looking for the easiest way out. If I just wanted the easiest way out, I would turn in my CPA license and have Kurt's bookkeeping and tax service. And that's what I recommended to some people in my CPE courses that are very vocal about their hatred of standards, so there's a way to get around this. Just go open up an H&R Block franchise. You don't have to worry about being a CPA and do financial statements with them. But I like being a CPA. People respect me more because you use standards because they know that a licensed CPA has those standards. That's my rant for the day.

Ms. Grove Casey

So let's talk about the performance requirements that are necessary in a preparation engagement.

Mr. Oestriecher

Okay. So once you determine that you're in the preparation engagement, please tonight think of this like, it's hard, people call this, well, it's a compilation light. You don't do anything. You just have to get an engagement letter and put no assurance provided on the financial statements. No, actually, you're going to see that there's just as much, if not a little bit more that you have to do in a preparation engagement than a compilation engagement. Now it's not hard, except for one thing that we will get to.

But the first thing you have to do is you have to get an engagement letter. And there are many samples of the engagement letters. You can find them actually in the appendix. I think there's three or four examples in the guide. Those are the authoritative examples. And of course, there are many third-party practice aids out there that have various samples of the engagement letters in there where you list the objectives, your responsibilities, the accountants', management's responsibilities. And by the way, it's interesting if you listed them and numbered them, management actually has more responsibilities than we have. I thought that that was a bit ironic.

One specific thing on the engagement letter I want to point out, one of the specific responsibilities of management was to establish and maintain internal control over the preparation of the financial statements. Well, someone, and I guarantee you it was an attorney, but I don't know that for a fact, complained to their CPA when this first came out, said, no, no, no, you're the one doing the financial statements. How can I have internal control over what you're doing? So take that out and I'll sign the engagement letter. So the AICPA did update and say, okay, you can take that out if you want to, but then understand you are now responsible for internal control, which yes, that's why I have a quality control system. We always understand, I don't think we're taking on any more responsibility than was already implied through our statements of quality control standards. So that is one management responsibility that you can take out if you want to.

The limitations of the engagement, that's where we tell people that, hey, this is not designed to find departures from your applicable financial reporting framework, which is usually going to be tax basis. You're responsible for laws and regulations. We're not looking for compliance. So all those limitations are put in there. You actually identify the applicable financial reporting framework. And I'm going to make a statistic right here. I think 100 % of all preparations are either United States GAAP or income tax and of those, 98 % are income tax. Because these are usually for your less sophisticated, smaller clients that need tax planning, then that's how they want their financial reporting. Some might be US GAAP. I really don't think you're going to get IFRS. Now some of them could be cash basis. If it's a nonprofit, it could be cash basis instead of income tax. So one of those two special purpose frameworks.

Both the client and the CPA have to sign that engagement letter. So you are required to have that engagement letter. You can do an evergreen one if you want. If we did preparation engagements--we do compilations--but if we did them, we would do just like we do on our compilations, we would do an annual engagement letter. Kind of all on that topic, most firms that I've talked to, and again, I've had the great fortune of teaching a lot of CPE, they're either doing the preparation or the compilation, both of those are the non-assurance services.

Preparation is also a non-attest. The compilation is considered an attest engagement. But to the client and to you and to the users, none of that makes any difference or a hill of beans at all. It's the non -assurance, which is the most important part, and why have quality control for two different ones. Then the big reason why some people go to the other, depending on what state you're in, most states, if all you do is the preparation engagement, you're not subject to peer review. If you do the compilation, you're subject to peer review.

So we already are subject to those from those audits and reviews. So that wasn't a factor for us. But I can tell you many practitioners I've talked to that don't do audits or reviews say, Kurt, we want out of peer review. That's why we're doing the preparation engagement. So that's interesting. I don't have any data to support that, but you can understand why people would think that.

Ms. Grove Casey

So let's talk about the performance requirements with respect to these engagements.

Mr. Oestriecher

Okay, so once you're properly engaged and heading toward the alter, what do you have to do on the way to the alter when you're engaged to these people? Well, you have to have an understanding of the financial reporting framework the client is using. And again, I would assume all of us are familiar with United States GAAP, tax, or cash. Now, if they were to come in and say, we got to do IFRS, and if you don't know IFRS, then you have to learn IFRS. I don't think that's going to happen very often. But then within those frameworks, if there are accounting policies that are being selected, you have to know what they are. So let's go with tax basis because that's the most open. Well, very few policies. If they have inventory, how are you valuing your inventory? If it is depreciation, what types of depreciation methods do you have for your depreciable assets? Other than that, there aren't too many policies that you have in a tax return. Where if it's US GAAP, what are your revenue recognition policies, your allowance for doubtful accounts? Fair value, because now fair value is brought in, you don't worry about fair value in tax basis. So a little bit more understanding there for US GAAP than for tax. The good news is, if you're doing preparation for your client on a tax basis, I bet you're doing their tax return, and I bet you already know all those policies. So it's either in the tax file, and you actually don't have to document all this, but I don't see any of those as challenges in any way, shape, or form, but you do have to be aware of them.

So if it's a new client, you're probably going to discuss these things from a tax perspective to begin with, but understand it also kind of branches over into the personal financial statements. So once you know their accounting policies and all that, ultimately we're going to read the financial statements. And what we're going to do is we're going to read those financial statements and knowing the applicable financial reporting framework and the accounting policies selected by management if anything appears to be a departure, that's what we have to bring up to the client. That's the only procedure we do. We can't just close our eyes and hand it to them. That's easy. There are two things, however, that in the first one, really, I don't understand why they put this in. This was not in the exposure draft, but there's a specific requirement that if there are significant estimates and judgments in the financial statements, the accountant should discuss those and should means it's presumptively mandatory, means you will discuss them. It's not an option. Should discuss those issues with management to the extent that management understands and accepts responsibilities for those estimates and judgments. Folks,... we don't even have that threshold in a compilation. In a compilation, if they don't want to do that, I just disclose my lack of independence.

In fact, when I talked to Mike Glynn, the AICPA person that was in charge of the committee, the liaison, and Mike's a great guy, back when I served on the committee the last two years, he said, well, Kurt, we put that back, at the end, we just felt like we needed to put something to those standards. And he said, you have to do that in a compilation anyway. I said, no, we don't. And he said, well, yes, but if you don't, you disclose your lack of independence. I said, yes, and that's what we do. And in a preparation engagement, you all know, I said, you don't even have to worry about independence. So this could potentially be a deal breaker for some companies.

Now, again, I don't think it's going to be a deal breaker in the tax realm, but this is where it's going to be the deal breaker. In the governmental realm, we are seeing more and more people because your independence rules on Yellow Book are a little bit stricter than AICPA, but both of those have preparation of financial statements as a nonattest service and certain bookkeeping services. Most businesses that are so small, they don't have anyone with suitable skill, knowledge and experience, they don't have anyone mandated in an audit. That's not true for governmental entities in this audit thresholds vary by state. So it's very common. You have a very small village or very small governmental entity here in Louisiana, my state, that just has one or two people. They have Aunt Edna doing their stuff on QuickBooks. She can't do it anymore, so they hire another CPA firm to maintain the books and write the financial statements, because writing the financial statements is an audit attest service, then another CPA firm comes in and does the audit. Well, preparation engagements even to tell you, by the way, if you are doing that, if you're the CPA that is assisting the preparation of financial statements for another firm to audit, at a minimum, you're going to do the preparation engagement. In my opinion, you can't do the preparation, you have to go to the compilation...

Now, if there's just a small town of Alderman or whatever, the audit firm has already said there's no one there that has suitable knowledge and experience to understand things like the pension accrual and some of these other items. The audit firm's already made that determination, so you don't have anyone that you can discuss this with to the point that they accept the responsibility to understand. They go, that's why we hired you, Kurt. It's so interesting that they put this in here, because it actually forces some of these into the compilation and then you just disclose the lack of independence in the compilation. That's a quirky thing. I'll use an example. If I was ever made dictator or ruler one day over our standards, and I won't be and we shouldn't have anyone do that, but if they did that for me, it's probably about eight or 10 things I would change and one of them is take that out because it serves no purpose. The users of the preparation again, this has nothing on the end product. It's just, it's a pain in the butt for us. So I really wish they would take that out. But again, we have standard setters and they believe it's appropriate, so we're going to follow the rules and go up to the compilation.

But the next thing is easier. So if I'm reading these and I see these significant estimates or judgments, go discuss them with management and make sure they understand them. But also if there are things that, if it appears as though the information supplied by the client is incorrect, incomplete, or otherwise unsatisfactory, which is a nice way of saying you found an error, you found a departure from your framework, well, then you're required to get follow up information from your client just as you would in a compilation.

So to be clear here, up to this point, if you're trying to compare a preparation and compilation, we have done everything in preparation engagement that we're going to do in a compilation. We're going to do engagement acceptance under AR-C 60. Excuse me, the one thing we will not do, we don't have to make an independence determination. But everything else, we're going to do engagement acceptance, we're going to get an engagement letter, we're going to understand their framework, we're going to understand their accounting policies, we're going to read the financial statements and we're going to get additional revised information. But in a preparation, you also have to explain and get them to understand those estimates. And so that's why I said to a certain extent. Up to this point, it's actually a little bit more work. Now, again, if it's tax basis, you typically don't have significant estimates or judgments. So if it's tax basis, which is the majority, we're on equal footing, other than the fact that I didn't have to make my independence determination….

Ms. Grove Casey

Actually, it sounds like more work.

Mr. Oestriecher

It's actually, in my opinion, a little bit more work up to this point in a preparation engagement.

Ms. Grove Casey

So let's talk about the disclosure issues.

Mr. Oestriecher

And I call them disclosures because the hallmark and where preparation is supposed to be a little bit more, let's call it user friendly, is the fact we don't have to do a report. And instead of a report, we just simply put the words, or management, because remember these are management's financial statements, management will either put the words no assurance provided or if we're assisting them, which of course we always are, we will put no assurance provided. So that was where we started.

This reminds me of a story. There's a great HBO special probably 25 years ago about the making of a personnel troop carrier that the United States Army had decided, you know what? We need an asset within the Army that quickly gets our personnel over land from point A to point B. It was designed just to be a personnel carrier. Well, then someone said, well, we got to put a gun on it. They said, no, no, we're going to have other tanks and other stuff around to shoot at people. We need all usable space to get humans from point A to point B. Well, now we got to put a gun on it. So they put a gun on it. Now that there's a gun on it, people are going to shoot at it, so we need heavy armor. They kept adding stuff on, and by the time they finished, they could only fit half the people, because they put all this other crap in there. That's what happened here. They started with just no assurance provided, but they said, well, but here's some other things we need to inform. So I called it a disclosure, but it's not a footnote disclosure. We, as the accountant, have to make sure certain things are either on the face of the financial statements or we attach something called ABC Company, Substantially All Disclosures Omitted, Selected Information behind it.

So what do we have to disclose? First of all, the no assurance provided, that's easy. Most people put See Accountant’s Compilation Report in a compilation, just put no assurance provided. But disclosures are omitted. We have to tell them that. It's not obvious enough that they're not there. So again, this is where they start to go, in my opinion, off track a little bit. Because if we're not going to have a report, let's don't worry about what used to be in the compilation report. But it's almost as if someone took a compilation report and said, well, we tell them about this, this, this in a compilation. So we got to tell them about that in a preparation. So the best way to do this is probably in the heading where you'd have like balance sheet income tax basis. Then the next line put substantially all disclosures omitted, but you have to have that in there. Now, if there are disclosures from your framework, you have to disclose that. That's not going to fit in your header or footer. The only way to do that, again, is to have, in my opinion, substantially all disclosures omitted, selected information presented. People go, yeah, I care about most of these are tax bases. You don't have to worry about that. No, I've got my clients that are on tax bases and we have a ton of them in our compilations. They don't think depreciation is real. And so they don't want to have that reported in their books until what they call the period 13 adjustments. And with all the accelerated depreciation, I understand why. So when we're issuing these monthly or quarterly income tax basis financial statements with no depreciation provision, right now our compilation report refers to that provision. If there is a pension that's being accrued, but they like to do that at the end of the year, that has to be, it's not.

People mistakenly believe that in a compilation you disclose GAAP departures. No, it is framework departures. And if your framework is tax basis and they're not recording everything in these internal financial statements, then you have these departures. So it is actually very common in our firm to have these departures on the tax basis. Now, if you're doing a preparation, the whole idea of the preparation was, let's don't have a report anymore. Well, now you have footnotes, you have selected disclosures to do these framework departures.

If it is a special purpose framework, you either have to have a note to the financial statements or a selected disclosure. The good news here is that if your titles are appropriate as they should be, if it's income tax basis, you can say balance sheet income tax basis. That generally is appropriate. But remember, in a compilation report, you have to actually let people know that that basis of accounting is different than U .S. GAAP. So I have seen where people want to have that as one of selected disclosures.

When you think about everything in a compilation report, other than telling people that we did a compilation, everything else is now required. And we don't have to talk about lack of independence, obviously, and we don't have anything on supplementary information. So if you attach supplementary information to prepared financial statements, all you have to do is output a divider page that would say supplementary information if we did preparation engagements, most everything that was in the compilation report is now having to be disclosed somewhere else. For practitioners that believe this is going to be easier because I don't have to do a report, I can ignore all those items, please don't believe that. You read section AR-C 70 and it's very clear these items have to be disclosed.

Ms. Grove Casey

Was there anything else about special purpose frameworks that you wanted to talk about? Because being different from US GAAP, which if you're just looking at bookkeeping type work, that's not necessarily US GAAP with what you're presenting.

Mr. Oestriecher

Right. I think there, make sure you're using a special purpose framework for some of your smaller clients that might be a good target client for a preparation engagement. You have to pick a framework. You can't just do what the client wants. Like I described earlier where they don't want to put depreciation expense. I had one client that in order to keep his comparatives for 30 years comparative, when he increased the rent on the building that he owned, we had to put the increase every year in prepaid rent. Okay. Sorry, that's deductible in the period you pay it. It should have shown up as rent expense, but that's what they wanted to see. So you have to understand there's no such thing as management accounting standards. You have to pick a framework, and then, that's your base and any variance from there--and trust me, I know small business clients have certain needs and they want things accounted in a certain way--but if it's not in accordance with one of those frameworks, then make sure that that departure is appropriately accounted for. If they do things so different and not even close to US GAAP, it's just made up accounting standards, then you can't issue those. Those aren't financial statements. Just put summary data on an Excel spreadsheet and send it to them and then have an engagement letter with them and say, these aren't supposed to be financial statements. This is just certain financial information in a format that you wanted it. Good luck with it. Something along those lines.

Preparation of Financial Statements

by Kurt Oestriecher, CPA

Introduction

The preparation standard provides an accountant with a fourth option when issuing financial statements for a client. Prior to this standard, the accountant could audit, review, or compile financial statements. A preparation engagement is neither an assurance nor an attest engagement.

Applicability

This standard will only apply when an accountant is ***engaged*** by the client to prepare financial statements. The standard requires that the accountant exercise professional judgment in determining whether he or she has been engaged to prepare financial statements. The Appendix of AR-C 70 contains paragraph A.19 that provides additional guidance as follows, which is not intended to be all-inclusive:

AR-C Section 70 **Preparation of Financial Statements** applies when:

- Preparation of financial statements prior to audit or review by another accountant
- Preparation of financial statements for an entity to be presented alongside the entity's tax return
- Preparation of personal financial statements for presentation alongside a financial plan
- Preparation of a single financial statement
- Using the information in a general ledger to prepare financial statements outside of an accounting software system

AR-C Section 70, **Preparation of Financial Statements,** *does not* apply when:

- Preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation of such financial statements
- Preparation of financial statements with a tax return solely for submission to taxing authorities
- Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant
- Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings
- Maintaining depreciation schedules
- Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases
- Drafting financial statement notes
- Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system

An important factor in determining whether or not SSARS applies is the output of the engagement. If the output is not financial statements (i.e. a trial balance, tax return, or other forms of financial data that are not presented in financial statement formats, then SSARS will never apply. If a client specifically requests that your firm provides financial statements for banking, regulatory, or other purposes, then SSARS will apply in almost every case.

Ultimately the accountant must make the determination if they have been engaged to prepare financial statements. The accountant should err to the side of caution, meaning that if the facts and circumstances regarding the engagement are in a gray area, the accountant would probably be in a better position to defend the decision if the accountant determines that they have been engaged to prepare financial statements and followed the guidance in AR-C 70.

Preparation Requirements

An accountant that is engaged to prepare financial statements will be required to perform the following procedures:

1. Obtain an engagement letter that has all of the following elements (AR-C 70.10)
   - Objectives of the engagement
   - Responsibilities of management
   - Responsibilities of the accountant
   - Limitations of the engagement
   - Identification of the applicable financial reporting framework
   - Must be signed by the accountant and the client
2. Obtain an understanding of the entity's financial reporting framework and the significant accounting policies used by the client. (AR-C 70.12)
   - The most common financial reporting framework for preparation engagements is the income tax basis due to the nature of the clients that typically use the preparation engagement.
   - If a preparation is used for banking or regulatory purposes, the client may use United States GAAP as the framework in order to comply with the banking or regulatory purpose.
   - The remaining available frameworks are:
     - Cash or modified cash basis
     - Contractual basis
     - Regulatory basis
     - FRF for SMEs
     - IFRS
     - IFRS for SMEs
3. Discuss all significant estimates and judgments with management and ascertain that management: (AR-C 70.16)

- Understands significant judgments and estimates
- Accepts responsibility for significant judgments and estimates

If management does not understand or accept responsibility for significant judgements and estimates, the accountant is not permitted to issue the financial statements. Common estimates and judgements are as follows:

- Allowance for doubtful accounts
- Depreciation
- Accrued PTO
- Certain estimates for revenue recognition
- Impairment of assets
- Fair value measurements

It is more common to have significant estimates and judgements if the accounting framework is United States GAAP or FRF for SMEs. These frameworks have multiple measurement issues that are subject to estimates. However, income tax basis financial statements do not require many of the estimates that are inherent in GAAP frameworks, therefore this requirement is easier to comply with on income tax basis engagements.

4. Provide a statement on each page of the financial statements that states "No assurance is provided". If this cannot be done the accountant must do either of the following: (AR-C 70.14)
   - Issue a disclaimer
   - Perform a compilation
5. If the financial statements are prepared in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statement. (AR-C 70.15)
6. If the accountant becomes aware the information supplied by the client is incorrect, incomplete, or otherwise unsatisfactory, the accountant should request additional or revised information. (AR-C 70.17)
7. If the accountant prepares financial statements with known departures from the applicable financial reporting framework, (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the notes. (AR-C 70.18)

"Disclosure" Requirements

AR-C 70 provides an interesting concept because while no report is issued, the accountant is required to disclose certain issues on the face of the financial statements or in the notes to the financial statements. Items 4, 5, and 7 above are among these required disclosures. This now puts the burden on the accountant to disclose items in the financial statements, which is a departure from previous practice in which management was responsible for financial statement disclosures. From a practical standpoint, most prepared financial statements will not include all required disclosures (which is permitted), therefore the accountant must determine the most appropriate method of disclosing these items. Paragraph 3.40 of the Guide allows for selected information to be presented by labeling such disclosures "Selected Information--Substantially All Disclosures Required by [Name the Applicable Financial Reporting Framework]. This option will most likely be the preferred choice for accountants when it is not practical to place the disclosure on the face of the financial statements.

The most common disclosure requirements in a Preparation Engagement that an accountant may encounter are:

- No Assurance Provided
- Description of Special Purpose Framework

- Omission of required disclosures
- Departures from the financial reporting framework

Documentation Requirements

An accountant engaged to prepare financial statements shall comply with the following documentation requirements: (AR-C 70.22)

1. Prepare documentation in connection with the engagement in sufficient detail to provide a clear understanding of work performed which, at a minimum, includes the following:
   - The engagement letter
   - A copy of the financial statements
   - The justification for departure of a presumptively mandatory requirement (rare)
2. In addition to the required documentation, an accountant will typically have the following items documented. While none of the items listed below are required by AR-C 70, your firm may require some of these items based on your internal quality control procedures:
   - Engagement acceptance or continuance form
   - Procedures checklist
   - Supervision and review checklist
   - Information to support journal entries
   - Information to support top-side entries
   - Information to support disclosures

Impact on Peer Review

The Peer Review Committee of the AICPA has determined that the preparation engagement will be treated in the same manner as the Management Use Only Compilations (which are no longer available). If a firm does not perform any other service that does not trigger the need for a peer review, then the firm would not be required to have a peer review for just the preparation engagements. Some states may choose to not follow this guidance for regulatory purposes, therefore it is important that an accountant become familiar with the requirements of all applicable regulatory bodies.

Summary

The preparation engagement is now available to accountants who need to provide financial statements to their clients or third parties, but do not wish to perform an audit, review, or compilation engagement, and the client or third party does not specifically request an audit, review, or compilation. An accountant that wishes to perform a preparation engagement should have a thorough understanding of AU-C 60 and AU-C 70 before completing the engagement.

GROUP STUDY MATERIALS

A. Discussion Question

1. Discuss the accounting frameworks that an entity may use for a preparation engagement.

2. Discuss the accountant's documentation requirements in performing a preparation engagement.

3. Discuss the impact of only performing preparation engagements on a firm's need for peer review under the AICPA's standards.

B. Suggested Answers to Discussion Questions

1. The most common financial reporting framework for preparation engagements is the income tax basis due to the nature of the clients that typically use the preparation engagement. If a preparation is used for banking or regulatory purposes, the client may use United States GAAP as the framework in order to comply with the banking or regulatory purpose. The remaining available frameworks are:

   - Cash or modified cash basis
   - Contractual basis
   - Regulatory basis
   - FRF for SMEs
   - IFRS
   - IFRS for SMEs

2. An accountant engaged to prepare financial statements shall comply with the following documentation requirements: (AR-C 70.22) prepare documentation in connection with the engagement in sufficient detail to provide a clear understanding of work performed which, at a minimum, includes the following: the engagement letter; a copy of the financial statements; and the justification for departure of a presumptively mandatory requirement (rare). In addition to the required documentation, an accountant will typically have the certain items documented. While none of the items listed are required by AR-C 70, your firm may require some of these items based on your internal quality control procedures: engagement acceptance or continuance form; procedures checklist; supervision and review checklist; information to support journal entries; information to support top-side entries; and information to support disclosures.

3. The Peer Review Committee of the AICPA has determined that the preparation engagement will be treated in the same manner as the Management Use Only Compilations (which are no longer available). If a firm does not perform any other service triggering the need for a peer review, then the firm would not be required to have a peer review for just the preparation engagements. Some states may choose to not follow this guidance for regulatory purposes, therefore, it is critical that an accountant become familiar with the requirements of all applicable regulatory bodies.

PART 2. AUDITING

PCAOB Proposals on Firm and Engagement Metrics

The Public Company Accounting Oversight Board was created as a result of the Sarbanes-Oxley Act. Certain disclosures about audit engagements performed on publicly traded entities are required. Recently the PCAOB has proposed amendments to its rules to require reporting of both firm level and engagement-level metrics.

For more on these proposals and metrics, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about something that's kind of been in the news a bit lately, and it relates to the PCAOB. The PCAOB has some recent proposals on firm and engagement metrics and other modernization type things. We've seen a number of issues recently in the news related to PCAOB inspections. But to begin with, historically, what role has the PCAOB played in ensuring auditors are satisfactorily abiding by their gatekeeping role?

Ms. Louis

With the Sarbanes-Oxley Act in 2002, that's what created the Public Company Accounting Oversight Board and re-emphasized that certainly auditors do play an important role as they are completing their services, particularly as relates to the audit, the attest functions that they play. And what they're really looking at then from the PCAOB is to say, well, how can we use our oversight capacity to require these firms to start reporting certain metrics that will really help give people better information about the firms and the engagements that they're doing?

Now, certainly as we look at this historically, they've already been doing some of these things. Back in 2015 is when they adopted the rule that required firms to disclose the actual name of the engagement partner and to provide information about other firms that participated in the audit. In 2017, the PCAOB started requiring auditors to communicate certain critical audit matters in their reports and to talk about the tenure in which they've served and the capacity of being the auditors for these organizations. There is a history already of the Board requiring certain key data points. And now as they look at things prospectively, they're trying to determine what other metrics would potentially assist with this oversight that we have to ensure that the auditors really are satisfying their gatekeeping role.

Ms. Grove Casey

Why shouldn't firms be trusted to voluntarily provide information about their firms and the engagements they perform?

Ms. Louis

Well, certainly there is a lack of incentive for firms on their own to provide certain metrics and information, to dedicate the resources and the time and the systems to be able to do that. But also though, there is a concern just about the lack of consistency or standardization in what it is that they're providing. If we leave it up to the firms or even firms as a collective what really would be provided as we look at the design and implementation, the monitoring of systems to capture this information, that there might not be enough cohesion and consistency in order to really inform decisions and to have broad-based accountability on the part of the auditors.

Ms. Grove Casey

Don't some firms already publicly disclose some information?

Ms. Louis

They do. Some firms do have certain firm level metrics that they present, particularly as it relates to their reports around their systems of quality management. But as I mentioned, there isn't necessarily common definitions or calculations even for those firms that are already providing that information. And in addition, since it is voluntary, the concern on the part of the PCAOB is that firms could revise or discontinue that voluntary reporting at any given point in time.

Ms. Grove Casey

Who would be subject to any PCAOB mandated disclosures?

Ms. Louis

When looking at what the PCAOB is proposing to do, it would apply to audits, auditors, and companies that account for the overwhelming majority of the US public company market capitalization. They are looking at from a firm level, that if I'm a firm that audits at least one large accelerated filer or accelerated filer as defined by the SEC, didn't have in a given reporting period, it would trigger them to have to do the firm level metrics. When we are thinking about the reporting of firm level metrics, then it is to say, well, what really meets this reporting threshold? They also would say that engagement level reporting would be required for every audit of an accelerated or large accelerated filer. So also in looking at engagement level reporting it would be triggered by focusing on the larger firms, at least the larger entities that you're actually auditing. But there would be some things that would be still reported for things that don't meet this accelerated filer, large accelerated threshold but there may be scoped out certain firm reporting metrics that would be required for any organization that meets certain characteristics.

Ms. Grove Casey

What forms would be used to report information?

Ms. Louis

Well, they would create a new form called Form FM, that would be for your Firm Metrics with the annual filing of that information. It would be for any firm that serves as a lead auditor for at least one accelerated filer or large accelerated filer. The engagement level metrics for these audits of accelerated filers and large accelerated filers. The engagement level metrics would be on the revised Form AP that already exists. It's just that the name of the form would now be called audit participants and metrics. So that would be filed for each audit, as opposed to the other one is an annual form as relates to the firms. There also would be some other things that they're looking at as far as having the ability to provide some narrative information, to provide context and explanation behind certain metrics that also might be built into the process in some way.

Ms. Grove Casey

Well, it seems like this wasn't the first time that this has been proposed. I think they talked about metrics quite a while ago, actually, but wasn't something similar proposed back in 2015?

Ms. Louis

It was. The PCAOB did put out some feelers to get comments around some indicators that they would provide metrics about the audit professionals, about the audit process, and about the audit results. And they were focused on these audit quality indicators or AQIs. There were about 28 of them that were proposed at that point in time. So there were concerns around, well, should this be mandated or should it be voluntary? They also had concerns maybe about the number of metrics that they were coming up with, that it would be just a cumbersome process and should they really narrow down and focus on metrics that maybe would give the biggest benefit to investors, potential investors, and others that have that enhanced interest into the audits of these publicly traded organizations.

Ms. Grove Casey

Isn't there some level of firm reporting that's required due to Sarbanes-Oxley and PCAOB regulations?

Ms. Louis

There is already within Sarbanes-Oxley, each year that's registered to do audits of these public companies, they have to file an annual report with the PCAOB board. And so there is already filing information around basic information about the firm and its audit practice. It also has where certain events would trigger a special reporting form to be completed. As we think about oversight, the PCAOB already does inspections of these entities depending on the size of the organization or how many audits they do, whether it's every year, every three years. But there are inspection reports that also provide information about these firms as it already does exist. But in certain cases, they're really focused on more general information, like the percentage of my total fees that were billed to issuers for audit services compared to accounting or tax or other non-audit services to give my physical address, to identify my affiliations and membership groups, to talk about the number of accountants that I have, and other more general information that might be provided. They're saying there are things that they would really look at that would be broader than that.

Ms. Grove Casey

Would anything change with what is included in the pre-existing Form 2 or Form 3?

Ms. Louis

So the forms that already are required to be included, there would be some changes maybe, for example, in the Form 2 that focuses on just providing firm information. It would require firms to disclose more information about their fees and their client base and their governance structure. It also would have maybe a new form called Form QCPP, which relates to the firm's quality control policies and procedures. They also are just looking at the deadlines for filing. So if there is a special event that happens that triggers the completion of Form 3, that the deadline would go from 30 days to 14 days in order to timely communicate these events that might represent a material change in the organization's operations, liquidity, etc., as well as some new cybersecurity reporting requirements that also could be enhanced to just these pre-existing forms.

Ms. Grove Casey

How has the already existing Form AP enhanced information made available to the public related to the auditors?

Ms. Louis

As we mentioned, it did add things like the name of the engagement partner, the name and extent of participation of other accounting firms on the audit. And certainly, this allows for readers, users of these reports to know whether or not there's been a change in the engagement partner as it looks from one year to another as you can go and find that information on that Form AP. From knowing the name of the partner, you can certainly compile a lot of other information that voluntarily is [available as] you can research things on the internet to get more information about that individual. So what you are finding is that a lot of investors, potential investors, may go to the Form AP as a starting point or data set in order for them to further investigate the firms that are involved in the audits of these companies.

Ms. Grove Casey

Isn't the PCAOB also looking at changing requirements for a firm's system of quality control? And how is that effort complementing these other efforts?

Ms. Louis

There is, it's a separate and distinct initiative to look at a firm system of quality control and to try and update that, to be thinking about a lot of the concepts and principles that have been adapted internationally with international audit standards, but also the AICPA has been making changes with its quality management as far as setting expectations about what...firms need to do to be more accountable for their own quality control. So there are certain things related to that proposal that will complement what is also happening separately with what types of specific metrics should be included. But certainly, as we're presenting these metrics, part of your system of quality control would be to make sure that this information that's being presented in these metrics is also fair and not misleading. It would be scoped into that overall system as it really needs to really complement each other.

Ms. Grove Casey

What did the firms consider as the basis in creating proposed metrics?

Ms. Louis

So the firms in looking at what metrics should exist, they did go and look to see, well, what already are, the metrics that are voluntarily being put out there as we look at voluntary efforts by firms. But they also went and looked at just input that they had from that 2015 concept release for those 28 metrics that they put out there; looking for input from investors and other stakeholders, but also using the information that they gathered from the PCAOB inspections of firms as they're fulfilling their oversight role as the PCAOB. And to figure out a way that certainly these metrics could be something that could be useful in drawing comparisons between firms, as well as having a baseline of understanding about granular information about specific engagements, that over a period of time, I could see, well, what changed with this particular audit of this particular entity, right? As we now start creating trend information at the specific engagement level, but also providing useful information about the overall firm.

Ms. Grove Casey

Can you tell me a little bit more about the specific proposed metrics?

Ms. Louis

Yes, so the metrics, I won't go through all of them in detail, but there are now 11. So we went from 28 to 11 as they're trying to really focus on the things that would be the most meaningful. Now, there were, as they looked at it, it would be that there are some metrics that would be provided both at the engagement level and the firm level. The same metric would be involved in both and so that could be the case. There also are going to be certain metrics that might only be related to the firm level because the aggregated data is the most meaningful. There is a metric that would be reported only at the engagement level because that would be the most meaningful. So it's not even just focusing on the metrics, but what level are we communicating that out? But it does include things like the hours worked by managers and partners relative to more junior staff, looking at maybe the average weekly hours worked on a quarterly basis by different groups, partners, managers, staff, including time that we're spending on engagements compared to administrative duties and other matters, to focus on things like the experience of the audit professionals, the number of years that they worked in public accounting as we focus more on senior professionals, the years of experience that you have maybe with certain key industries, also continuity of senior professionals across the firm and on engagements with retention and tenure. Those are some examples.

Now things that would be maybe only at the engagement level, would be focusing on a particular audit to say what were the hours that were spent by senior professionals on significant risks, critical accounting policies, critical estimates. Like what percentage did we spend on that relative to total audit hours? Audit hours and risk areas would be engagement only. Whereas other things like history of restatement of financial statements would be something that would be a firm level metric. Or, focusing on the relative changes in partner compensation would be something that also would be at the firm level. So there are now 11 metrics, but remember these metrics could be for specific engagements, also can be for the overall firm as a whole as a separate and distinct form that would be completed on an annual basis.

Ms. Grove Casey

What would be the time period or periods that would be addressed by these metrics?

Ms. Louis

The time period . . . they would try to propose a deadline for the firm metrics may be as of September 30th. In some cases, though, as we think about the proposed metrics, then we might be proposing something else that there might be that we have it as of September 30th, but it might be that the form is completed on or before November 30th. So, a case of trying to come up with some consistent filing period for these firm metrics that all would be as of a given date, as they are trying to figure out like what is it that they already feel like firms are already capturing information, and so, they are going to be taking that into consideration. For the engagement level metrics, since that's done in the Form AP, the time period's going to be based on what you normally would have to file as that report, that AP report, is just now expanded out to include some of this other information.

Ms. Grove Casey

Would a firm be able to estimate the information provided?

Ms. Louis

They obviously want you to use actual amounts, right, if it's available. Now understanding that sometimes actual amounts aren't going to be available and we might need to use some reasonable method to estimate the components of a given calculation. But that's also something that's already permitted even within the existing Form AP, that we can use a reasonable method to estimate certain information required in the calculation example, for example, of total audit hours. But what would be required is that the firms would have to document in their own files the method that they used in order to come up with these estimates when I'm in a situation where actual amounts aren't available to us. And many of the proposed metrics involve a calculation that may result in very small fractional parts. And so they also talked about like, what level should we be rounding up to as it relates to how many decimal places, do we need to provide? As we're also trying to provide useful information that enables comparisons, but also not making it too detailed for it to be an overly cumbersome process.

Ms. Grove Casey

Seems that complementary narrative information would qualitatively improve the usefulness of metrics. Are they planning for that to be a requirement?

Ms. Louis

I think I mentioned earlier that they do understand that elaborating on certain metrics and giving context would be something that could be useful, but they are proposing that this would just be an optional thing, but they would put limits on how many characters you have in order to provide that additional information.

Ms. Grove Casey

Well, hopefully it's not the Twitter length. It seems that how certain individuals are classified and described within firm systems would make a difference to the metrics that would matter, such as who is a partner equivalent versus a staff. Can you talk about how that's being considered in the PCAOB proposed requirements?

Ms. Louis

Certainly, where practical, the terms and concepts they are trying to make an alignment with already existing definitions within other PCAOB standards and rules. But they do understand that it is really important to clearly define who is a partner, who is a manager, who's considered staff, right? As we think about the functional roles that are played because of the fact that there are metrics that would be segregated by these different groups. And so it is something that they're aware of that they need to ensure that there is clarity so that we can truly get that consistency that they're striving for.

Ms. Grove Casey

It seems that participation in an audit can be a pretty broad concept. How is the PCAOB planning to address that?

Ms. Louis

Yes, because of the fact that it can, if you think about who's participating, it could be tax, it could be IT personnel, it could be that it's auditor-engaged specialists. The proposed terms at this point don't provide a participation threshold as far as like what minimum number of hours does somebody need to be working in order to be included in the scope of saying, I participated on this audit. They are saying that the metrics should capture all individuals that are partners, managers, or staff in accordance with these new terminologies that they are putting out there. And so, certainly that is likely going to be an area that there might be commentary on as they're trying to figure out like, who do we really need to capture, particularly as we might be dealing with specialists in IT and tax and other people.

Ms. Grove Casey

How will the proposed metrics differentiate between engagement partners and other partners who participate on an audit?

Ms. Louis

Well, it is going to be important because of the fact that the engagement partners, as we think about firm level metrics, say, as we think about engagement partners for all of the firm's engagements, not just for issuers. So I may have a firm that I'm not necessarily isolating it for just the partners that work on these entities that are subject to this PCAOB oversight. It can be all of the firm's engagements, and then for some specific metrics, as we think about things, a partner may be included in an engagement level metric. We want to make sure that partners in the end are only counted once within any specific metric as well. I don't want to be the engagement partner and be considered another partner as I might be double counting things. That's going to become difficult maybe as far as structuring systems to be able to segregate that data.

Ms. Grove Casey

Would firm level metrics only include audits performed under PCAOB standards?

Ms. Louis

It would be everybody that participates in audits, whether that audit's performed under PCAOB standards or other audit standards, as we think about the firm level metrics that we're really trying to provide context about the firm as a whole. Now, your engagement-specific metrics though would be different, right? As you're now focusing on a specific engagement that we did, a specific audit where I have my engagement level metrics that clearly would be only something that would be related to the audits that are qualifying, right, underneath these guidelines.

Ms. Grove Casey

Who would be considered partners and managers on an engagement team for the purposes of these metrics?

Ms. Louis

Well, they are going to go through and think about the engagement partner, but it also could be partners or managers in the national office or a centralized group within a firm metric who might perform procedures on an audit or assist in planning or supervising the audit. It can also be partners and managers of other accounting firms who are performing procedures related to an audit. It can be any, as we think about individuals that work under the firm's direction and control and assist the engagement partner in satisfying that engagement partner's planning and supervisory responsibilities.

Ms. Grove Casey

Some engagement level metrics require metrics about the core engagement team. Let's talk about who would be considered to be part of that core.

Ms. Louis

So it would be the engagement partner and members of the engagement team. It could be that it is a partner who worked more than 10 or more hours. It could be a manager or a partner who worked on the engagement for more than 40 hours or if less, 2% or more of the total audit hours. But they are trying to, from the engagement level perspective to try and really focus on, when they say the core team versus just everybody that's working on this engagement, that there would be a formal definition about for certain metrics what is meant to be that core team.

PCAOB Recent Proposals on Firm and Engagement Metrics and Other Modernization Efforts

by Jennifer F. Louis, CPA

Background

With the passage of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and the establishment of the PCAOB, Congress acknowledged and re-emphasized the auditor’s important gatekeeping role. The Public Company Accounting Oversight Board (PCAOB or the Board) is proposing amendments to its rules and reporting forms to require the reporting of specified firm-level metrics on new Form FM, Firm Metrics, and specified engagement-level metrics on an amended and renamed Form AP, Audit Participants and Metrics.

In 2015, the Board adopted rules requiring firms to disclose the name of the engagement partner and information about other firms that participated in the audit. In 2017, the Board updated its standards to require communication of critical audit matters and auditor tenure. The Board currently has a rulemaking project to consider changes to firm reporting requirements. The proposed metrics are intended to complement these efforts by providing investors with additional information that would assist them in making decisions about audit-related matters, such as whether to ratify the company’s selection of its auditor or to vote for re-election to the board of directors of members of the audit committee. The metrics will also potentially assist in audit committee oversight, by supporting continuous improvement of firms’ quality control systems and facilitating oversight and rulemaking efforts.

There is a lack of incentive for firms, acting on their own or collectively, to provide accurate, standardized, and decision-relevant information about their firms and the engagements they perform. Proposed metrics would provide valuable additional information, context, and perspective on auditors and audit engagements, which could be used by investors, audit committees, and other stakeholders. This would advance investor protection and promote the public interest by enabling stakeholders to make better-informed decisions, promoting auditor accountability, and ultimately enhancing capital allocation and confidence in our capital markets.

In addition, audit committees could benefit from having additional context when deciding whether to select or retain a firm and overseeing the firm’s work. Audit firms could use standardized information about themselves and their peers in designing, implementing, monitoring, and remediating their systems of quality control. The PCAOB could also potentially benefit from having additional tools to use in its inspections program and standard-setting initiatives.

Some firms already publicly disclose certain firm-level metrics through audit quality reports, transparency reports, or similar documents. However, the disclosures are inconsistent across firms, and there are no common definitions or calculations allowing for consistent comparisons. Since most of the disclosures are voluntary, firms are free to revise or discontinue such reporting anytime. The current voluntary reporting regime does not provide consistent, comparable information that stakeholders can rely on to inform their decisions over time.

Applicability

The proposed thresholds would apply to the audits, and auditors, of companies that account for the overwhelming majority of U.S. public company market capitalization.

Firm-level reporting would be required of every firm that audits at least one “accelerated filer” or “large-accelerated filer” (as those terms are defined in the U.S. Securities and Exchange Commission rules) during the reporting period.

Reporting of all the firm-level metrics would be required for each of the firms that met the reporting threshold, except that the quality performance ratings and compensation metric would not be required for firms that are exempt from partner rotation under Rule 2-01 of Regulation S-X.

Engagement-level reporting would be required for every audit of an accelerated or large accelerated filer.

The proposal would:

1. Require reporting of firm-level metrics annually on a new Form FM, Firm Metrics, pursuant to a new Rule 2203C, Firm Metrics, for firms that serve as lead auditor for at least one accelerated filer or large accelerated filer.

2. Require reporting of engagement-level metrics for audits of accelerated filers and large accelerated filers on a revised Form AP, which would be renamed "Audit Participants and Metrics".

3. Allow, but not require, limited narrative disclosures on both Form FM and Form AP to provide context and explanation for the required metrics.

2015 Original Proposal

In July 2015, the PCAOB issued the Concept Release and sought comment on 28 potential indicators. The indicators were organized into three groups:

1. Audit professionals – Measures dealing with the availability, competence, and focus of those performing the audit.

2. Audit process – Measures related to an audit firm's tone at the top and leadership, incentives, independence, attention to infrastructure, and record of monitoring and remediation.

3. Audit results – Financial statements, internal control, going concern, communications between auditors and audit committees, and enforcement and litigation.

Most commenters expressed support for the general idea that Audit Quality Indicators (AQIs) may be useful. However, commenter views varied widely.

Comments from firms and firm-related groups suggested that no standard group of indicators could advance a person's understanding of audit quality. Commenters suggested that AQIs should be voluntary, should be reported to audit committees through two-way discussions to provide context for the indicators, or should be required only at the firm level.

Investors and investor-related groups argued that indicators should be made public and could be used to stimulate competition based on quality among audit firms, remedy the deficiency of information about audits, and give shareholders meaningful information to help them in voting on auditor selection. Some commenters suggested that engagement-level metrics are more useful than firm-level metrics. One commenter suggested that promoting competition around an implied variability in audit quality may not always be appropriate and in the public interest because audit quality should be nonnegotiable and a fundamental goal for all audits. Another commenter suggested that it was critical to define what AQIs do and do not represent so that they are used appropriately.

Already Existing Firm Reporting

As required by Section 102(d) of Sarbanes-Oxley and Rule 2200, each year registered firms must file an annual report with the Board. To satisfy this requirement, PCAOB rules require firms to file Form 2 (Annual Report Form) to report basic information about the firm and its audit practice and Form 3 (Special Reporting Form) after the occurrence of certain events. The PCAOB also makes inspection reports publicly available for firms that are subject to annual or triennial PCAOB inspections.

In addition to basic identifying information about the firm, firms report on Form 2 general information about their audit practices and other business relationships. Information required to be provided on Form 2 includes:

- Whether the firm issues audit reports for issuers, brokers, or dealers or plays a substantial role in issuer or broker-dealer audits;

- Percentage of total fees billed to issuers for audit services, other accounting services, tax services, and non-audit services;

- For each issuer or broker-dealer for which the firm issued an audit report, the issuer's or broker-dealer's name, its Central Index Key (CIK) number and Central Registration Depository (CRD) number (if any), and the date of the audit report, as well as the total number of firm personnel who exercised authority to sign the firm's name to an audit report for an issuer or broker-dealer during the reporting period;

- Physical address (and, if different, mailing address) of each firm office;

- Whether the firm has any memberships, affiliations, or similar arrangements involving certain activities related to audit or accounting services (including use of name in connection with audit services, marketing of audit services, and employment or lease of personnel to perform audit services), and the entities with which the firm has those relationships;

- Total number of accountants, certified public accountants, and personnel;

- Relationships with certain individuals and entities with disciplinary or other histories (if not previously identified); and

- Acquisitions of another public accounting firm or a substantial portion of another firm's personnel.

In addition to annual reporting on Form 2, firms are required to file Form 3 within 30 days after the occurrence of certain events, such as when the firm's legal name has changed while otherwise remaining the same legal entity, the firm has withdrawn an audit report on the financial statements of an issuer or has resigned, declined to stand for re-appointment, or been dismissed from an audit engagement as principal auditor, and the issuer has failed to comply with applicable Form 8-K reporting requirements for such events.

The Board's Firm Reporting proposal contains certain updates to its annual and special reporting requirements to facilitate the disclosure of more complete, standardized, and timely information regarding audit firms. Among other new requirements, the proposal would:

1. Require firms to disclose additional information on Form 2 about their fees and client base, leadership and governance structure, and network arrangements.

2. Require an update to the firm's quality control policies and procedures on a new Form QCPP.

3. Shorten the deadline for filing Form 3 from 30 days to 14 days and expand the scope of special reporting to include events that pose a material risk, or represent a material change, to the firm's organization, operations, liquidity or financial resources, or provision of audit services, as well as new cybersecurity reporting requirements.

Form AP

In 2015, the PCAOB adopted rules requiring information on Form AP, *Auditor Reporting of Certain Audit Participants*, regarding the engagement partner and other accounting firms that participate in audits of issuers. The key provisions include annual disclosures of (a) the name of the engagement partner and (b) the name and extent of participation of other accounting firms in the audit.

Using this data, a user can determine, for example, the changes in engagement partner for any given issuer or obtain a list of all issuers for which an engagement partner is responsible.

After identifying an engagement partner, a user can then compile information from other sources, including information about whether the partner is associated with restatements of financial statements, has been subject to public disciplinary proceedings, or has experience as an engagement partner for issuers of a particular size or in a particular industry.

Similarly, starting from the Form AP dataset, users may perform further research on the other accounting firms that participate in an audit, such as whether those firms are registered with the PCAOB, whether they have any publicly available disciplinary history, whether they have been inspected, and, if so, the results of those inspections.

Proposed Changes to Quality Control

The PCAOB's proposal regarding a new quality control standard for firms, QC 1000, *A Firm's System of Quality Control*, contains provisions that would be relevant to firm reporting of firm- and engagement-level metrics.

Under proposed QC 1000, if a firm publicly communicates firm-level or engagement-level information, such as firm or engagement performance metrics:

- The firm's quality objectives should include that such information is accurate and not misleading.
- With respect to any performance metrics relating to the firm's audit practice, firm personnel, or engagements, the communication should explain in reasonable detail how the metrics were determined and, if applicable, how the metrics or the method of determining them changed since performance metrics were last communicated.

The proposed firm and engagement metrics include reporting elements that focus on the firm's responsibility to produce and report information that is accurate and not misleading, for example, an optional narrative to accompany the metrics.

Under proposed QC 1000, in determining the nature, timing, and extent of QC system-level monitoring activities, the firm would be required to take into account any performance metrics that the firm may have developed for its QC system, among other things. Proposed QC 1000, if adopted, would not require the use of any specific metrics. Firms would have the ability to use any or all of the proposed metrics in their QC system, but that would not be required.

Basis for Developing the Metrics

In considering which metrics to propose, the PCAOB took into account:

- Input from investors and other stakeholders
- The 28 metrics included in the 2015 Concept Release
- Information gathered by inspections
- Other jurisdictions' initiatives
- Voluntary efforts by firms
- Academic literature

Firm-level metrics would provide a basis for drawing comparisons between firms as well as a baseline for evaluating engagement-level metrics. Firm-level metrics be disclosed on a new Form FM, *Firm Metrics*.

Engagement-level metrics would elicit more granular information and would enable comparisons over time and across engagements both within the firm and across other firms. Engagement-level metrics be disclosed on Form AP, together with other engagement-specific information like the name of the engagement partner and the other firms participating in the audit.

2024 Proposed Metrics

The proposal would require reporting at both the firm and the engagement levels. Firm-level metrics would relate to aspects of the firm's audit practice (e.g., overall turnover of individuals across a firm's audit practice) and engagement-level metrics would relate to individual audit engagements (e.g., turnover of individuals working on a particular engagement).

Most of the metrics being proposed would be presented at both the firm and the engagement level. However, two metrics would be reported only at the firm level, because aggregated data would be most meaningful or appropriate. One metric would be reported only at the engagement level, because aggregate data would not be meaningful.

The following are the eleven metrics that are being proposed:

1. Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.

2. Workload. Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff, including time attributable to engagements, administrative duties, and all other matters.

3. Audit Resources – Use of Auditor's Specialists and Shared Service Centers. Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.

4. Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether PCAOB-registered or not) by senior professionals across the firm and on the engagement.

5. Industry Experience of Audit Personnel. Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.

6. Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

7. Audit Hours and Risk Areas (engagement-level only). Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.

8. Allocation of Audit Hours. Percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement.

9. Quality Performance Ratings and Compensation (firm-level only). Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.

10. Audit Firms' Internal Monitoring. Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.

11. Restatement History (firm-level only). Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past five years.

Focus on Comparability

Comparability has been a common objective both for the PCAOB and for other regulators and standard-setters when considering the benefits and challenges of reporting firm- and engagement-level metrics. Information currently being provided in firm transparency reports is challenging because firms' definitions of metrics are not consistent and are therefore hard to compare. The information currently provided in firm transparency reports is reported inconsistently and is not based on common definitions or methods of calculation, which prevents users from being able to make comparisons across firms or over time.

A required set of metrics, derived from specified calculations incorporating consistently defined terms and concepts—is designed to generate comparable data with respect to all firms and all engagements that are subject to the reporting requirements. In some cases, we have also designed the proposed metrics as percentages (e.g., relative to total audit hours) or averages where we believe that would provide more comparability across firms and engagements than methods based on absolute amounts.

Firms differ from each other in the number and types of audits they perform and their resources, including the number of partners, managers, and staff and their experience and degree of specialization. Engagements differ based on the size of the engagement, the industry of the company, the risks related to the company and the audit, whether it is a new engagement for the firm, or there has been a change in the engagement partner. This lack of standardization across both firms and engagements makes the task of comparison difficult. However, the proposed metrics should still provide useful information, enabling users to make both broad comparisons across the full population of reporting firms and accelerated filer and large accelerated filer audits, and more targeted comparisons across smaller subgroups of similar firms and engagements.

Time Period Covered by Metrics

For firm-level metrics, it is proposed that the metric generally would be as of September 30 and the time period covered would be October 1 through September 30. In some cases, the proposed metrics are based on engagements for which the auditor issued an audit report during the 12-month period ending September 30. The Board is proposing that firms would be required to file Form FM on or before November 30, 61 days after the end of the reporting period.

The following proposed firm-level metrics related to activities for which firms may already have defined periods or cycles that may not align with the proposed reporting date. In these cases, the Board proposed that the time period covered by the metrics may be tailored to a firm's existing processes and procedures, for example:

- Quality Performance Ratings and Compensation – This metric would be based on the firm's most recently completed performance evaluation and compensation process.

- Audit Firms' Internal Monitoring – This metric is based on the firm's most recently completed 12-month quality review monitoring cycle.

For these metrics, the firm would use its internally established monitoring cycle, provided that the cycle covers a 12-month period (which is expected to be consistently applied). This allows firms flexibility to use their internally established dates for certain metrics, which would be appropriate and still provide the comparability discussed above since all firms would be measuring over a 12-month period.

For engagement-level metrics, which would be reported on Form AP, the time period is generally based on the most recent period's audit. Some proposed engagement-level metrics would relate to information about people on the engagement, such as Experience of Audit Personnel, or compared to people on previous engagements, such as Retention and Tenure. One proposed engagement-level metric, Audit Firms' Internal Monitoring, would provide information regarding previous engagements for the company under audit.

Use of Estimates

In calculating the firm- and engagement-level metrics, actual amounts would be required to be used, if available. However, if actual amounts are unavailable, firms would be permitted to use a reasonable method to estimate the components of a calculation. This approach is consistent with the existing Form AP, which allows firms to use a reasonable method to estimate certain information required in the calculation of total audit hours.

Firms would also be required to document in their files the method used to estimate amounts when actual amounts are unavailable.

Many of the proposed metrics involve the calculation of a percentage or a dollar value that may result in very small fractional parts. The firm would report metrics that are rounded to the nearest whole number, except where additional decimal places (no more than two) are needed to properly interpret the result or to enable comparison to prior periods.

Optional Narrative Disclosure

The Board is proposing that firms would be permitted, but not required, to provide a brief narrative disclosure together with any or all of the firm-level and engagement-level metrics they report. This would give firms the ability to provide any context they thought necessary for an appropriate understanding of the reported metrics. The Board is proposing that the optional narrative disclosure would be no more than 500 characters per metric.

Example of Why Key Terms and Concepts Matter

Where practical, the key terms and concepts align with existing definitions in PCAOB standards and rules. The concepts and terminology developed specifically for proposed metric calculations are not intended to inform the interpretation of other rules, standards, or forms of the PCAOB.

For example, one area that this is clearly important in is defining "Partners, Managers, and Staff". The PCAOB is proposing to create a standard taxonomy for the functional roles played by individuals involved in an audit, which would be used in the calculations of the proposed metrics.

- Partners – Partners or persons in an equivalent position (e.g., shareholders, members, or other principals) who participate in audits;
- Managers – Accountants or other professional staff commonly referred to as managers or senior managers (or persons in an equivalent position) who participate in audits; and
- Staff – Accountants or other professional staff who participate in audits and are not partners or managers.

Participation in the audit is a broad concept that would include all individuals at these levels that were involved in the firm's audits, including tax personnel, IT personnel, and employed specialists. The proposed terms do not provide a participation threshold, such as a minimum number of hours, because the metrics should capture all individuals that are partners, managers, and staff. The proposed terms for partners, managers, and staff participating in an audit will be widely understood among firms, including in situations where firms have different titles (e.g., directors) for the roles than the terms we are proposing.

Some firm-level and engagement-level metrics differentiate between engagement partners and other partners who participate in the audit. The differences between responsibilities borne by engagement partners and other participating partners would justify presenting data for both categories separately. Engagement partners as used in the firm-level metrics mean engagement partners for all of the firm's engagements, not just for issuer engagements. For a specific metric, if a partner is included in the engagement partner metric, they would not also be included in the other partner metric. In other words, partners would only be counted once within any metric.

For firm-level metrics, partners, managers, and staff of the firm would include all such individuals who participate in audits, whether the audits are performed under PCAOB standards or other auditing standards. Including individuals in the firm-level metrics who participate on any firm audit is appropriate because these metrics would provide information about the firm and not about specific engagements (for example, in the area of firm-level industry experience, which would be relevant across a firm's entire audit practice). Participation in audits means any involvement (including, for example, consultation on specific matters), and thus may include individuals outside the engagement team, such as national office personnel.

For the proposed metrics, partners and managers on the engagement team would include:

- The engagement partner;
- Partners and managers from the firm issuing the audit report who perform audit procedures on the audit. This would also include partners and managers in the national office or centralized group in the firm (including within the firm's network) who perform audit procedures on the audit or assist in planning or supervising the audit;
- Partners and managers of other accounting firms who perform audit procedures on the audit (supervised under AS 1201); and
- Individuals in managerial roles at shared service centers if those individuals both work under the firm's direction and control and assist the engagement partner in fulfilling planning or supervisory responsibilities on the audit.

Members of the engagement team would include every partner and manager who worked on any aspect of the audit, even if their involvement was extremely limited. The PCAOB is soliciting comments on whether the engagement team for purposes of the metrics should include a minimum hours threshold or otherwise exclude persons with minimal involvement in the audit. Because the engagement quality reviewer is not a member of the engagement team, engagement quality reviewers are excluded from most of the metrics as proposed. The PCAOB is soliciting comments on whether that exclusion is appropriate.

Some proposed engagement-level metrics provide information about members of the "core engagement team." The core engagement team would include the engagement partner and members of the engagement team who are:

1. Partners or employees of the registered public accounting firm issuing the audit report (or individuals who work under that firm's direction and control and function as the firm's employees); and
2. Either of the following:
    a. A partner (excluding the engagement partner) who worked ten or more hours on the engagement; or
    b. Manager or staff who worked on the engagement for 40 or more hours or, if less, 2% or more of the total audit hours.

For some engagement-level metrics, such as workload, providing information for only the core engagement team, rather than the entire engagement team, may be more useful to investors and other stakeholders. This is because the core engagement team are the individuals who make the primary decisions regarding planning and performance of the audit and determine the final conclusions supporting the auditor's opinion. In many instances, they also incur the majority of the total audit hours, although that is not necessarily the case.

Under the proposed definition, the core engagement team would not include engagement team members whose participation was more limited and did not meet the hours threshold (for example, who only performed an inventory observation, helped on certain transactions, or consulted on specific matters). The PCAOB is proposing to use a threshold of ten hours for partners and the lesser of 40 hours or 2% of total audit hours for managers and staff, because that would filter out individuals whose participation in the engagement was limited or marginal.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Discuss the current reporting requirements for audit firms under Sarbanes-Oxley with the PCAOB.
2. List some of the firm level and engagement level metrics that are being proposed by the PCAOB.
3. Discuss who “core” engagement team members are and why it matters.

B. Suggested Answers to Discussion Questions

1. As required by Section 102(d) of Sarbanes-Oxley and Rule 2200, each year registered firms must file an annual report with the Board. To satisfy this requirement, PCAOB rules require firms to file Form 2 (Annual Report Form) to report basic information about the firm and its audit practice and Form 3 (Special Reporting Form) after the occurrence of certain events. The PCAOB also makes inspection reports publicly available for firms that are subject to annual or triennial PCAOB inspections.

   In addition to basic identifying information about the firm, firms report on Form 2 general information about their audit practices and other business relationships. Information required to be provided on Form 2 includes:

   - Whether the firm issues audit reports for issuers, brokers, or dealers or plays a substantial role in issuer or broker-dealer audits;
   - Percentage of total fees billed to issuers for audit services, other accounting services, tax services, and non-audit services;
   - For each issuer or broker-dealer for which the firm issued an audit report, the issuer's or broker-dealer's name, its Central Index Key (CIK) number and Central Registration Depository (CRD) number (if any), and the date of the audit report, as well as the total number of firm personnel who exercised authority to sign the firm's name to an audit report for an issuer or broker-dealer during the reporting period;
   - Physical address (and, if different, mailing address) of each firm office;
   - Whether the firm has any memberships, affiliations, or similar arrangements involving certain activities related to audit or accounting services (including use of name in connection with audit services, marketing of audit services, and employment or lease of personnel to perform audit services), and the entities with which the firm has those relationships;
   - Total number of accountants, certified public accountants, and personnel;
   - Relationships with certain individuals and entities with disciplinary or other histories (if not previously identified); and
   - Acquisitions of another public accounting firm or a substantial portion of another firm's personnel.

In addition to annual reporting on Form 2, firms are required to file Form 3 within

30 days after the occurrence of certain events, such as when the firm's legal name has changed while otherwise remaining the same legal entity, the firm has withdrawn an audit report on the financial statements of an issuer or has resigned, declined to stand for re-appointment, or been dismissed from an audit engagement as principal auditor, and the issuer has failed to comply with applicable Form 8-K reporting requirements for such events.

2. The following are the eleven metrics that are being proposed:

   1. Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.
   2. Workload. Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff, including time attributable to engagements, administrative duties, and all other matters.
   3. Audit Resources – Use of Auditor's Specialists and Shared Service Centers. Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.

4. Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether PCAOB-registered or not) by senior professionals across the firm and on the engagement.

5. Industry Experience of Audit Personnel. Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.

6. Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

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11. Restatement History (firm-level only). Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past five years.

3. The core engagement team would include the engagement partner and members of the engagement team who are:

- Partners or employees of the registered public accounting firm issuing the audit report (or individuals who work under that firm's direction and control and function as the firm's employees); and
- Either of the following:
  - A partner (excluding the engagement partner) who worked ten or more hours on the engagement; or
  - Manager or staff who worked on the engagement for 40 or more hours or, if less, 2% or more of the total audit hours.

For some engagement-level metrics, such as workload, providing information for only the core engagement team, rather than the entire engagement team, may be more useful to investors and other stakeholders. This is because the core engagement team are the individuals who make the primary decisions regarding planning and performance of the audit and determine the final conclusions supporting the auditor's opinion. In many instances, they also incur the majority of the total audit hours, although that is not necessarily the case.

Under the proposed definition, the core engagement team would not include engagement team members whose participation was more limited and did not meet the hours threshold (for example, who only performed an inventory observation, helped on certain transactions, or consulted on specific matters). The PCAOB is proposing to use a threshold of ten hours for partners and the lesser of 40 hours or 2% of total audit hours for managers and staff, because that would filter out individuals whose participation in the engagement was limited or marginal.

PART 3. SMALL BUSINESS

Common Fraud Schemes in the ACFE 2024 Report to the Nations

The Association of Certified Fraud Examiners (ACFE) has released its 13th Occupational Fraud Report to the Nations. It is estimated that fraud has an annual cost of over a trillion dollars globally. Although only a small fraction of the workforce will ever commit occupational fraud, many factors provide the pressures, opportunities, and rationalizations that motivate and enable perpetrators to carry out their fraud schemes. This makes it important for all types of organizations to be aware of fraud-related trends for enterprise-wide risk management.

For more on this Report, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about something that has recently been issued by the ACFE, right? And that's the Report to the Nations on Fraud. They release that every couple of years. So to begin with, why does the ACFE prepare this report?

Ms. Louis

So the ACFE, for those that may not be familiar with it, it's the Association of Certified Fraud Examiners. And, what they've done since 1996 is, that they've done a study every two years for them to really focus on the global implications of fraud. Fraud has an annual cost of about a trillion dollars globally. They're goal out of all this is to make sure that organizations of all nature, size, complexity, that there is data that they can turn to help them keep awareness around what are those fraud related trends so that they can better try to manage that risk.

Ms. Grove Casey

So what is the basis for what is included in the survey?

Ms. Louis

All right, since it is the Association of Certified Fraud Examiners, when they're hired to go investigate a fraud, they prepare this survey after the investigation is complete in order for them to capture that data. It's a survey that has about 86 questions in it. They...have to stipulate a time to think about what's included in the 2024 frauds for the entire calendar year of 2022. And then, through the first three quarters of 2023, because it takes them about six months to aggregate the data, put it into this report form, and the report comes out then in the spring of 2024.

This is related to fraud cases globally. There are about 138 countries that are included. It includes all different types of industries. There's about 22 industries that are included. This particular survey had 1,921 fraud cases that were investigated during that timeframe and presented as the basis of communicating this information out through the report that they then release.

Ms. Grove Casey

Well, how does the fraud survey categorize fraud schemes?

Ms. Louis

Those categorizations that are probably very familiar with people that are in tune to thinking about fraud, including auditors and others that follow standards and have responsibilities of looking for the impact of that on financial statements. It is fraudulent financial asset misappropriation, but they do have a third category about corruption. And what's in corruption is more like...conflicts of interest or bribery, oftentimes as we think about these different schemes, they don't always limit themselves to one particular scheme. So about 38% of the cases in the study actually involve two or more of those different fraud schemes with the fact of having overlap of things that occur. But in general, as we think about the fraud schemes, the most common category that things end up in is the asset misappropriation scheme. That happens in about 89% of the cases, either by itself or in tandem with one of the other schemes. So the one that has the fewest, the lowest, number is the fraudulent financial reporting which only had 5% of the surveys included that as being an element, including with the overlap. If you look at fraudulent financial reporting just on its own without any of the other categories, it's actually only 1% of the cases.

Ms. Grove Casey

So let's talk about what the top three most common asset misappropriation schemes are.

Ms. Louis

It's been interesting over the past year, particularly what has really evolved as being the top schemes and it has been consistently the same three. Now, number one and number two go back and forth. If you look at surveys from 2020 to 2022 to 2024, they might shift as far as who's number one and who's number two, but they're always very, very close to each other. This year, the top two schemes happen to be tied. They are the billing scheme. So the billing scheme being that you're using the purchasing AP disbursement cycle, submitting invoices for fictitious goods or you're inflating invoices or you're putting your own personal invoices in to be paid by the company. Those things where you're using the actual billing system. That's about 22% of the cases for a median loss of around $100,000.

A non-cash misappropriation is tied for first place, but is often the top two. And this could be any non-cash asset. So it could be stealing inventory from the warehouse, but it also includes stealing or misusing confidential customer information or other personal private information, the data, right? Being a non-cash asset. It may not be something that's sitting on somebody's balance sheet, but it is an asset of the organization that needs to be secured and managed. Those schemes were also about 22% of the cases and the median losses are lower in those schemes around $66,000.

The number three scheme, it tends to be employee expense reimbursement where the employee is making either fictitious or inflated business expense reimbursement claims. These occurred in about 13% of the cases in the 2024 survey. The median loss for those schemes is around $50,000. So the scheme tends to be relatively lower dollar as far as the actual effect, even though it happens about 13% of the time.

Ms. Grove Casey

What other asset misappropriation schemes does the survey capture information about?

Ms. Louis

Well, some of the other ones to be up there is check and payment tampering, where somebody steals funds because I'm intercepting or forging or altering some form of non-check disbursement as we think about not just checks, but they're also rerouting electronic payments inappropriately.

The check or other payment tampering is about 11% of the cases. What we found from 2022 to 2024 is that the percentage of that scheme occurring didn't really change, but the median loss did. So it went up to $155,000 in median losses, which tends to be one of the bigger median losses. If it were to happen they're doing it at higher dollar amounts compared to what they historically have done with that particular scheme. Other schemes that are right around the 10 to 11% range include things that involve cash itself. So cash larceny, stealing an incoming payment. As we think about checks from daily receipts, cash on hand misappropriation, stealing things that are sitting in a company vault, or skimming, where you're looking at unrecorded sales, right? As we think about a scheme of stealing payment of something before it actually makes it on to the books or records and they segregate skimming and cash larceny as far as what's been on the books. But each of those schemes, as I said, are around the 10 to 11 percent as far as their occurrence. They also tend to be right around $43,000 to $50,000 in the median losses as well.

Ms. Grove Casey

What does the survey say as it relates to the correlation of how long it takes to detect a fraud and the resulting amount of fraud loss?

Ms. Louis

It would make sense that the earlier that you detect the fraud, that you're limiting the amount of damage that can result and the median duration of occupational frauds in the study as a whole is around 12 months. The longer the fraud occurs, the bigger your losses. And if you find things in the first six months, your median loss is around $30,000. If I don't find a fraud until two or three years later, the median loss goes up to $250,000. Undetected frauds that last five or more years actually have a median loss of $875,000. So certainly there is a correlation as we think about how long does the fraud go on and what does that mean around the risk that I'm creating for it to build in its sense of reality as a whole?

Ms. Grove Casey

Are there any trends with fraud schemes that compound to be a larger loss for each month that passes before detection? I know you just mentioned how the longer it goes, obviously, the larger the loss gets. It's not like they decide to stop doing it, so, putting the cap on it or anything. But are there any trends that we see with that?

Ms. Louis

But yes, certain schemes will compound as I talk about the velocity of the scheme. They'll compound more quickly. Financial statement fraud, for example, has the greatest velocity for as we think about monthly impact. It tends to be around $42,600, whereas check and payment tampering is around $8,600 a month. The billing scheme is around $5,600. Non-cash is around $5,500. So the schemes, comparatively, while financial statement fraud happens in only, we said, 1% to 5% of cases, it has the biggest effect, though, as it has the greatest cost compounding implications on the organization. For fraud, expense reimbursement fraud, skimming, those have the smallest velocities. So even if they were to occur, they could go on for a longer period of time and not aggregate or compound to be as great of a consequence.

Ms. Grove Casey

Since the scope of this fraud survey was around the timing of the pandemic, did the ACFE explore how the pandemic impacted fraud outcomes?

Ms. Louis

They did. And certainly, if the investigation was happening in 2022- 2023, and since it takes, you know, 12 to 18 months to detect a fraud, we are looking at frauds that occurred, right, during the pandemic and now, and were now being actually investigated. One of the things was, as I think I might've mentioned already, how the payment tampering how the amount that was stolen went up didn't necessarily change as far as proportionately and how often it occurred in the percentage of occurrences as just the implications of fraud did, you saw a steady decline and it all declined in the duration it went from like 18 months to 14 to 12 right sitting in 2024 takes out 12 months to find the fraud but the median losses spiked from 2022 to 2024 in the surveys. And they believe that that could be because of these pandemic related factors, like organization staffing changes, remote working, in-world changes, as we're focused on those cases, that the in the increase or the spike of the schemes, particularly with fraudulent financial reporting and check and payment schemes.

Ms. Grove Casey

How is fraud most often concealed?

Ms. Louis

Well, certainly it would make sense that somebody is altering or hiding or creating an actual document. Now a document, it could be an electronic piece of evidence, right? That might be created as we're going more paperless in this world. So it is, as we think about proactive concealment, right? It does relate to creating, altering, or withholding evidence, but it also would be creating or altering or omitting journal entries. So both of those being the ways that fraud is most likely concealed would be in those general broad categories.

Ms. Grove Casey

How is fraud most often detected?

Ms. Louis

Well, the number one way of detecting fraud, and this has been true since 1996, is through a tip. And 43% of the frauds in this particular survey were uncovered because of some form of tip from somebody who was a whistleblower. And this mechanism is about three times more likely to detect a fraud than the next highest detection mechanism.

Now this, as I said, has been by far the most common way that fraud has been detected since the inception of this survey. The tips can come from another employee. About half the tips come from employees, but it also could be a tip from a vendor or a customer. It could be because the bank sees something unusual with a disbursement. And so it can be tips internally or externally. that are the ones that are now pointing out that you have this fraud risk that could exist.

Ms. Grove Casey

What are other common fraud detection methods?

Ms. Louis

The number two and number three mechanisms are having an internal audit function that detects the fraud in about 14% of the cases and management review is about 13% of the cases that they were contributing factors in finding the fraud. So if you collectively look at those three, tips, internal audit, management review, it accounts for about 70% of the cases as we think about the most common detection mechanism. Now some detection mechanisms are going to expose the fraud more quickly, and as we discussed that typically is going to limit the size of your loss. They found that passive detection schemes like finding something by accident means that the high-end losses will occur for those types of passive detection schemes. Doing something that is something more proactive, you're going to have a shorter duration and lower median losses compared to your detectives that are more passive. You can have some that can be passive or active, like giving external audit, having an external audit or the tips. So certainly when it has a combination of the two, it is something that falls more in the middle of where you might end up with your resulting losses that could emerge.

Ms. Grove Casey

How are formal tips commonly submitted?

Ms. Louis

Well, if you have a formal reporting mechanism, now we use the word hotline, doesn’t have to be a telephone hotline. Some of the most common mechanisms used by whistleblowers, certainly as we look at the fact that we are more in an electronic age, having some sort of online reporting form or having an email address has overtaken hotlines as far as a telephone as being a reporting mechanism. Texting, also about 3% of these were reported via text in this last survey. We're finding that online electronic form of being able to give a tip in a formal way, like having a formal reporting mechanism, is the preference.

Ms. Grove Casey

If a tipster does not use a formal reporting mechanism, like a hotline, who are the tips being provided to?

Ms. Louis

Not every organization has a formal reporting mechanism, a hotline. What you are finding is that if they do speak up still through a tip. Then they're going to either the direct supervisor or they're going to an executive or owner of the organization, accounting for...the vast majority of who's receiving the tips. It could be internal audit, about 14% of the frauds that had this less formal reporting mechanism went to internal audit. What's very low on the list is the external auditors. They're not telling the external auditors, they're more apt to give an internal person notification about their concerns.

Ms. Grove Casey

Well, when you think about it, that's kind of a trust factor. And the other thing is that if they're reporting to people on the inside, it's way easier for them to verify something than, say, the external auditors. So that totally is understandable. What are the types of victim organizations included in this survey?

Ms. Louis

Yes, absolutely.

Well, about 40% of the participants in this survey were privately held companies. There were also publicly traded companies that accounted for about 26% of the cases, and then, the remainder is predominantly made up of government agencies and then nonprofits. There also were nonprofit organizations that were included in this.

That layout that we have with nonprofits, governments, publicly traded, held in order, right, of smallest to greatest amount of participation in a survey is probably a reflective of the demographics of the fact that there is just more of the companies out there, that indication of the bigger population.

Ms. Grove Casey

Well, it would seem like the size of the organization might have an impact on fraud risk, because typically, and you think of this more with publicly traded versus private, right? Although there can be quite large private enterprises, because they're more likely to have enough people to support the internal controls necessary to prevent fraud. . . . How does the size of the organization have an impact on fraud risk, I guess?

Ms. Louis

Yes. So what they really found from the survey is if you broke it down, say by size by employees. So if we had where there's fewer than a hundred employees, right. Breaking up to where there might be where there's 10,000 or more employees. The distribution is not that different as far as the fact that all size organizations have fraud risk. The one that had the greatest percentage though was an organization that was between a thousand and just under 10,000. And, 31% of the frauds happened in that grouping, but there is representation across the different size categories. But the larger organizations with 10,000 or more employees had the greatest median loss of $200,000. And so while we certainly think about how smaller organizations say fewer than 100 employees, their median loss was around $141,000.

Now, smaller organizations tend to have smaller budgets and less revenue. And so when we think about the implications, proportionately, 141,000 for a small business is probably more consequential than the $200,000 of a bigger business, and so we do have to keep that proportionality in mind.

If you looked at organizations based on revenue size, entities with the smallest revenue, less than $50 million in revenues, had the smallest median loss, $100,000. Whereas those with the greatest amount of revenue, more than a billion dollars, had the greatest amount of median loss, right around $199,000, so right at $200,000 mark. But once again, that $100,000 is more meaningful to a smaller organization. So all organizations in essence, you do have these fraud risks, right, that occur. They're going to occur in different amounts, but if you think about what does each type of organization proportionately, there's probably more of an effect on the smaller organizations.

Ms. Grove Casey

Are there particular industries that are more susceptible to fraud, according to the survey? Because I know you said there were government agencies, as well as nonprofits, and then, public companies and private industries.

Ms. Louis

Yes, the industries, the banking and financial services industry is the biggest industry. And that means that they actually have cash. And it was, you think about the purpose of that organization that might be where somebody would be more susceptible maybe to trying to particularly with asset misappropriation schemes. But industries like manufacturing, where they have inventory, as we think about the non-cash misappropriation being one of the top two asset misappropriation schemes. So these industries tend to have more of the losses, but all organizations take a lot more risk that could exist and we need to think about the nature of what we are and what really is, where's our opportunity maybe for this appropriation to occur. Is it cash? Is it non-cash? Right? You need to think of it as your own.

Ms. Grove Casey

So let's talk about what are the most common anti-fraud controls that organizations report implementing.

Ms. Louis

If you ask an organization, what are your anti-fraud controls, they're going to say things like we have an internal audit department as they think about these mechanisms of anti-fraud controls. . . . A lot of it is setting the tone and the control consciousness of the organizations that do exist. Certainly, we think about what was really associated with the amount and duration of fraud.

It is things like having surprise audits, having a financial statement audit, having hotlines, having proactive data analysis, because of the fear of getting caught. The fraud and the duration of loss and the duration of the fraud does tend to be smaller when organizations focus on those types of controls compared to organizations that don't.

Ms. Grove Casey

So how important is fraud awareness training as an anti-fraud control?

Ms. Louis

They're finding that if organizations are providing training, then they actually also are having a very positive effect of reducing the amount and the duration of fraud. Public companies are most likely to provide training, private companies and nonprofits are least likely to provide this training. But what we can say is organizations that don't traditionally provide that training, that there is value in it as that fraud awareness training, particularly when it's coupled with things like a hotline, there's going to be more effect, half, as seen in your losses.

Ms. Grove Casey

Are there any special considerations for smaller entities in designing anti-fraud controls?

Ms. Louis

A part of it is going to be, as you mentioned, I think earlier, that small organizations, they have to be more worried about how their systems might lack segregation of duties and fewer checks and balances. Whereas larger organizations really think it's focused more on the consistent application of their systems to try and minimize management override and other things that could occur within their systems.

Ms. Grove Casey

Once a fraud was detected, what are key points about subsequent remediation efforts?

Ms. Louis

I think an important thing is that if you look at, well, what do we want to change and do different, right? As we might update our controls to protect against future frauds. The most common things that were expanded upon were things like management review and proactive data analysis and providing training, right? Some of those things that we talked about as setting the right tone and control consciousness of the organization as a whole.

Ms. Grove Casey

Overall, what was the most common contributor to fraud occurrence within an organization?

Ms. Louis

The biggest factor was either having the lack of a control or having override of existing controls. Those together are going to make up more than half of the cases as far as the lack of sufficiency in the design and the effectiveness of controls.

Ms. Grove Casey

Let's switch from discussing the victim organization to briefly covering the fraud perpetrators. So what level of position or authority is most likely to perpetrate fraud?

Ms. Louis

Well, what we can't think about is, we have employees, managers, owner executives. The owner executives have the highest median losses as they're able to override controls, but also they're the ones that are more likely to do fraudulent financial reporting, right? That has the greatest velocity compounding effect. So at the staff level, right? They have...where their median losses are much smaller, right? Because they're the one being the payroll fraud or the expense reimbursement fraud that tends to be smaller dollars. So it is important as we think about these frauds that if you want to think about the frequency and the loss, it's certainly the other upper levels of the organizations that we focus on, particularly as it relates to things like management override.

Ms. Grove Casey

Does the length of time that the fraud perpetrator was employed at the victim organization have any impact on the resulting statistics?

Ms. Louis

It is that most of the fraud happens within the first five years of being at an organization. But if you've been at the organization for longer than 10 years, it tends to be your most costliest fraud as they're now able to know and to be more trusted and other factors.

Ms. Grove Casey

Does gender play a role in resulting fraud statistics?

Ms. Louis

It does and the fact that it does tend to statistically be skewed towards male versus female as far as the perpetrators. There could be a variety of reasons for that. But certainly most of the female fraudsters, if they do ones that perpetrate fraud, they tend to be more at that employee level.They also have where the median losses for a female tends to be less than a male partially because the males are more dominant in manager executive level frauds that tend to the higher dollar frauds.

Ms. Grove Casey

What other personal attributes do fraud perpetrators commonly have?

Ms. Louis

They show that typically the fraud perpetrators over the age of 60 have the biggest median losses compared to maybe a fraud perpetrator that's under the age of 26, where they have the smallest amount of losses that result from the fraud. Most of the fraud perpetrators, 69% has happened because somebody who's under the age of 30 is highly educated. About two-thirds of the fraudsters have at least a university degree or higher also.

Ms. Grove Casey

Are there any particular red flags of fraud that organizations should be alert for in their fraud risk mitigation efforts?

Ms. Louis

The vast majority of the fraud perpetrators, you need to be looking for things like living beyond their means. That's been the number one red flag that has existed for 39% of the perpetrators. And that has always been the case that that's the number one red flag. And we also though have things like experiencing financial difficulties or having unusually close association with a particular vendor or customer being also the top three things that overall you should be on the lookout for.

2024 REPORT TO THE NATIONS ON FRAUD

by Jennifer F. Louis, CPA

Basis of Survey

The Association of Certified Fraud Examiners (ACFE) has released the *Occupational Fraud 2024: A Report to the Nations*. It is the 13th bi-annual edition of the most comprehensive global report on fraud. It is estimated that fraud has an annual cost of over a trillion dollars globally. Although only a small fraction of the workforce will ever commit occupational fraud, many factors provide the pressures, opportunities, and rationalizations that motivate and enable perpetrators to carry out their fraud schemes. This makes it important for all types of organizations to be aware of fraud-related trends for enterprise-wide risk management.

The cases in this study were submitted by Certified Fraud Examiners (CFEs) throughout the world who each responded to the ACFE's Global Fraud Survey, answering a detailed questionnaire with 86 questions about one fraud case they investigated between January 2022 and September 2023. Survey respondents submitted fraud cases from 138 different countries and territories that affected private, public, government, and nonprofit organizations in 22 different industry categories. Using 1,921 occupational fraud cases investigated, the study presents statistical analyses related to the methods used to commit, detect, and prevent occupational fraud, as well as the fraud perpetrators, the organizations they victimized, the losses those organizations suffered, and their responses to the frauds.

Types of Fraud Schemes

Occupational fraud schemes fall into three primary categories: asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation cases involve an employee stealing or misusing the employing organization's resources. This is by far the most common category of occupational fraud, occurring in 89% of the cases in the study. These cases also tend to cause the lowest median loss, at $120,000 per case. Nearly half the cases in our study (48%) involved some form of corruption. These cases caused a median loss of $200,000 per case.

Financial statement frauds, in which the perpetrator intentionally caused a material misstatement or omission in the organization's financial statements, were the least common category (5% of schemes) but also caused the greatest median loss ($766,000 per case).

While occupational frauds can be divided into three distinct categories, perpetrators do not always limit their schemes to just one category--38% of the cases in our study involved two or more types of occupational fraud, with the most common overlap occurring between asset misappropriation and corruption (35% of cases). Interestingly, only 1% of cases in our study involved financial statement fraud alone. This indicates that when a person has been caught committing financial statement fraud, it is very likely they have been committing other types of fraud as well.

Focus on Asset Misappropriation

Asset misappropriation schemes can take different forms, often dependent on the access or opportunity the perpetrator has within the victim organization. The ACFE divides asset misappropriations into nine distinct sub-schemes based on how the crime was committed.

Noncash misappropriation: Any scheme in which an employee steals or misuses noncash assets of the victim organization (e.g., employee steals inventory from a warehouse or storeroom; employee steals or misuses confidential customer information). These schemes occur in 22% of cases for a $66,000 median loss.

Billing scheme: A fraudulent disbursement scheme in which a person causes their employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases (e.g., employee creates a shell company and bills employer for services not actually rendered; employee purchases personal items and submits an invoice to employer for payment). These schemes occur in 22% of cases for a $100,000 median loss.

Expense reimbursements scheme: A fraudulent disbursement scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses (e.g., employee files fraudulent expense report, claiming personal travel, nonexistent meals). These schemes occur in 13% of cases for a $50,000 median loss.

Check or payment tampering scheme: A fraudulent disbursement scheme in which a person steals their employer's funds by intercepting, forging, or altering

a check or electronic payment drawn on one of the organization's bank accounts (e.g., employee steals blank company checks and makes them out to themself or an accomplice; employee re-routes an outgoing electronic payment to a vendor to be deposited into their own bank account). These schemes occur in 11% of cases for a $155,000 median loss.

Cash larceny: A scheme in which an incoming payment is stolen from an organization after it has been recorded on the organization's books and records (e.g., employee steals cash and checks from daily receipts before they can be deposited in the bank). These schemes occur in 10% of cases for a $50,000 median loss.

Cash-on-hand misappropriation: A scheme in which the perpetrator misappropriates cash kept on hand at the victim organization's premises (e.g., employee steals cash from a company vault). These schemes occur in 11% of cases for a $50,000 median loss.

Skimming: A scheme in which an incoming payment is stolen from an organization before it is recorded on the organization's books and records (e.g., employee accepts payment from a customer but does not record the sale and instead pockets the money). This scheme includes unrecorded/understated sales, as well as schemes involving receivables. For example, unauthorized write-offs, lapping, or other. These schemes occur in 10% of cases for a $43,000 median loss.

Register disbursements scheme: A fraudulent disbursement scheme in which an employee makes false entries on a cash register to conceal the fraudulent removal of cash (e.g., employee fraudulently voids a sale on a cash register and steals the cash). These schemes occur in 3% of cases for a $50,000 median loss.

Payroll scheme: A fraudulent disbursement scheme in which an employee causes their employer to issue a payment by making false claims for compensation (e.g., employee claims overtime for hours not worked; employee adds ghost employees to the payroll). These schemes occur in 10% of cases for a $50,000 median loss.

Focus on Fraud Duration

Early detection of frauds is critical to limiting the amount of damage they cause the victim organization. The median duration of the occupational frauds in our study was 12 months—meaning the typical perpetrator was able to commit their scheme for a full year before being detected.

The longer a fraud continues, the more it costs the victim. Frauds caught within the first six months had a median loss of $30,000, compared to $250,000 for frauds that lasted between two and three years. Cases that went undetected for five or more years caused a median loss of $875,000.

Billing, check and payment tampering, expense reimbursement schemes, financial statement fraud, payroll, and skimming schemes all typically lasted 18 months before detection, while schemes involving the theft of noncash assets, cash on hand, and cash larceny had the shortest median duration (12 months).

Velocity of Fraud Schemes

Velocity is calculated as the total loss divided by the number of months the scheme lasted. The overall velocity, or amount lost per month, of all cases was $9,900. Certain scheme types compound much more quickly than others, with financial statement fraud and corruption schemes having the greatest velocities, at $42,600 and $15,400 respectively. Check and payment tampering sits at $8,600, billing at $5,600, and noncash at $5,500. Payroll, expense reimbursements and skimming have the slowest velocities at $2,800 or less.

Similarly, cases involving collusion between two or more perpetrators and cases perpetrated by individuals at higher levels of authority also have higher velocities and inflict financial damage to the victim more quickly.

Pandemic-Related Fraud

The majority of the cases in the study likely occurred during the height of the COVID-19 pandemic, as it includes cases that were investigated between January 2022 and September 2023.

After seeing a decline in fraud losses over several studies, the median loss of frauds that occurred during the pandemic increased notably, even while the time to detection did not change. This is likely due to pandemic-related factors, such as remote working, organizational staffing changes, internal control changes, and more.

Median-related losses for all three primary categories increased from the 2022 to the 2024 survey. For example, financial statement fraud increased from a median loss of $593,000 to $766,000. Asset misappropriation median loss increased from $100,000 to $120,000. The largest jump was in check or payment tampering.

Fraud Concealment

After fraud perpetrators commit their schemes, they typically take steps to conceal the evidence of their crimes. Understanding the most common methods fraudsters use to conceal their crimes can help organizations improve their prevention and detection efforts. It is interesting to note that 11% of cases did not involve any concealment method.

Of the 89% of cases that did include some proactive concealment, the most common methods were creating fraudulent physical documents (41% of cases) or altering physical documents (37% of cases). These results indicate that even as many transactions have moved to digital formats, physical evidence is still an important part of fraud prevention, detection, and investigation.

Creating fraudulent journal entries (9%), altering journal entries (7%), or deleting/omitting journal entries (6%) occurred in a significant number of cases of concealment.

Fraud Detection

Tips are the most common way frauds was detected, with 43% of cases being uncovered due to a tip from a whistleblower. This is more than three times as many cases as any other detection mechanism. This finding is consistent with prior studies, all of which have shown tips to be by far the most common way fraud is detected.

Over half, 52%, of tips came from employees within the organization. External sources, such as customers, vendors, and competitors, accounted for approximately one-third of all tips. This finding reinforces the importance of providing and communicating about reporting mechanisms to both internal and external parties.

In addition, the study found that organizations with hotlines were nearly twice as likely to detect fraud via tip as organizations without hotlines, illustrating the crucial role hotlines play in a comprehensive fraud detection program.

Other common detection methods included internal audit (14%) and management review (13%). Collectively, these detection methods along with tips accounted for 70% of the cases.

Some fraud detection methods are more effective than others at exposing frauds quickly and limiting the size of the loss. Most of the passively detected schemes (like by accident, confession, or police notification) lasted longer and were associated with higher median losses relative to all other detection methods. Schemes discovered through an active method (like document examination, surveillance, etc.) had shorter durations and lower median losses than those detected passively. Some detection methods could be either passive or active, such as tips or external audits. These methods generally fall in the middle in terms of median duration and resulting loss.

These findings emphasize that proactive fraud detection efforts are essential to protecting against fraud risk. In general, active detection methods are associated with much faster detection than passive detection methods, which means that organizations can dramatically reduce the impact of fraud by implementing internal controls and policies that actively detect fraud, such as thorough management review, account reconciliation, and surveillance/monitoring. Organizations that do not actively seek out fraud are likely to experience schemes that continue for much longer and at a higher cost.

Focus on Tips

More than half of the tips in the study (53%) were provided through a formal reporting mechanism, such as a hotline. While telephone hotlines have historically been one of the most common mechanisms used by whistleblowers, the percentage of tips reported via telephone has been decreasing. Since 2018, email and online reporting forms have both overtaken telephone hotlines as a reporting mechanism. Additionally, the current study includes a new reporting method—text message—which accounted for 3% of reported tips received. This data suggests that whistleblowers' preferred methods of reporting fraud are diverse and evolving, particularly regarding online and electronic forms.

Who Whistleblowers Reported To

Some reports are submitted informally to individuals within the organization rather than through a formal reporting mechanism. Direct supervisors (29%) were the party most whistleblowers reported to if a hotline mechanism was not used. However, whistleblowers may reach out to many different groups with information about potential fraud, such as executives (16%), internal audit (14%), and fraud investigation teams (13%). It is important to provide all staff with guidance on how fraud allegations should be handled within the organization. It is also particularly important to educate those who are likely to receive informal complaints as to the proper protocol for dealing with reports about suspected fraud.

Victim Organizations

Privately-held companies were the victims in 42% of the cases in our study and incurred a median loss of $150,000. Publicly traded companies (26% of cases) and government agencies (17%) also had a median loss of $150,000. Nonprofit organizations, including non-governmental organizations (NGOs), represented the smallest percentage of cases in our study (10%) and had the lowest median loss of $76,000.

The cases in the study were distributed relatively evenly across organizations of different sizes, with the greatest percentage (31%) occurring at organizations with 1,000 to 9,999 employees. The largest organizations (i.e., those with 10,000 or more employees) experienced the greatest median loss of $200,000.

However, frauds at small companies (i.e., those with fewer than 100 employees) caused a median loss of $141,000, which was the second-largest loss among organizational size categories. Because small organizations tend to have smaller budgets and revenue, such a loss can impact these organizations more acutely compared to larger organizations.

The study also examined victim organizations based on their annual revenue. Organizations with the smallest revenue ($<50 million) had the smallest median loss ($100,000). Conversely, those with the greatest revenue ($1 billion+) had the greatest median loss ($199,000).

The specific types of frauds that occur at small organizations vary from those at larger organizations. Both corruption and the theft of noncash assets occurred more frequently at large organizations than small ones. In contrast, cases at small businesses were more likely to involve all other categories of occupational fraud, with check and payment tampering and skimming reflecting the greatest difference in frequency between the two groups.

Victim by Industries

Banking and financial services, along with manufacturing, were the most common industries represented in the study. Additionally, the industries with the greatest median losses were mining ($550,000), wholesale trade ($361,000), and manufacturing ($267,000).

Across all industries presented, corruption was the most prevalent scheme, highlighting the significance of corruption risk across sectors.

Understanding which scheme types are more common in specific industries can help management and anti-fraud professionals assess their relevant fraud risks and effectively guide prevention and detection efforts. For example, organizations in the manufacturing industry should be particularly aware of risks related to corruption, theft of noncash assets, and billing schemes. Likewise, insurance companies should note the potential for corruption, check and payment tampering, and billing schemes to be high-risk areas for their organizations.

Anti-Fraud Controls

A well-designed and effectively implemented system of anti-fraud controls is one of the foundational principles of a holistic fraud risk management program. But the presence of any specific control or combination of controls does not guarantee that fraud will not occur. In fact, many anti-fraud controls were in place at the victim organizations in the study at the time the frauds occurred.

The most common anti-fraud controls were a code of conduct (85% of victim organizations), external audits of the financial statements (84% of victim organizations), and internal audit departments (80% of victim organizations).

While knowing the prevalence of various anti-fraud controls can be helpful for benchmarking organizational anti-fraud programs, it can be even more beneficial to understand how effective different controls are at combating fraud. Four specific controls (surprise audits, financial statement audits, hotlines, and proactive data analysis) were associated with at least a 50% reduction in both fraud loss and duration. Surprise audits and proactive data analysis were among the least commonly implemented anti-fraud controls in the study, which shows some opportunity for many organizations to reinforce their anti-fraud efforts by considering the addition of these controls.

Focus on Fraud Awareness Training

Providing fraud awareness training to staff at all levels of an organization is a vital part of a comprehensive anti-fraud program. The study shows that training employees, managers, and executives about the risks and costs of fraud can help reduce fraud losses and ensure frauds are caught more quickly.

Organizations that did not provide fraud awareness training lose nearly twice as much. Public companies were the most likely to provide this training at 83%. Private companies and nonprofits were least likely to provide this training.

Fraud awareness training for managers and executives is associated with faster detection and lower losses in general, but the benefit is most seen when the perpetrator is at the owner/executive level. If there is owner/executive training, fraud is detected in 18 months for $315,000 median loss. Without this training, fraud is detected in 32 months for a $600,000 median loss.

The impact on fraud losses is even greater when a hotline is accompanied by fraud awareness training. Median losses when there is no hotline or training are $200,000. Median losses when there is both a hotline and training is $100,000.

Anti-Fraud Controls in Small Businesses

In addition to having different fraud risks than larger organizations, small organizations typically have limited resources to invest in their anti-fraud programs. Small organizations (those with fewer than 100 employees) are much less likely to have various anti-fraud controls in place than their larger counterparts. This makes these organizations particularly vulnerable to fraud, as the smaller staff size typically means there are fewer checks and balances and less segregation of duties in place.

In particular, the implementation rate of hotlines at small organizations is well below that of larger companies. With tips being the most common way that occupational frauds are detected, a hotline is a particularly important component of an anti-fraud program. And because online forms and emails are the top reporting mechanisms used by whistleblowers, small organizations should consider these cost-efficient options to improve their fraud detection capabilities.

Remediation Efforts After Fraud Detection

An important part of fraud risk management involves remediation after a fraud occurs. This typically involves assessing the factors that led to the fraud and implementing changes to prevent similar incidents from occurring in the future.

Survey respondents were asked whether the victim organizations made any modifications to their anti-fraud controls following the discovery of the fraud. 82% did update their controls to better protect against future frauds. Not surprisingly, these organizations also experienced a larger median loss ($150,000) than the organizations that did not modify their anti-fraud controls after the fraud ($86,000).

The most common anti-fraud control that was modified following a fraud was management review. Approximately, 76% of victim organizations either implemented new management review procedures or modified their existing management review approach in response to the fraud. Similarly, 64% of victim organizations adjusted their use of proactive data monitoring and analysis, and 52% implemented or modified surprise audits as part of their anti-fraud program. All three of these controls involve proactively monitoring for the red flags of fraud, highlighting the importance of implementing procedures that both help detect fraud quickly and increase the perception of detection to deter potential future perpetrators.

Regarding effectiveness, 27% of respondents expected the updated controls to be extremely effective, and 68% expected them to be somewhat effective in providing improved protection against fraud. Only 5% of respondents believed the modifications would not be at all effective at preventing future frauds from occurring.

Internal Control Weaknesses

Understanding the factors that led to a fraud's occurrence can assist organizations in strengthening their anti-fraud program to protect against future frauds. The most common contributor to the frauds in our study was a lack of internal controls (32%), followed by an override of existing internal controls (19%). Taken together, this means that more than half of the cases occurred due to an insufficient system of internal controls.

Individuals at different levels of the organization experience different pressures and opportunities to engage in fraud. The specific factors underlying frauds vary based on the position level of the perpetrator. While a straightforward lack of internal controls was the top contributor for frauds committed by perpetrators at all levels, frauds committed by owner/executives were much more likely to involve a poor tone at the top. Frauds perpetrated by mid-level managers and employees were more likely to occur due to a lack of management review.

Fraud Perpetrators

The perpetrator's position level within their organization is related to the duration and financial impact of their frauds. Specifically, schemes carried out by perpetrators at higher levels of authority caused larger losses and lasted longer, as has been the case in previous editions of this study.

Frauds committed by individuals at the owner/executive level only represented 19% of cases but caused the highest median losses by far. Perpetrators at the owner/executive level caused a median loss of $500,000, which was more than eight times as much as staff-level employees ($60,000), and almost three times as much as mid-level managers ($184,000). Frauds carried out by employees and managers were much more common, representing 37% and 41% of the cases submitted, respectively.

Similarly, fraud cases perpetrated by individuals at higher levels of authority took longer to detect. The median duration of frauds perpetrated by employees was only 8 months (one-third as long as those perpetrated by owner/executives at 24 months) while frauds committed by mid-level managers had a median duration of 18 months.

The longer the perpetrators in the study had been employed at the victim organization, the higher the median losses they caused. While frauds committed by employees who had been working at the victim organization for more than ten years were the costliest ($250,000), almost half of the frauds in our study were perpetrated by employees with between one and five years of tenure.

The executive and upper management department presents a particularly high risk for fraud, based on the combination of frequency and median loss. Consequently, organizations might implement additional proactive measures focused on the detection and prevention of fraud in this area.

In each previous edition of this study, fraud perpetrators have been much more likely to be male, and this edition is no exception. Male perpetrators outnumbered female perpetrators almost three to one, while also causing median losses 58% higher than their female counterparts.

Male fraud perpetrators were more common than female perpetrators in each global region, although the size of the disparity varied across regions. Female perpetrators were especially rare in Southern Asia (3%) and the Middle East and North Africa (9%); they were most common in the United States and Canada (38%).

Female fraudsters were most common at the employee level (33%), where they actually caused higher median losses ($60,000) than their male counterparts ($53,000). The disparity between genders in terms of frequency and median loss was greatest at the owner/executive level of authority. Only 16% of owner/executive fraudsters were female, and these perpetrators caused losses that were notably smaller than male owner/executives.

Data shows a strong relationship between the age of fraud perpetrators and the median losses they caused, with older fraudsters causing higher losses. In fact, perpetrators over the age of 60 caused median losses of $675,000, which was 27 times as high as the median losses caused by perpetrators under the age of 26. However, despite frauds perpetrated by older fraudsters causing the highest losses, they were not the most common; perpetrators between the ages of 31 and 50 carried out 69% of the frauds.

Fraud risk also tends to increase with the perpetrator's education level. More than two-thirds of fraudsters in the study had at least a university degree. Additionally, median losses increased in line with the perpetrator's level of education, with the most highly educated perpetrators causing losses nearly three times as large as the least educated perpetrators.

The vast majority of perpetrators in our study (87%) had never been either charged with or convicted of a fraud-related offense, meaning that traditional criminal background checks would not have prevented the frauds from occurring. Interestingly, 5% of cases involved perpetrators with a prior fraud conviction that either was not known to the victim organization at the time of hiring or did not prevent the organization from hiring them.

In addition to prior criminal history, the survey also asked respondents whether perpetrators had previously faced employer-administered disciplinary actions related to fraud, as well as who administered the disciplinary action. A significant majority of perpetrators (85%) had not previously been disciplined for fraud, although some perpetrators had either been terminated (7%) or punished for prior fraud-related issues (7%).

Of those who had experienced disciplinary actions related to fraud, almost half were disciplined by the same organization that was victimized in the case submitted for the study. In contrast, 29% of the perpetrators faced discipline from a previous employer, and 20% were punished by both a previous employer and the victim organization.

Perpetrators of occupational fraud often display distinct behaviors while carrying out their fraud schemes. These behaviors can serve as red flags, potentially indicating the existence of fraud when observed. The most common behavioral red flag was living a lifestyle beyond known income sources, or means, which was displayed by 39% of perpetrators. This red flag has consistently been cited as the most common red flag in each edition of the study. Other common behavioral red flags included experiencing financial difficulties (27%) and having an unusually close association with a vendor or customer (20%).

GROUP STUDY MATERIALS

A. Discussion Questions

1. Describe the various asset misappropriate schemes tracked under the ACFE Fraud Survey.
2. Discuss the impact of time on the amount of a loss due to fraud.
3. Discuss the effect of internal control weaknesses on the prevalence of fraud.

B. Suggested Answers to Discussion Questions

1. Noncash misappropriation: Any scheme in which an employee steals or misuses noncash assets of the victim organization (e.g., employee steals inventory from a warehouse or storeroom; employee steals or misuses confidential customer information). These schemes occur in 22% of cases for a $66,000 median loss.

   Billing scheme: A fraudulent disbursement scheme in which a person causes their employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases (e.g., employee creates a shell company and bills employer for services not actually rendered; employee purchases personal items and submits an invoice to employer for payment). These schemes occur in 22% of cases for a $100,000 median loss.

   Expense reimbursements scheme: A fraudulent disbursement scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses (e.g., employee files fraudulent expense report, claiming personal travel, nonexistent meals). These schemes occur in 13% of cases for a $50,000 median loss.

   Check or payment tampering scheme: A fraudulent disbursement scheme in which a person steals their employer's funds by intercepting, forging, or altering a check or electronic payment drawn on one of the organization's bank accounts (e.g., employee steals blank company checks and makes them out to themself or an accomplice; employee re-routes an outgoing electronic payment to a vendor to be deposited into their own bank account). These schemes occur in 11% of cases for a $155,000 median loss.

   Cash larceny: A scheme in which an incoming payment is stolen from an organization after it has been recorded on the organization's books and records (e.g., employee steals cash and checks from daily receipts before they can be deposited in the bank). These schemes occur in 10% of cases for a $50,000 median loss.

   Cash-on-hand misappropriation: A scheme in which the perpetrator misappropriates cash kept on hand at the victim organization's premises (e.g., employee steals cash from a company vault). These schemes occur in 11% of cases for a $50,000 median loss.

   Skimming: A scheme in which an incoming payment is stolen from an organization before it is recorded on the organization's books and records (e.g., employee accepts payment from a customer but does not record the sale and instead pockets the money). This scheme includes unrecorded/understated sales, as well as schemes involving receivables. For example, unauthorized write-offs, lapping, or other. These schemes occur in 10% of cases for a $43,000 median loss.

   Register disbursements scheme: A fraudulent disbursement scheme in which an employee makes false entries on a cash register to conceal the fraudulent removal of cash (e.g., employee fraudulently voids a sale on a cash register and steals the cash). These schemes occur in 3% of cases for a $50,000 median loss.

   Payroll scheme: A fraudulent disbursement scheme in which an employee causes their employer to issue a payment by making false claims for compensation (e.g., employee claims overtime for hours not worked; employee adds ghost employees to the payroll). These schemes occur in 10% of cases for a $50,000 median loss.

2. Early detection of frauds is critical to limiting the amount of damage they cause the victim organization. The median duration of the occupational frauds in our study was 12 months—meaning the typical perpetrator was able to commit their scheme for a full year before being detected.

   The longer a fraud continues, the more it costs the victim. Frauds caught within the first six months had a median loss of $30,000, compared to $250,000 for frauds that lasted between two and three years. Cases that went undetected for five or more years caused a median loss of $875,000.

3. Understanding the factors that led to a fraud's occurrence can assist organizations in strengthening their anti-fraud program to protect against future frauds. The most common contributor to the frauds in our study was a lack of internal controls (32%), followed by an override of existing internal controls (19%). Taken together, this means that more than half of the cases occurred due to an insufficient system of internal controls.

   Individuals at different levels of the organization experience different pressures and opportunities to engage in fraud. The specific factors underlying frauds vary based on the position level of the perpetrator. While a straightforward lack of internal controls was the top contributor for frauds committed by perpetrators at all levels, frauds committed by owner/executives were much more likely to involve a poor tone at the top. Frauds perpetrated by mid-level managers and employees were more likely to occur due to a lack of management review.

GLOSSARY

ACFE—Association of Certified Fraud Examiners

AQIs—Audit Quality Indicators

Form AP—Form Audit Participants changing to Form Audit Participants and Metrics

Form FM—Form Firm Metrics

Form QCPP—Firm Quality Control Policies and Procedures

Form 2—A registered public accounting firm must use this Form to file with the Board the annual report required by Section 102(d) of the Act and Rule 2200 and to file any amendments to an annual report . Unless otherwise directed by the Board, the Firm must file this Form, and all exhibits to this Form, electronically with the Board.

Form 3—A registered public accounting firm must use this Form to file special reports with the Board pursuant to Section 102(d) of the Act and Rule 2203 and to file any amendments to a special report. Unless otherwise directed by the Board, the Firm must file this Form, and all exhibits to this Form, electronically with the Board.

PCAOB—Public Company Accounting Oversight Board

Preparation engagement—preparing the financial statements based on information provided by management

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

1. According to Kurt Oestriecher, under which section of the SSARS is the guidance for preparations found?

   A. AR-C 60.
   B. AR-C 70.
   C. AR-C 80.
   D. AR-C 90.

2. According to Kurt Oestriecher, which of the following is not a required element of an engagement letter for a preparation engagement?

   A. Objectives of the engagement.
   B. Management's responsibilities.
   C. Accountant's responsibilities.
   D. Statement of independence.

3. According to Kurt Oestriecher, which of the following statements must be included on each page of the financial statements in a preparation engagement?

   A. "See Independent Accountant's Report"
   B. "No assurance is provided"
   C. "Prepared by management"
   D. "Compiled without audit or review"

4. According to Kurt Oestriecher, what is the primary difference between a preparation and a compilation engagement regarding independence?

   A. Independence is required for both.
   B. Independence is not required for either.
   C. Independence determination is required for compilation but not for preparation.
   D. Independence is only required for preparation.

5. According to Kurt Oestriecher, how should supplementary information be handled in a preparation engagement?

   A. It must be compiled separately.
   B. It must be reviewed separately.
   C. It cannot be included with prepared financial statements.
   D. It should be separated with a divider page labeled "Supplementary Information".

Continued on next page

6. According to Jennifer Louis, which firms would be subject to the PCAOB's proposed firm-level metrics reporting?

   A. Firms that audit at least one large-accelerated filer or accelerated filer.
   B. All registered public accounting firms.
   C. Only the Big Four accounting firms.
   D. Firms with more than 100 public company clients.

7. According to Jennifer Louis, what form would be used for reporting firm-level metrics under the PCAOB's proposal?

   A. Form AP.
   B. Form 2.
   C. Form FM.
   D. Form QCPP.

8. According to Jennifer Louis, what change is proposed for the deadline of Form 3 filings?

   A. Extended from 14 days to 30 days.
   B. Shortened from 30 days to 14 days.
   C. No change proposed.
   D. Extended from 30 days to 45 days.

9. According to Jennifer Louis, which of the following metrics would be reported only at the engagement level?

   A. History of restatement of financial statements.
   B. Relative changes in partner compensation.
   C. Hours spent by senior professionals on significant risks.
   D. Average weekly hours worked by different groups.

10. According to Jennifer Louis, who would be considered part of the "core engagement team" for engagement-level metrics?

    A. Only the engagement partner.
    B. All individuals who worked on the engagement.
    C. Only full-time employees of the firm.
    D. Partners who worked 10+ hours and managers who worked 40+ hours or 2%+ of total audit hours.

11. According to Jennifer Louis, the ACFE 2024 Report to the Nations estimated the annual cost of fraud globally at which of the following amounts?

    A. $100 million.
    B. $1 billion.
    C. $1 trillion.
    D. $10 trillion.

Continued on next page

12. According to Jennifer Louis, what is the median duration of occupational frauds according to the study?

    A. 6 months.
    B. 12 months.
    C. 18 months.
    D. 24 months.

13. According to Jennifer Louis, which fraud scheme has the greatest velocity in terms of monthly financial impact?

    A. Financial statement fraud.
    B. Billing scheme.
    C. Check and payment tampering.
    D. Non-cash misappropriation.

14. According to Jennifer Louis, which of the following is the most common method of detecting fraud according to the ACFE report?

    A. External audit.
    B. Internal audit.
    C. Management review.
    D. Tips.

15. According to Jennifer Louis, what is the most common red flag exhibited by fraud perpetrators?

    A. Unusual work hours.
    B. Living beyond their means.
    C. Refusing to take vacations.
    D. Complaints about pay.

CPE Network®
Accounting & Auditing Report
Volume 37, Issue 9 **September 2024**

Subscriber Survey

Evaluation Form

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

How would you rate the topics covered in the September 2024 **CPE Network® A&A Report?** Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	**Topic Content/ Coverage**	**Topic Timeliness**	**Video Quality**	**Audio Quality**	**Written Material**
Preparation Engagements	|______|	|______|	|______|	|______|	|______|	|______|
PCAOB Proposals on Firm and Engagement Metrics	|______|	|______|	|______|	|______|	|______|	|______|
Common Fraud Schemes in the ACFE 2024 Report to the Nations	|______|	|______|	|______|	|______|	|______|	|______|

Which segments of the September 2024 issue of **CPE Network® A&A Report** did you like the most, and why?

____

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Which segments of the September 2024 issue of **CPE Network® A&A Report** did you like the least, and why?

____

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____

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

____

____

____

____

How would you rate the effectiveness of the speakers in the September 2024 **CPE Network® A&A Report?** Rate each speaker on a scale of 1–5 (5 highest):

	Overall	**Knowledge of Topic**	**Presentation Skills**
Jennifer Louis	|______|	|______|	|______|
Kurt Oestriecher	|______|	|______|	|______|

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

____

Were the stated learning objectives met? Yes ☐ No ☐ ____________________

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ ____________________

Were program materials accurate? Yes ☐ No ☐ ____________________

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

____

Were the time allocations for the program appropriate? Yes ☐ No ☐ ____________________

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ ____________________

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ ____________________

Specific Comments: ____

____

Name/Company ____

Address ____

City/State/Zip ____

Email ____

Once Again, Thank You…

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®

CPE Group Attendance Sheet

Firm/Company Name: ______________________________

Account #: ______________________________

Location: ______________________________

Program Title: CPE Network Accounting and Auditing Report, September 2024 Date: ____________

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

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

Instructor Name: ______________________________ Date: ____________

E-mail address: ______________________________

License State and Number: ______________________________

CPE Network/Webinar Delivery Tracking Report

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

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

CHECKPOINT LEARNING NETWORK

CPE NETWORK®
USER GUIDE

REVISED December 31, 2023

Welcome to CPE Network!

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

This User Guide has the following sections:

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

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

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

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

We are happy that you chose CPE Network for your training solutions.
Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

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

The entire transcript is also available as a pdf in the Checkpoint Learning player in the resource toolbox at the top of the screen, or via the link in the email sent to administrators.

Requesting Participant CPE Certificates

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

Email: CPLgrading@cerifi.com

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

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

Incomplete submissions will be returned to you.

"Group Internet Based" Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and asks that participants confirm their attendance by using the “raise hands”

feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone's hands and continues the training.

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

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

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

Requesting Participant CPE Certificates

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

Email: CPLgrading@CeriFi.com

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Email

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

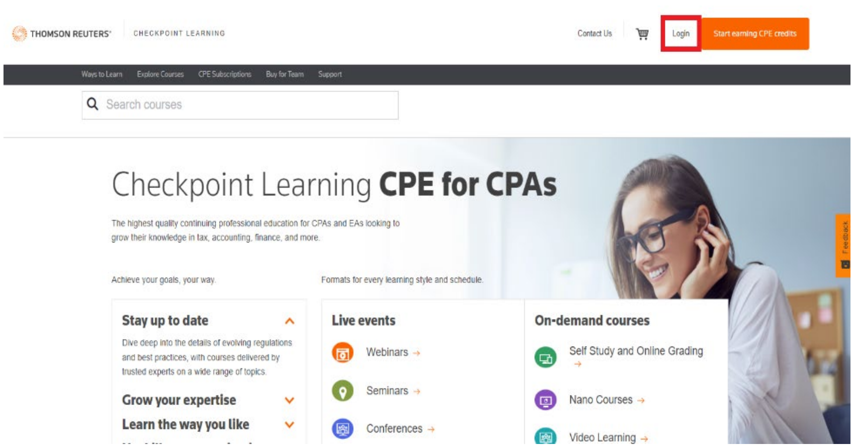
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

CPLgrading@cerifi.com

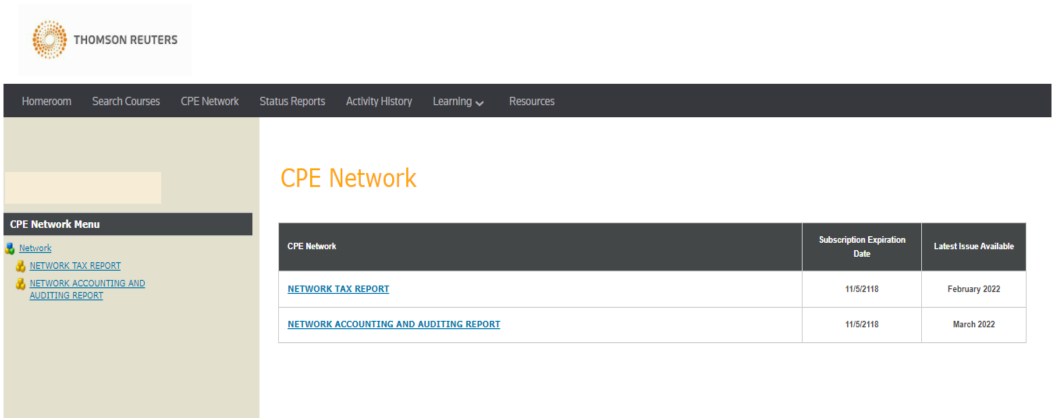
Self-Study—Online

Follow these simple steps to use the online program:

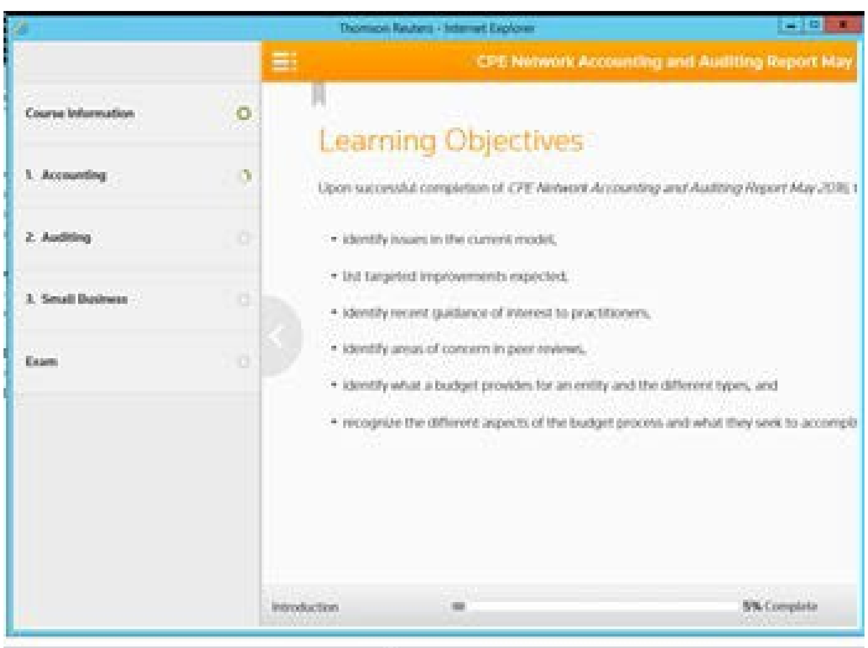
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

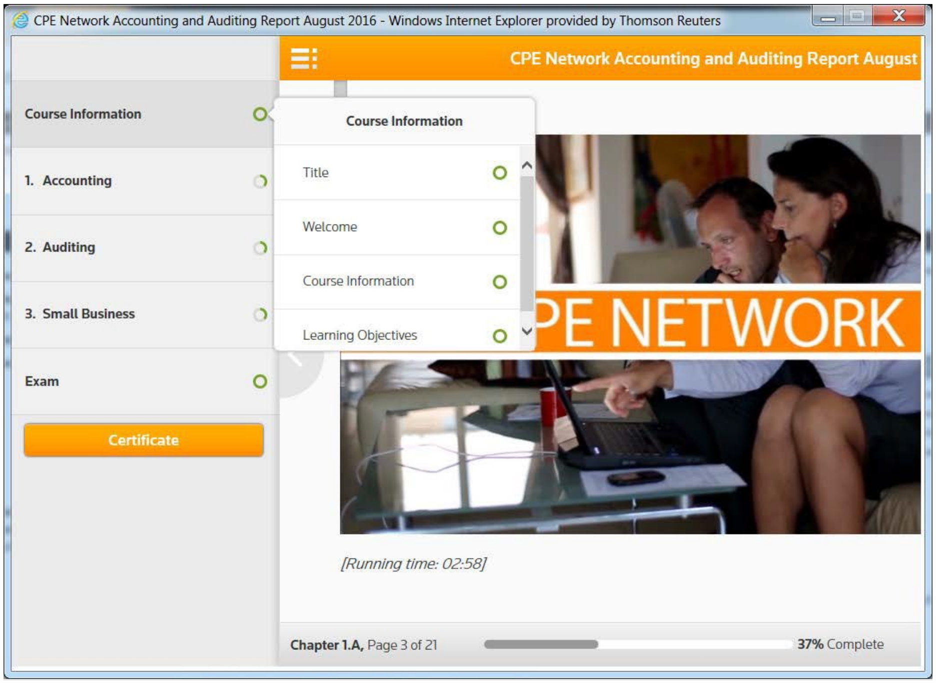


The Chapter Menu is in the gray bar at the left of your screen:

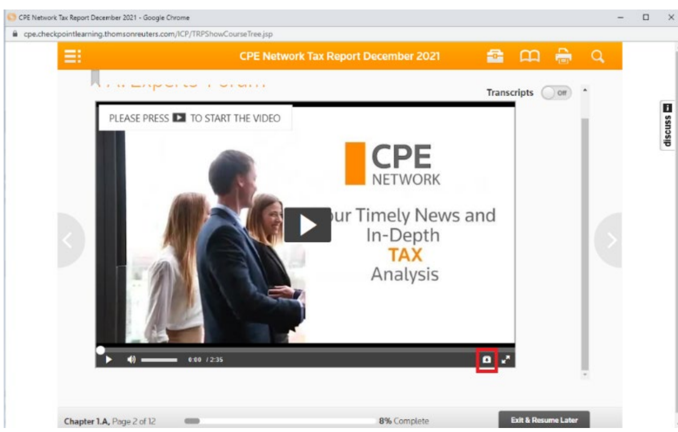


Click down to access the dropdown menu and move between the program Chapters.

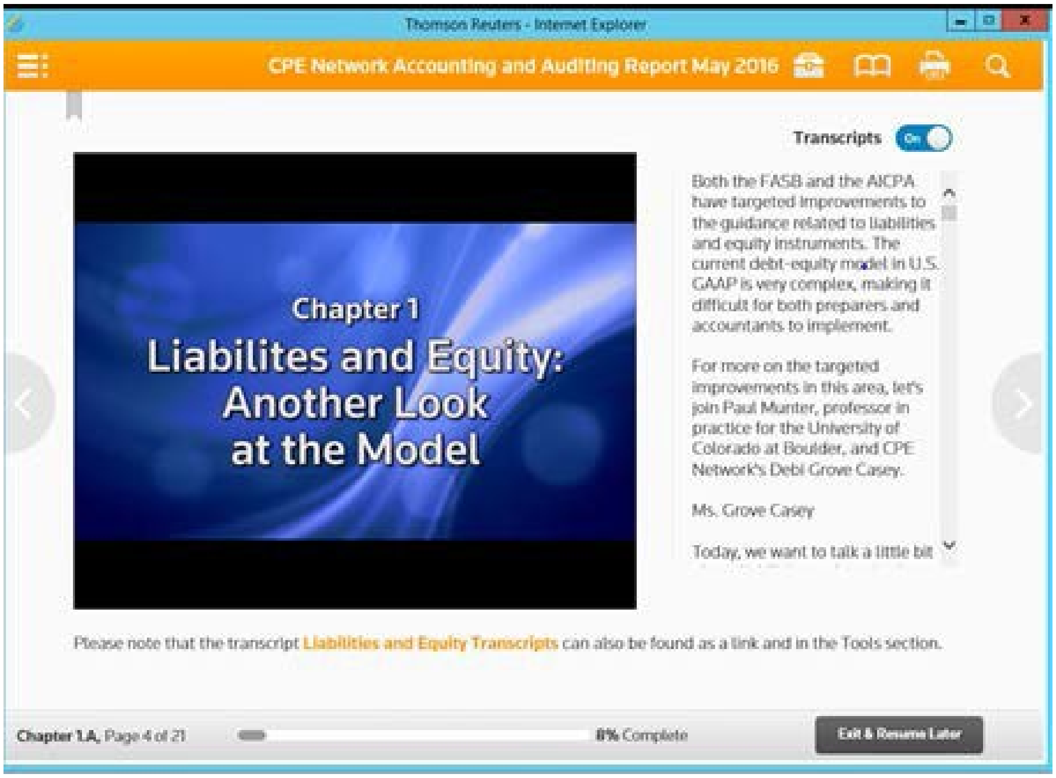
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



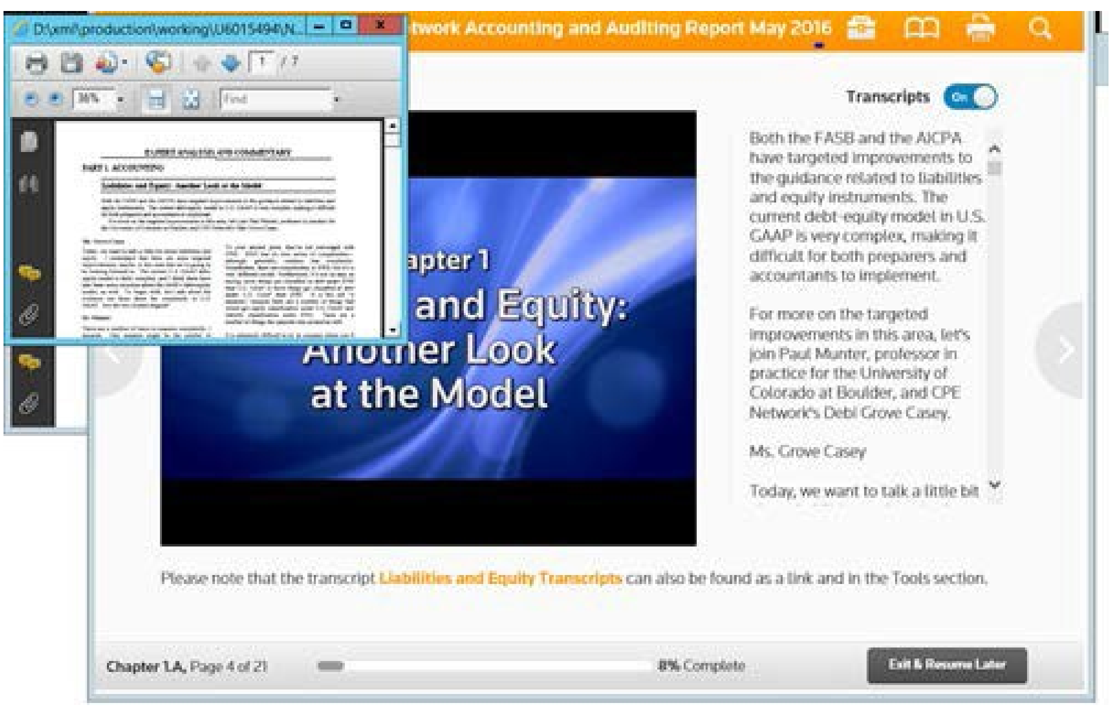
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This streamlined approach allows administrators and users to more easily access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



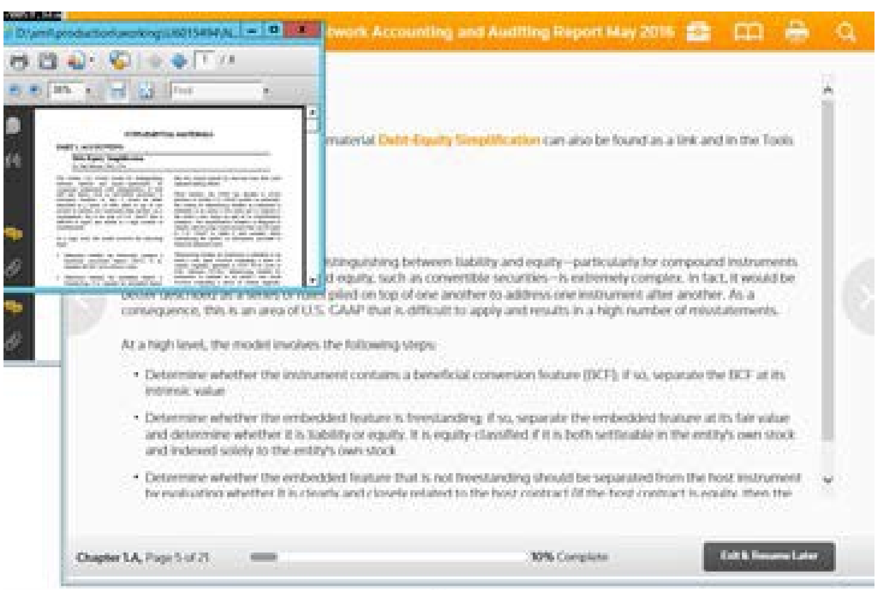
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



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



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



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

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

CPE Network Accounting and Auditing Report July 2016

Suggested Answers to Discussion Problems

1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:

   - Held-to-maturity
   - Trading
   - Available-for-sale

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

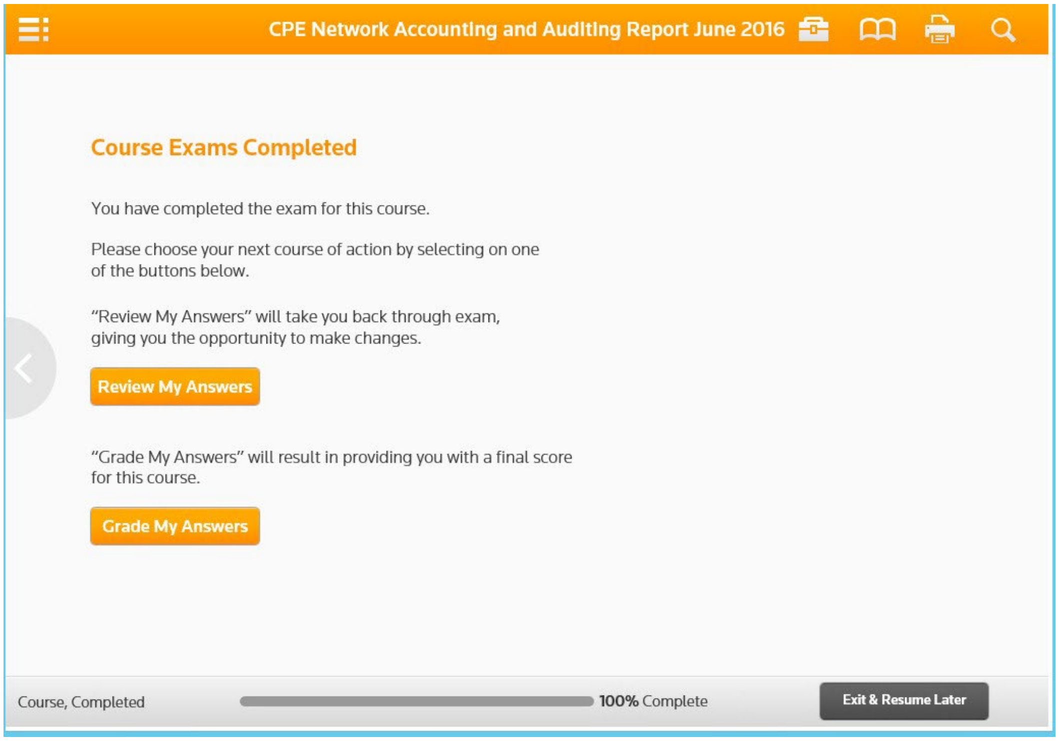
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term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

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

Chapter 3.A, Page 20 of 20 100% Complete Exit & Resume Later

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

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



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

Additional Features Search

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

Search Results are displayed with the number of hits.

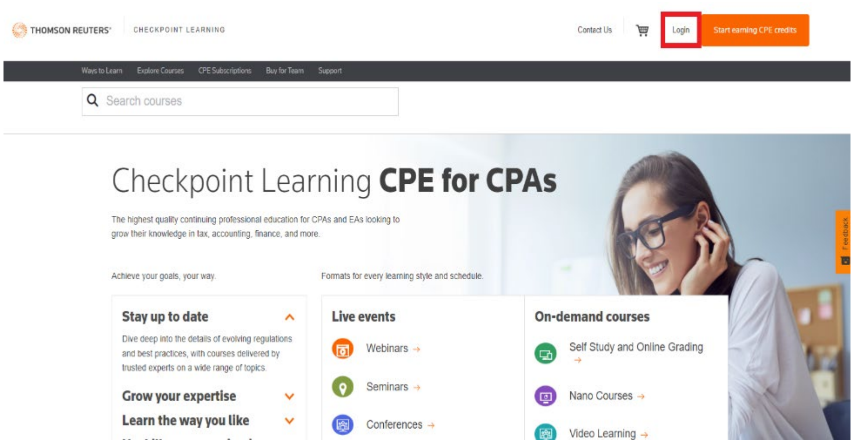
Print

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

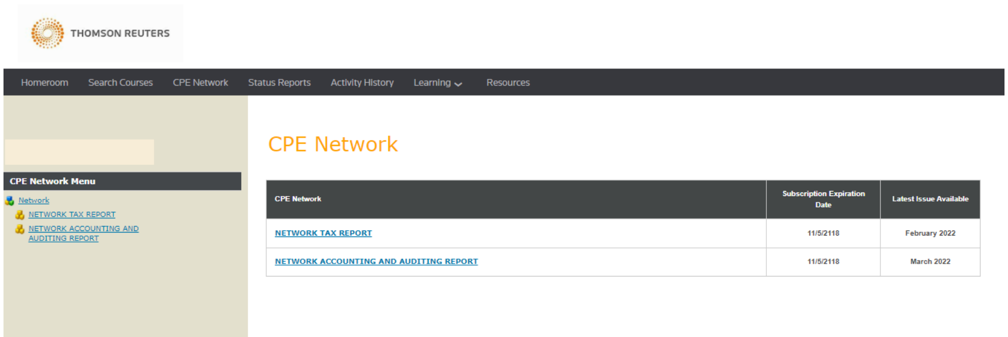
Transitioning From DVDs

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

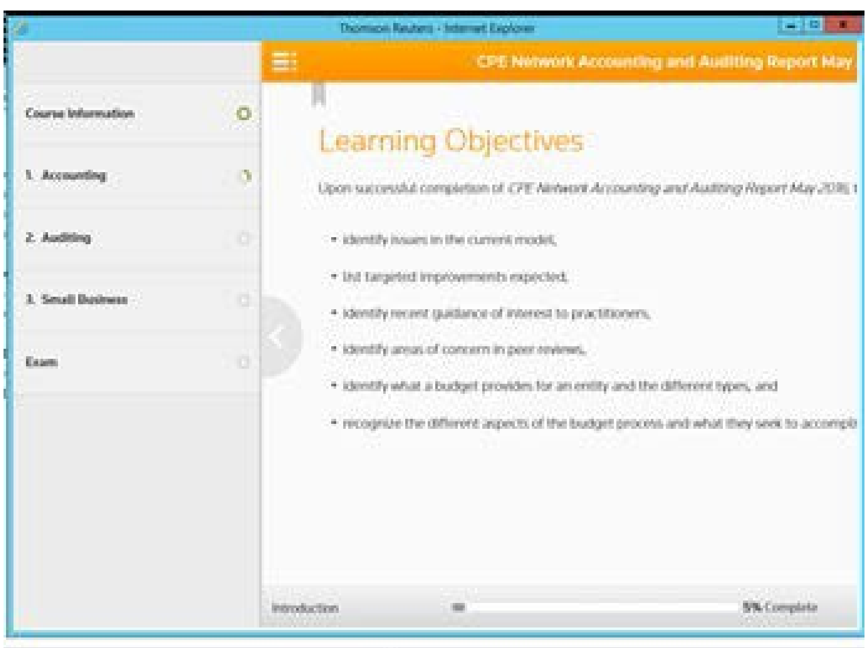
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login").



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

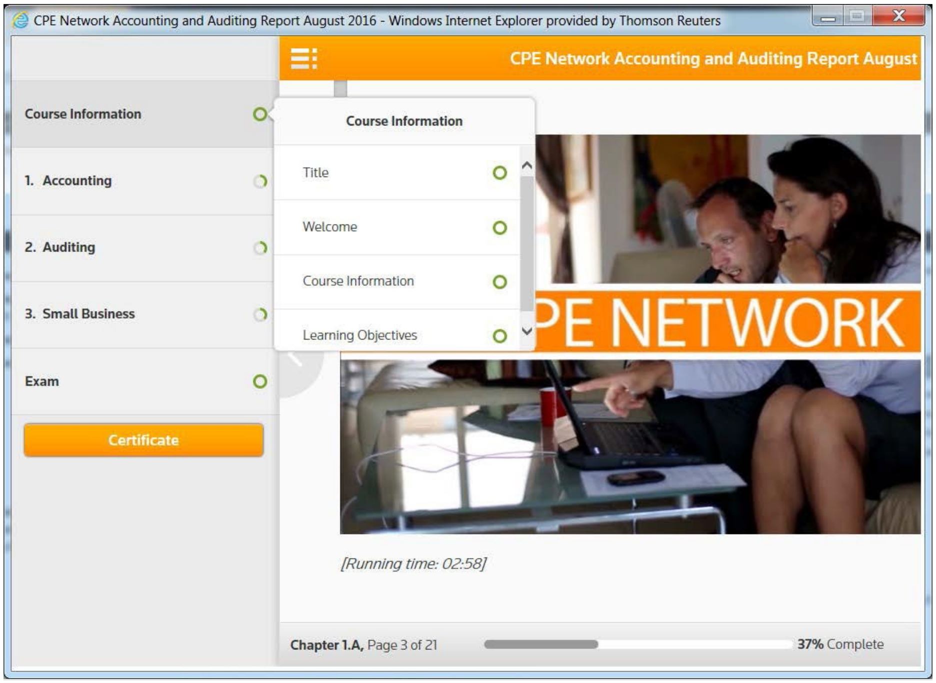


The Chapter Menu is in the gray bar at the left of your screen:

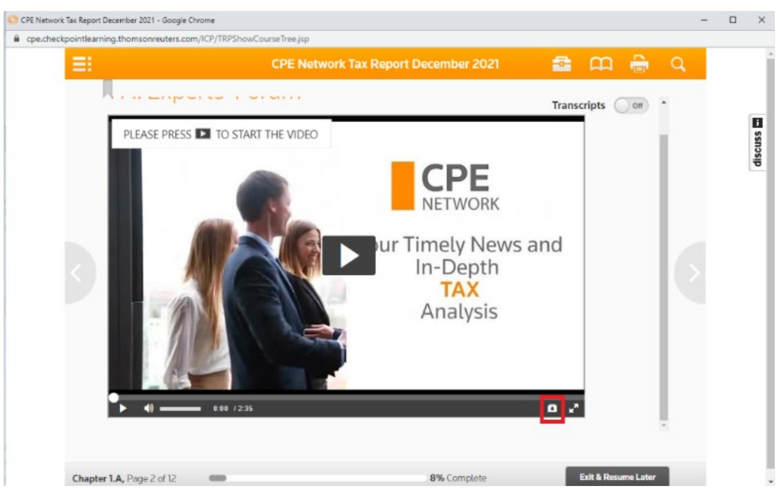


Click down to access the dropdown menu and move between the program Chapters.

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



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



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

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

Determining CPE Credit Increments

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

Program Presentation

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

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

Disclose Significant Features of Program in Advance

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

Monitor Attendance

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Awarding CPE Certificates

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

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

Seminar Quality Evaluations for Firm Sponsor

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

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

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

Retention of Records

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

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

Appendix: Forms

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

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

Getting Help

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

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