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EXECUTIVE SUMMARY

AUDIT & ACCOUNTING PART 1

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This segment provides an overview of SAS 150 and its requirements for the auditor's use of external confirmations. The discussion begins with the increased importance of electronic communications, technology-enabled confirmation tools, and third-party intermediaries and explains why these developments create both opportunities and risks for auditors. The segment examines the presumption of confirmation for qualifying accounts receivable and cash and cash equivalents held by third parties, as well as circumstances in which confirmation may be ineffective, impracticable, prohibited, or unnecessary because assessed risk is low and other procedures provide sufficient appropriate evidence. It also explains auditor control over the confirmation process, selection of appropriate confirming parties, validation of addresses, direct access to information maintained by knowledgeable external sources, and alternative procedures. Additional topics include evaluating intermediary controls, distinguishing positive from negative confirmations, resolving exceptions, authenticating respondents, considering disclaimers and restrictions, and evaluating management requests that certain parties not be contacted. *[Running time: 44:11]*

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

- Identify the circumstances in which SAS 150 creates a presumption that external confirmation procedures should be performed for accounts receivable and cash and cash equivalents held by third parties.
- Distinguish external confirmations from direct access procedures and other alternative audit procedures, including the conditions affecting the reliability and persuasiveness of each form of audit evidence.
- Evaluate the design, execution, and results of external confirmation procedures, including auditor control, use of intermediaries, response reliability, confirmation exceptions, and circumstances permitting the use of negative confirmations.

AUDIT & ACCOUNTING PART 2

Quarterly Accounting and Auditing Update.....16

This segment provides a wide-ranging update on accounting and auditing developments relevant to CPAs serving public and private entities. The accounting discussion addresses recent FASB standards, including targeted codification improvements, government grant accounting, hedge accounting, purchased-loan credit losses, and practical relief for applying CECL to current accounts receivable and contract assets. Special attention is given to Private Company Council alternatives involving goodwill, business combinations, variable interest entities, leases, and derivatives. The auditing portion examines SSARS 27, predecessor-auditor communications under SAS 147, revised group-audit responsibilities under SAS 149, and the transition from quality control to the AICPA's quality management framework. Participants also compare review engagements performed under SSARS, auditing standards, and SSAE requirements. The segment concludes by connecting audit risk, financial-statement assertions, fraud considerations, and management override to the design of journal-entry testing, including the identification of unusual, anomalous, and top-side entries within an entity's financial reporting environment. *[Running time: 1:38:34]*

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

- Identify the principal provisions and effective dates of selected recent FASB Accounting Standards Updates affecting credit losses, government grants, derivatives, interim reporting, and other financial reporting areas.
- Distinguish between accounting alternatives available to private companies through the Private Company Council and requirements applicable to entities under general U.S. GAAP.
- Apply the provisions of ASU 2025-05 to current accounts receivable and contract assets, including the practical expedient and private-company accounting policy election.
- Explain recent and upcoming changes to auditing and accounting standards, including SSARS 27, SAS 147, SAS 149, and the quality management standards.
- Differentiate among review engagements performed under SSARS, auditing standards, and SSAE requirements based on the subject matter, assurance level, and engagement circumstances.
- Evaluate journal-entry populations and related fraud risks using risk assessment, financial statement assertions, management-override considerations, and appropriate audit procedures.

ABOUT THE SPEAKERS

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

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

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Learning Objectives (Refer to executive summary)	
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Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	• Basic Accounting and Auditing professional experience
	• Basic Tax professional experience
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Advance preparation	None required
Course registration and, where applicable, attendance requirements ⁽¹⁾	

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AUDIT & ACCOUNTING PART 1

External Confirmation Changes Under SAS 150

SAS 150 modernizes the auditor's approach to external confirmations in an environment increasingly shaped by electronic communications, third-party platforms, and technology-enabled access to information. In this course, Jennifer Louis explains how the standard affects the confirmation of accounts receivable and cash and cash equivalents, while also exploring situations in which confirmations may provide valuable evidence for other accounts and assertions. Participants will examine auditor control over the confirmation process, exceptions to the confirmation presumptions, direct access to external information, alternative audit procedures, and the use of intermediaries. The course also addresses response reliability, confirmation exceptions, and positive and negative confirmation techniques.

Ms. Jennifer Louis

Hi, I'm Jennifer Louis, and I want to talk to you today about SAS 150, which is the standard related to external confirmations. Before we begin talking about that particular standard, I do want to highlight that PCAOB had its own audit standard that it released related to the auditor's use of confirmation that was meeting a lot of the similar objectives to talk about how to improve the quality of the use of external confirmation reflecting how it is that we communicate in today's age, but also the fact that we do have an increased usage of technology-enabled confirmation tools, as well as the use of third-party intermediaries. But also understanding that there are some challenges that all of this is resulting in.

For example, an increased wariness around responding to an electronic confirmation request when somebody might think it's like a phishing attempt.

The PCAOB, they have their standard that was effective for fiscal years ending on or after June 15th, 2025. So this would mean their 12/31/2025 audits moving forward. Whereas SAS 150 that was released in July of 2026.

It has an effective date of audits for fiscal years ending on or after December 15th, 2028. This would be then year 12/31/2028, fiscal year ends moving forward. There will be then this three-year period in between 26-27 and then moving up to the end of 2028 where certainly, as we look at applying the new SAS, there could be some lessons learned as we look at what registered public accounting firms have done to be in compliance with the PCAOB audit requirement by focusing specifically on what SAS 150 is intended.

The goal is to think about for external confirmation procedures that this could be persuasive evidence and it might be something that needs to be performed as a substantive procedure in response to certain risks of material misstatement that you are assessing at the account class of transaction or disclosure level.

An external confirmation is generally presumed to be more persuasive because the audit evidence is obtained as a part of a written communication directly between the auditor and a confirming party.

It does need to be a written communication. It can be in paper, it can be in some electronic form, but it is something where the auditor designs the confirmation to meet it his or her needs. And then they are directly interacting with the confirming party in order to verify this information. When we have an intermediary that is involved.

The intermediary that's facilitating the confirmation process is not the confirming party, but it is facilitating the external confirmation process. When we are looking at cases where we might say we do need to think about what to confirm, there may be information other than cash balances, such as line of credit or compensating balance arrangements or guarantees or other contingent liabilities, certainly we think about confirming things like the existence and the completeness of cash and cash equivalents, but you also might think about these other things that also might merit external confirmation, even if there's not a presumptive requirement that you do so.

We can look at the accuracy, the completeness, the existence, the rights and obligations of these lines and credits and other things that are related to these banking relationships. You also can think about as I'm confirming things related to receivables, as I have trade receivables in contract with customers.

There may be information about the presence or absence of certain conditions like undisclosed, written or verbal side agreements related to that contractual relationship with that customer. And so that also could be added in to the confirmation process. While certainly, as we think about cases where there will be a presumption of confirmation that we'll discuss in a moment here, related to cash and cash equivalents and receivables, as we have contracts with customers.

There's a variety of situations where confirmation also may come into play. So, for example, if I have inventory that's being held by third parties, and maybe it is in a bonded situation for processing of my inventory, or it might be inventory on consignment. There may be property title deeds that are held by lawyers for safe custody or as security. We may have investments that are held for safeguarding by third parties or investments that are purchased from brokers. But where do we have these investments that maybe have been purchased but not yet delivered as of a balance sheet date? We also can have digital assets as we think about digital assets that might be held by some third-party custodian. And we may have other elements that aren't considered to be cash equivalents. Digital assets are not considered cash equivalents.

There may be some digital assets that end up being designated as cash equivalents by the FASB, but right now digital assets would not fall under the cash and cash equivalent definition, but I still may choose to confirm them. We may look at confirming any amount that's due to a lender in determining the terms of repayment, restrictive covenants.

We may look at accounts payable balances and the terms of repayment. There's value in the external confirmation process to think about based on risk, particularly as they may have a risk that's deemed to be a significant risk at the upper end of the spectrum, or what would be sufficient appropriate evidence that we can get in an effective, efficient way, leveraging the confirmation process could add value even when it is not a presumptive requirement.

So there are going to be cases where when we think about the cases, there may be scenarios where a less persuasive form of evidence would be equally effective and more efficient, or there may be cases where the confirmation process is both the most effective and efficient thing to do.

But we do need to understand that we should consider as we're designing the nature, time, and extent of procedures, that confirmations may be desirable from an efficiency point of view and may be necessary to get sufficient and appropriate evidence. There are going to be some cases where external confirmations may be less persuasive.

So, for example, when we think about receivables, to focus on the recoverability of the receivable, as you're evaluating your credit losses, confirmation is going to be less persuasive about the recoverability aspect compared to the fact that yes, this receivable does exist.

Somebody's going to respond to say, yes, I owe that money, but that doesn't necessarily mean that they're going to pay it. Certain assertions will have more value and more persuasive with the confirmation process. Factors to consider as far as when we determine whether external confirmation may be desirable, sufficient, and appropriate in the circumstances would depend on who am I going to confirm to.

Are they objective? Do they have the requisite knowledge of the subject matter? Do we think that they have the ability and willingness to respond to our confirmation? As we want the intended confirming party to be objective and knowledgeable and willing and able to respond. And sometimes the response might be where there is some restrictions in their ability to be able to respond.

And that might be something that is done by law regulation, or it might be something that is related to maybe internal imp impositions that are put on someone to say that you have to put a disclaimer on this response that says you can't rely on this information.

Well, if you're going to put that disclaimer on there and you don't have a willingness to provide the information without the disclaimer, putting this disclaimer is automatically going to dilute the value of the external confirmation.

All right, so let's talk about how there are two presumptions related to external confirmation. It is related to accounts receivable. Principally, we're focused on the existence of those receivables, as well as cash and cash equivalence, as we have things that are held by third parties. You may apply external confirmation procedures in any area that you want to, based on professional judgment.

But we do want to focus on receivables. Receivables are going to include for this purpose claims against customers that have arisen based on contracts with customers and the sale of goods and services in the normal course of business, as we think about accounts receivable.

But also if you have a financial institution and loans have been made loans as we think about also I have a customer and there's an exchange transaction. When there's this presumption of confirming accounts receivable, it's limited to those. It's not that I maybe might not confirm or I could confirm other types of receivables. Like if there's a note receivable that I have made and I'm not a financial institution, I may decide to confirm that note receivable.

But there's no presumption that I confirm that note receivable if it's not related to a financial institution loan. There is added to the accounts receivable the sense of cash and cash equivalents. Now that's going to be part of it, is to say what is in this bucket of cash and cash equivalents, and it has to be cash and cash equivalents that are being held by a third party.

There is a presumption to confirm those items unless external confirmation is in is impracticable, or the audits, the auditors assess risk of material misstatement at the relevant assertion level is low, and other planned procedures would be sufficient and appropriate. There also may be a case where something is prohibited by some form of law or regulation.

So there's this presumption that I would confirm. Impracticable does not mean inconvenient. Right? It has to be that for some reason I'm not able to do this. That makes it impracticable to do versus just it takes me more time and effort to go through the process of doing it. So it's the impractical, practicable, prohibited by law, regulation, or it is a low level of risk of material misstatement, and other procedures would be deemed appropriate.

The exceptions for confirming accounts receivable would be that my external confirmation procedures would be ineffective, so not impracticable purely as we think about the cash and cash equivalents, but ineffective is the language they use for the receivables.

This might be that impracticable could be an element, but it also could be that response rates will be inadequate or the responses will be unreliable. there is there as we think about that element of things. And it also though could be

That the assessed risk of material misstatement at the relevant assertion level is low. And other planned substantive procedures would also address appropriately that assessed risk. It's low, and it would be sufficient and appropriate evidence as the alternative. Keep in mind that materiality does apply. Right? Think about how we are talking about things that are significant.

There's relevant assertions here as we go through our early risk assessment phase, there is a relevant assertion. And as we have this relevant assertion to audit, now we're going to think about the best way to audit it. And it will be presumed when you have cash and cash equivalents and AR that we would go through an external confirmation process, unless you meet one of the exclusions.

Let's talk a little bit more about ineffective as it relates to the AR. We talked about how response rates might be one where we don't think that based on prior experience or experience with similar entities, that we would have adequate responses. Response rates to properly design responses, though, it may be that we might change the manner.

In which we're doing the confirmation request, and perhaps that might improve our response rates. So I think the first step is to first challenge that. If we've had low response rates in the past or in similar circumstances, what do we think is the root cause of that?

And could we change the manner in which our procedures are performed to try and improve the response rates? Or is it simply that we think despite changing that approach, we're still going to have inadequate responses. It also might be that responses would be unreliable.

That as I think about, well, who would I confirm to? Would they be objective? Would they be knowledgeable? Would they be willing and able to respond in a way where there's a willingness to more than casually respond to this request? So as I think about things.

We do need to focus on whether or not we believe that there's a reliable confirming party for us to look to. Responses also might be impracticable. Let's focus on impracticable. It might be that they're impracticable because of the fact that there may be a law regulation that precludes their use.

For example, when I was in public accounting and we were auditing addiction recovery centers, and there were the patients and there was patient receivables. But because of HIPAA, we could not send confirmations to the patients. Right? As we think about, we couldn't even know direct information about the patients. We had to protect their privacy, even for the auditors.

And so there were cases where we had to say we've got limitations as we think about law and regulation, but also there may be cases where the confirming party is requiring you to use an intermediary. And that might not be practicable in my circumstances. There may be cases where no confirming party can be identified.

Therefore, there is an a practicability in the case that we're dealing with. Impracticable is different than inefficient. Now, when we focus on case where if we're looking at where procedures can be performed, but they're not expected to achieve the intended purpose, then that would be something where we may say that the procedure is not effective versus it being impracticable.

So when you're describing what your reason is, how do I meet these exceptions? You want to be careful about how you're documenting that. If you're saying I'm not going to send confirmations because it would response rates would be inadequate, you need to document.

What's your basis for saying that? How do you know that to be true? How can you support that assumption? If we say responses will be unreliable, which would make them ineffective, well, why do you believe that to be true? And if you believe that things will be impracticable because no confirming party can be identified, or the fact that there is a limitation in law regulation.

Then that also could be a case where you want to be specific about that matter. If I can define a confirming party, but response is unlikely, that's an ineffective procedure, it's not an impractical procedure. So part of this as well, as we think about this risk-based approach, is it does still start with where do I have accounts like cash or cash equivalents or accounts receivable, where there is one or more relevant assertions where confirmation would be of value.

Applying a risk-based approach does not require that we confirm all. First of all, you're focusing on relevant assertions first. Where do we have something then where it is more than remote?

Right? It's reasonably possible that there is something that merits our attention here. You're going to determine where you have significant accounts because that's one or more relevant assertions. Even as I flag these significant accounts, we want to also now say: well, is there a mechanism of how we can select items to get sufficient and appropriate evidence using scopes or sampling or other methodologies?

There is no requirement to confirm all. Just like we don't confirm all accounts receivable, I don't have to confirm all cash and cash equivalents. But I do want to highlight: if you're not going to use external confirmations, you do need to document why that is the case. Right?

And it could be that we're confirming some element and then the assessed risk of the remaining population. If I have 10 cash and cash equivalents and I've confirmed three of them, I might say the risk related to these remaining accounts is low, and other planned procedures should address the risk related to this subset of cash and cash equivalents. Like we still want to make sure that we're getting sufficient appropriate evidence.

We can do a hundred percent examination, or we can select specific items, or we can use some sort of sampling methodology. Those are appropriate for getting adequate evidence about your cash and cash equivalents and your accounts receivable. What is also important is that the auditor has to maintain control over the process.

This means that I'm determining what to confirm. I'm determining who is the confirming party. I'm determining the design of the request. What's the wording? We're also sending, controlling the sending of the requests, and we're controlling the receipt directly from the confirming parties or through using some form of intermediary, which we'll also talk about in a moment.

It is sometimes when we think about who's the appropriate confirming party, there may be multiple parties that I need to interact with. So for example, as I think about something like there may be a record keeper that maintains records on how much of a pooled vehicle belongs to an individual account.

And then there may be a custodian that can give knowledgeable information about the overall balance of the pooled vehicle. So what the custodian confirms the overall balance, the record keeper confirms, well, what's in the individual accounts. So these could be cases where I need to think about.

Who do I really confirm with? Right. As we think about those matters. We also want to make sure that when we send the confirmation, that we're clear on what assertions are being addressed. As we think about designing the confirmation, are we trying to confirm existence, rights?

Like what is it that you're confirming and make sure that the design of the confirmation meets that need. And we need to think about risk of material misstatement rather whether it relates to either error or fraud and intention to deceive.

As we look at the layout and the presentation of the request, we can consider the prior experiences that we've had as far as what seems to work with getting complete and accurate and reliable responses. But we also consider the actual form of communication, whether it's in paper or electronic form, can also affect the design of the request. We do want to make sure that as we include in the request.

Confirming parties may only be willing to respond to an external confirmation request that specifically states that the reporting entity management has authorized this and is encouraging you to respond. We want people to feel as if this is a valid request. It's not a phishing attempt, right? This isn't a fraudulent request.

We also need to consider the ability of the intending confirming party to confirm or provide additional requisite information. So, for example, when we think about sending our accounts receivable requests, would it be better for the confirming party to confirm an individual invoice versus an entire balance owed as you design what your unit of account is, we want to design it with a confirming party in mind.

What would improve response rates? What would improve the confirming party's ability to verify this information or be able to help us resolve any discrepancies? Regardless of the confirmation method used, you should be comfortable.

That we've tested the accuracy of where we're sending this, whether it's a mailing address or an email address, as we think about the ease of which this information could be falsified. We're going to design a procedure though that does test the validity of some or all of the addresses on those requests before we send them out.

Now, another element that's being addressed by SAS 150 is to also focus on I may obtain relevant, reliable evidence by directly accessing information maintained by a knowledgeable external source. Like if I get my own username and password from a financial institution, getting read-only access online.

Using credentials provided to me by the bank, that would be direct access. Now, my access may be facilitated by an intermediary, but can I get direct access myself based on my own logon connect out connections? That is direct access. So if I'm getting information electronically because my access to the data was provided by management, not the third party, that's not direct access.

Having the client log on to their bank account and me observing what appears on the screen is visual information. It's not direct access. It's not considered to be a confirmation. So it's important that when we think about this.

We want to understand that that procedure, observing what management has done to access the data, is an audit procedure. It's an alternative, though, to external confirmation. We also need to think about records, for example, that are on a distributed ledger.

Excuse me, or are published for general public use. This information is something where, if it's out there for just general public use, there is no log on credentials. It also isn't something that's considered to be direct access. It's something where I am getting some sort of credentials where I am making sure that this information is from the designated knowledgeable external source. Now looking at information directly on a secure access at website when access is provided by management, viewing shipping records that were provided by a carrier.

Viewing purchase orders or contracts that were signed by the customer, viewing statements received by vendors, viewing specific subsequent receipts by matching the receipt to the actual item being paid. Those are things that are alternative procedures. It's not an external confirmation. It is alternative to the external confirmation.

And sometimes I need to do the alternative procedure because I don't get a response from the knowledgeable source. Or it may be that as I'm looking for the case where this has been deemed to meet one of the exclusions that, for example, we can say confirming cash would be impracticable or confirming the receivable would be ineffective.

If we're looking at alternative procedures, these would be amongst the choices. But I also want to highlight how you want to try and leverage the persuasiveness of evidence. For example, looking at a shipping document provided by a carrier is different than looking at the shipping document produced by the client. Right?

If I have a contract, but it hasn't been signed by the customer, it would be less persuasive. If I get a vendor statement from the client where or summarization of what they owe vendors from their system is different than the fact that we can see a vendor statement that's been uploaded in the system where the original source of it was the vendor. The more that we can provide objective involvement into the evidence, even if it's not an external confirmation, I didn't directly communicate with the vendor or the customer or the carrier.

I'm seeing documents that they produce to give to the entity, it's still the fact that the source of that evidence was from outside of the entity, it's generally going to be deemed more reliable compared to using evidence that's produced by the entity itself. So it's important when I'm using certain procedures.

For example, if I'm going to do direct access, I might say that I was given access by a knowledgeable external source, as opposed to saying I'm getting direct access from the confirming party. Because that would be more descriptive of what it is that I did. Right? So they gave me direct access, and that direct access, in essence, replaced the need for me to do an external confirmation. We do need to think about the requirements in the context of directly accessing information that is maintained by a knowledgeable external source.

We also want to make sure that even as we get a confirmation response, is this something that is complete and accurate information? We may be in a case where we may have where the confirmation it was intercepted. It didn't come directly from the confirming party. It might come back from an email address other than who I sent the confirmation to originally.

It might not confirm a signature or other identifier of the confirming party. It might be that we sent things through email and there's not a copy of the original request in the email chain. And so I might want to challenge whether or not I'm really getting the response from who I intended. Now I also want to highlight here about the use of an intermediary before we wrap up here. And with the use of an intermediary, the intermediate is just facilitating the confirmation process or the direct access.

And so we do want to think about the intermediary. We want to think about the relationship that the intermediary has with the audited entity. We want to understand the intermediary's controls that address the risk of alteration, interception of requests and responses. Like what controls do they have over the process? How do they authenticate users? How do they validate confirming parties? What types of controls do they have over the data transmission network security?

So we need to think about the relevant controls used by the intermediary and are they well designed? Are they operating effectively? This is where a service organization control report may be helpful. Now it also is clear that when we have an intermediary at the firm level there can be an assessment that this intermediate this intermediary is reliable versus doing the documentation at the engagement level.

The engagement could refer to the firm level assessment. So it's not that it has if we have the same intermediate we're using on all of our engagements, it can be a firm level assessment that's cross-referenced to the engagement specific areas. Now you may be able to rely on a work of a service organization control report. You may need to get a bridge letter additional procedures might be necessary.

But it is important that as we think about this, we include a consideration about how is the intermediary making sure that they're validating the addresses of the confirming parties. And if they're not doing that, perhaps as an additional procedure, we may need to validate at least some of the addresses or emails to make sure that we're comfortable with it because the cause we may not be able to get evidence of what the intermediary is doing in that regard. As we're wrapping up, there is going to be a difference between positive and negative confirmations.

So positive confirmations asks you to reply in all cases. So we're reducing the risk that the confirming party in essence said that we want to make sure that whether you agree or disagree, you're going to let us know.

Now, there still may be risk that the confirming party might casually respond. They might respond with actually verifying the information. Then there may be cases where we decide that we leave certain information blank that they have to fill it in, but also understanding that sometimes blank requests might result in lower response rates. So it's up for you to design the confirmation in a way that you feel comfortable.

There is potential value of negative confirmations, particularly as we might be trained to introduce an element of unpredictability. So as we think about a population that has a large number of small homogeneous account balances, transactions. And so this may be where we determine that this negative confirmation is to assist us in just challenging the reliability of the information.

You may have where the fact that the auditor has assessed the risk of material misstatement is low. So I don't need to do the positive confirmations, but I might decide to do negative confirmations as I'm looking at whether I've met the necessary conditions. It has to be that I expect a very low exception rate in response to these requests. I have to be aware that.

There are no circumstances or conditions that would cause someone to disregard my negative confirmation request. So there are criteria that have to be met in order to use negative confirmations, but understanding that negative confirmations are separate, right? You still have your positive confirmations that would be presumed. And then there may be value.

In the negative confirmations to round out your evidence. So it is something as well as we think about confirmations that confirming parties may be more likely to respond if I disagree with information request, if it's not in my favor. But even if I disagree with something, but it's in my favor, like a holder of a bank deposit account may be more likely to respond if I believe my balance is understated less likely to respond if I believe it's overstated.

Like there are risks that even when you're using external confirmations, it's still not going to be absolute assurance. But we do want to think about how we can design things in a way that would be helpful. So part of this, for example, like with phishing attempts to have awareness around response rates might be higher because people are concerned about phishing.

Well, we may consider notifying potential confirming parties that you're going to be seeing a confirmation coming through. This might alleviate the concerns about the confirming party. And so they may be less apt to disregard that response. We want to be alert for incomplete responses where we might need to follow up to get the missing information. We need to look at contradictory evidence.

As we're looking at the risk that we did not get it back from who we intended. But we also want to look for where there are exceptions. And the fact that there is exceptions, it might indicate a potential misstatement in the financial statements, or the exception could be a timing difference between the two parties. There could be clerical errors. So an exception isn't always a potential problem.

But we do need to obviously evaluate and resolve exceptions. And I do want to highlight before we wrap up that we do need to think about the whether or not we need to validate the respondent in some way as we're controlling the process and making sure that we're getting the information from who we intended. We may decide to actually reach out.

To the sender to further validate their identity, to validate that, yes, you were the one that responded to this request. I could do that through an additional email. I can do that through the telephone, as we do look at those information. I also mentioned how disclaimers and restrictions that might exist also we need to think about: well, does that invalidate the reliability of my audit evidence, right?

And you know, how's that affect the reliability of the confirmation process? And do I need to get further audit evidence to resolve doubts? Do I need to seek clarification or look at implications on that disclaimer or that restriction? Right. Which is something where we may need to supplement the work that we're doing as we're looking at these matters. All right, the last couple things here is keeping in mind that a verbal conversation is not an external confirmation.

But verbal confirmation verbal confirmation is an audit procedure. You just can't call it an external confirmation. Now, sometimes I might verbally get information and ask them to follow up with a written confirmation.

Which would now turn it from alternative evidence to external confirmation evidence. Right? It is important that we do think about these matters. And if management for some reason doesn't want you to send a confirmation to a specific party, you need to think about the reasons for that. Is there a legal dispute? Is there ongoing negotiation? Right? We want to think about the validity and reasonableness of management's request that we don't send the confirmation to that particular party and considering particularly the fraud risk that might be a part of management's incentives in discouraging you from that confirmation.

All right, well hopefully in the course of today you've gotten some good oversight information about SAS 150 and how it's going to affect the external confirmation process.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why does SAS 150 place significant emphasis on the auditor maintaining control over the external confirmation process?
2. How should an auditor distinguish between an external confirmation, direct access to external information, and an alternative audit procedure?
3. What factors should an auditor consider when deciding whether confirmation evidence is reliable and whether additional procedures are necessary?

B. Suggested Answers to Discussion Questions

1. Why does SAS 150 place significant emphasis on the auditor maintaining control over the external confirmation process?

Auditor control is fundamental because the persuasive value of an external confirmation depends heavily on the independence and integrity of the communication process. If management controls the selection of recipients, prepares or sends confirmation requests, or receives responses before the auditor does, there is an increased possibility that information could be altered, intercepted, redirected, or selectively presented. SAS 150 therefore emphasizes the auditor's responsibility for determining what information will be confirmed, identifying an appropriate and knowledgeable confirming party, designing the request to address relevant assertions, controlling transmission, and receiving responses directly.

Technology makes these responsibilities particularly important. Electronic communications may be vulnerable to falsified addresses, phishing concerns, unauthorized interception, or manipulation. The auditor should therefore consider procedures to validate addresses and assess whether an electronic response actually originated from the intended party.

Maintaining control does not mean that third-party intermediaries cannot be used. An intermediary may facilitate transmission or direct access, but the auditor must evaluate the intermediary's relevant controls, including authentication, validation of parties, network security, and protection against alteration or interception. Ultimately, auditor control supports the reliability of the resulting evidence and reduces the risk that an apparently independent confirmation is not genuinely independent.

2. How should an auditor distinguish between an external confirmation, direct access to external information, and an alternative audit procedure?

The distinction depends largely on how the auditor obtains the evidence and who controls the source of the information. An external confirmation is a written communication directly between the auditor and a knowledgeable external confirming party. The auditor designs and controls the confirmation request and obtains the response directly from the external party, potentially with the assistance of an intermediary.

Direct access is different. For example, a financial institution might issue the auditor unique read-only credentials that permit the auditor to retrieve account information independently. The auditor is accessing information maintained by a knowledgeable external source, but the procedure does not necessarily involve the traditional exchange of a confirmation request and response. SAS 150 recognizes that such technology-enabled access may provide relevant and reliable evidence.

Alternative procedures include examining shipping records, customer-signed contracts, vendor statements, subsequent cash receipts, or observing management access an external website. Such evidence can be useful and persuasive, especially when its original source is external to the entity, but the procedure is not an external confirmation.

Correctly describing the procedure matters because different forms of evidence have different characteristics and reliability considerations. Auditors should therefore document what they actually performed rather than labeling every use of third-party information as a confirmation.

3. What factors should an auditor consider when deciding whether confirmation evidence is reliable and whether additional procedures are necessary?

The auditor should consider both the credibility of the confirming party and the integrity of the confirmation process. A strong confirming party is objective, knowledgeable about the subject matter, able to respond, and willing to provide meaningful information. A response becomes less persuasive when the respondent lacks knowledge, adds restrictions or disclaimers, responds casually without apparent verification, or has incentives that could undermine objectivity.

The auditor should also consider whether the response actually came from the intended party. Warning signs may include a response from an unexpected email address, missing information from the original email chain, an unverified signature or identifier, or evidence that the communication may have been intercepted. In those situations, the auditor might verify the respondent through a separate email, telephone call, or other authentication procedure.

Confirmation differences must also be investigated. An exception can indicate a financial statement misstatement, but it may instead reflect timing differences or clerical errors. Likewise, a disclaimer does not always make evidence unusable, but it may reduce its reliability sufficiently to require additional evidence.

The overall objective is not simply to obtain a response. The auditor must determine whether the response constitutes sufficient appropriate audit evidence for the assertion being tested.

AUDIT & ACCOUNTING PART 2

Quarterly Accounting and Auditing Update

This accounting and auditing update provides practitioners with a focused review of recent standards, implementation considerations, and emerging professional issues affecting financial reporting and assurance services. The program examines selected FASB Accounting Standards Updates involving government grants, derivatives and hedging, purchased loans, credit losses, and interim reporting. It also explores Private Company Council alternatives designed to reduce unnecessary cost and complexity for private entities. On the assurance side, participants review developments involving SSARS, predecessor-auditor communications, group audits, quality management, and review engagements. The session concludes with practical guidance for assessing audit risk and designing effective journal-entry testing procedures.

Mr. Sunish Mehta

Welcome everybody. Nice to be here with all of you.

Let's get into our accounting update then. As we know, ASUs are issued in terms of the year and the number of the updates.

So the one we are going to talk about first is ASU 2025-12. And this was generally speaking what we know sometimes we call an omnibus style update that we sometimes get in SARS or auditing where they just go through and clear up some things. So this was a codification improvement. And this is effective for both public and non-public entities beginning after for annual reporting periods beginning after December 15th 2026. And of course, interim reporting periods within those annual reporting periods. Early adoption as always is permitted. And we should apply the guidance prospectively.

They it was issued as part of FASBI's ongoing codification improvements to refine US GAAP, to correct anything that was perhaps ambiguous, anything that was not very clear. Again, it applies to all entities within the scope of US GAAP.

And the goal here was to clarify, to correct, and to improve existing guidance. It's not intended to materially change anything big, but it might affect application. It certainly will impact disclosures and perhaps certain interpretations.

So in 2025-12, these are the highlights. They brought clarification to diluted earnings per share. And this clarifies FASB ASC 260's guidance on calculating diluted earnings per share is when a loss is reported from continuing operations. Of course, the normal operating mode of all things accounting is always going to be what we consider continuous operations or an ongoing entity.

And that's why the term going concern stems from that. It also requires adjustments for contracts, potentially settling stock or cash, and inclusion of these dilutive shares on a weighted average basis. So that's a clarification around diluted EPS.

As far as lease receivables, this is a course clarifying that lease receivables from sales type or direct financing leases are excluded from that enhanced disclosure that was brought to us via ASU 2022-02. As far as beneficial interest and then when it deals with credit losses, credit losses has been an interesting area because we've had a lot of change in terms of the guidance and updates to guidance when it comes to credit losses.

They've revised the reference amount calculation for beneficial interest to avoid double counting credit losses. And this provides clear interest income recognition guidance. There's also a area where they talk about treasury stock.

Treasury stock, of course, is a stock when an entity buys back its own common stock. And this confirms that the entire APIC excess is permissible as long as APIC additional payment capital does not go negative. And they also talk about this notion of what we consider transfers of receivables from contracts with customers. And this clarifies some guidance related to the transfers of receivables under FASB ASC 606. So that's why this is more of a codification improvement standard.

ASU 2025-11 deals with interim reporting, and this is under the topic 270 of the codified FASB GAAP. And this is a narrow scope improvement area. This applies to both public and non-public entities. And this is effective for annual reporting periods beginning after December 15, 2026. Right? Early adoption is permitted.

And again, the guidance should be applied prospectively. So with 2025-11, this clarifies and simplifies again that term gap application in targeted areas to try and reduce diversity in practice. So there, you know, big picture.

Then we have a new ASU that supersedes an old ASU where it provides some kind of relief or some kind of clarity or some you know simplifies things.

So again, in this case, they're trying to bring uniformity to some extent, and they're trying to improve what we call the operability and consistency of what is applied without changing the core principles. Again, it provides clearer guidance on measurement and presentation. It aligns what we would consider terminology and definition.

And the goal here is to try and reduce risk of inconsistent conclusions, improving comparability, and also lowering the implementation for an entity and, of course, the associated audit effort as well. 2025-10 deals with government grants. This is topic 832, and this redeal deals with accounting for government grants that are received by business entities.

So this has got two different effective dates. For public entities, this is going to be effective for annual reporting periods beginning after 2028, right? So a little ways away. That includes, of course, those interim periods within those years. early adoption is permitted and the guidance has to be applied prospectively. Also associated with that, for non-public entities, this is going to be effective for annual periods beginning after two December 15th 2029.

And this includes interim periods. Again, within those years, early adoption is permitted, and we're looking at prospective guidance. So, what are we talking about here with 2025-10? This was issued on December 4th, 2025.

It adds guidance to again FASB ASC 832 on how government grants should be recognized, measured, and presented by businesses. Now, what happened in the absence of such guidance prior to this update? Many for-profit entities historically referred and compared what we had in place to other GAAP. For example, FASB ASC 958-605 when accounting for government grants. And in developing ASU's recognition measurement, FASB largely diverse the guidance in IAS 20.

So now going forward, 2025-10, when we apply it in a few years, defines government grants as a transfer of a monetary asset or a tangible non-monetary asset other than in an exchange transaction, including an exchange transaction that may be a significant discount to fair value from the government, or from a government rather is better, to an entity except for a not for profits and an employee benefit plan within the scope of topics 960, 962 and 965 when it comes to benefit plan accounting.

All business entities other than not-for-profits or certain employee benefit plans will be subject to guidance of ASU 2025-10. But the due guidance will not apply, and that's important right here on this listing here, to the following transaction types.

So these are excluded from 2025-10. Transactions that come within the scope of Topic 740 on income taxes, like non-refundable, non-transferable income tax credits, the benefit of billow market interest rate loans, any government guarantees, the transfer of an intangible asset or provision of a service, a reduction of an entity's liabilities, for example, sales property, payroll, or tax abatements, a situation where government participation is involved in the ownership of an entity that would not apply again, a contribution to a business entity from a non-governmental source within the scope of subtopic 958 and a transaction within the scope of topic 606, I think this is an important one to for us to keep in mind.

Where again, this would not apply if it's a transaction on revenue from contracts with customers or under subtopic 610-20 on other income gains or losses from the derecognition of non-financial assets.

So under ASU 2025-10, the recognition, measurement, and presentation of a government grant depends on whether the grant is related to an asset or to an income. So that's our first quote unquote choice that we have to make a decision on. What are we doing this around? And the ASU defines a grant related to an asset and a grant related to income as follows. So these definitions are helpful. First things first: what about the grant related to an asset?

A government grant or part of a government grant that is conditioned on the purchase, construction, or acquisition of an asset. So, for example, a long-lived asset, property plant, or maybe inventory. Other conditions also may be attached, such as restricting the type of loan of the asset, the periods during which the asset is to be acquired or held. Also, what about the disposal? So it kind of covers the entire acquired or retired cycle of fixed assets.

When it comes to how we define grant related to income, that would be a government grant or part of a government grant, other than a grant related to an asset. So, for example, a grant that reimburses an entity for, say, an operating expense. Now, regardless of what type of grant this is, an entity will not be able to recognize a grant until it is probable that both of the following criteria under Topic 832 will be met. The first criteria there is the entity will comply with the conditions of the government grant, which kind of makes sense. It's kind of like having a loan covenant, right? And that the government grant is actually received.

Next, we're going to look at 2025-09. This is under topic 815. This deals with derivatives and hedging. And the topic from the FASB essentially focuses on what they call hedge accounting improvements. For public entities, this is going to be effective for annual reporting periods beginning after December 15th, 2026 including interim periods within those years. Again, early adoption is permitted. And this is again prospective guidance. Non-public entities, it's a year out. This is going to be effective for annual reporting periods beginning after December 15th, 2027. Again, interim periods within those years, early adoption is permitted, and the guidance should be applied prospective.

So let's talk a little bit about the highlights of 2025-09. This was issued on November 25th, 2025, and this amends topic 815.

In addition to addressing stakeholder concerns, the amendments are intended to more closely align hedge accounting with the economics of an entity's risk management activities. 2025-09 amends the existing requirement that cash flow hedges of groups of individual forecasted transactions that use a single derivative as a hedging instrument share the same risk exposure.

Instead, the ASU requires that such groups to have a similar risk exposure. So the ASU clarifies that the quantitative threshold for a similar is consistent with the highly effective threshold used in the assessment of hedge effectiveness. Sorry for the typo there. The amendment guidance is intended to expand the population of hedged risks eligible for aggregation in a single group or pool, thereby reducing cost complexity and the risk of unintuitive missed forecasts and the application of these hedging strategies.

Also, the ASU requires entities to perform a similar risk assessment at the inception of the hedge and on an ongoing basis. The amendment clarifies that in some cases, the entities may conduct such assessments on a qualitative basis, hedge by hedge, in a manner similar to the approach described in the guidance under topic 815 on qualitative effectiveness assessments.

So under 2025-09, entities are also explicitly permitted to conclude that the risk exposures in a group of forecasted transactions are similar.

If the hedging instrument is highly effective against the risk in each group. In other words, an entity may choose to either determine whether each hedge risk related to a forecasted transaction hedged in a group is similar to each other hedge risk in the group, or two, determine whether the designated hedging instrument is highly effective against each risk in the group. An entity should apply its selected method consistently to similar hedges.

And the method of determining whether the transactions in a group are similar must be documented at the inception.

All right. So the next standard we have is 2025-08. So this is interesting because we've had again a lot of stuff that has come in in terms of things that we are talking about when it comes to credit losses.

And so in this case, this is specifically topic 326 dealing with purchased loans. This is going to be effective for annual reporting periods beginning after December 15th, 26. After so 27 really is first year. including at interim periods again within those years, early adoption is permitted, and entities should apply the new guidance, respectively. For non-public entities, we have an extra year.

It'll be for annual reporting periods beginning after December 15th, 2027. Again, early adoption is permitted prospective guidance and interim periods within those annual periods. What does this do? It simplifies accounting for purchase loans. It reduces the complexity and diversity in practice under CECL. It eliminates a distinction between two types of loans, what they call purchase credit deteriorated or PCD loans.

And non-PCD loans. All purchase loans going forward under this guidance under 08 would follow a single consistent CECL model. It simplifies the acquisition accounting, it improves comparability, and it produces rather it requires updates to purchase accounting processes and again those CECL models. So the way 2025-08 works is the following.

The initial recognition would have, again, on day one, credit losses recognized to the allowance and not the earnings. This is the allowance for credit losses. The loan is recorded at the purchase price plus the allowance for expected credit losses. There is no what, you know, again, double counting of credit losses. And then subsequently, the expected credit loss would be updated each period and any changes in the allowance for credit losses would flow through the provision for credit losses.

So the CECL big picture framework and the big picture estimation techniques remain unchanged. There is no real impact on the originated loans. There is no change to non-credit discounts or premiums. And the impacted entities that purchase loans might include, of course, financial institutions, private credit and investment funds and any kind of specialty financed company.

The next one I'm going to talk about here is 2025-05. And this is the measurement of credit losses for AR and contract.

Assets under topic 326. This is effective for annual reporting periods beginning after December 15, 2025. So it is already now effective for all of us, for any of us who have clients that our big periods begin after December 25. And interim reporting periods within those annual reporting periods. Again, early adoption now is, of course, old news. And the entity should apply the new guidance prospectively. There's a difference here though.

For public entities, this would only be the practically expedient option, nothing else. For private entities, the effective period is the same, beginning after December 15th, 2025, so now, interim reporting periods allowed, prospective guidance. But the difference for a private entity is you have the ability to select the accounting policy or elect the accounting policy that public companies don't.

So this came out in June 30th, 2025, and the targeted update provides practical relief for entities applying the current expected credit loss, that is a season model, to short term receivables and contract assets.

So the key provision here, as I mentioned earlier, is that for all entities, they can use a practical expedient that allows essentially assumptions that current conditions remain unchanged over the remaining life of the current accounts receivable and contract assets. And then for private businesses, permits consideration of post-balance sheet collection activity in those credit loss estimates.

So the background and rationale, the goal here is to simply try and get entities to consider all available relevant information, develop reasonable and supporting forecasts, adjust any historical loss data for current conditions and forecasts, and again, document support for the methodology that they will be using. And they initiated this effort, the PCC, because the feedback they got was just a lot.

People were saying that applying CECL to current AR and contract assets was first costly and complex because you have to apply these sophisticated forecasting models, et cetera, especially when it came to short duration assets.

And you know, you can really narrow it down to things like complexity, subjectivity, uncertainty, the ability for a client to commit fraud and or illegal acts, etc. And in many ways this was counterintuitive. Recording allowances for amounts subsequently collected before financial statement issuance didn't make sense because you're recording it and then you're collecting it.

So the goal here, in terms of the scope and applicability, are the following. The assets covered are current account receivables arising from, of course, your FASB ASC 606 transactions, which is long-term contracts, current contract assets that result from 606 as well, and any such assets acquired in business combinations under topic 805. Now, what is not covered? Not covered are going to be loans receivable, investment securities, lease receivables, because those are accounted separately under FASB ASC 842.

Any insurance premium receivables, employee benefit plan receivables, any contribution or pledge receivables, those would be accounted to under 958, and anything that is non-ASC 606. So that stuff is not covered by this update.

Now, what does it allow? This is available for all entities, public and non-public. Entities may assume that the current conditions as of the balance sheet date remain unchanged over the remaining life of the current AR or contract assets when developing reasonable and supportive or supportable forecasts. So practical impact is this eliminates the need for that macroeconomic forecasting, which turned out to be immaterial in many cases.

It allows reliance on historical loss rates, which practically makes sense for short-term AR, and it reduces documentation. So, how do we implement this? You identify any current ARM contracts assets that meet the scope. You're going to go back to applying historical loss rates, document any macroeconomic forecasts that are not decision useful, and then try and maintain consistent application across all those reporting periods.

So now let's look at the accounting policy election. This is going to be non-public entities only, right? This is not that practical expedient that is available to everybody, public and non-public.

What it allows non-public entities that elect the practical expedient to also consider cash collection activity that occurs after the balance sheet date when they estimate expected credit losses. So, first things first for a non-public entity for a private business is they must select the practical expedient to even be eligible. So that's important. They must establish a consistent cutoff date for subsequent collections, and that cutoff date can be any date after the balance sheet up to the financial statement issuance or availability date.

What are the practical benefits? This is going to eliminate and reduce allowances again for receivables collected shortly after year end. It's going to provide more decision that is useful to the user of those financial statements. It's going to reduce the volatility that was introduced to the allowance. And also, here's the big one: it aligns accounting with what we would consider economic reality. And isn't that the goal of financial accounting is to reflect accurately all business activity that has a financial impact?

So here's our implementation steps for ASU 2025-05. First things first is trying to figure out what's under scope as an identification. Again, we want to separate 606 transactions from other revenue streams because it does not apply to non-606. And we want to exclude any non-covered contract asset types.

And then we develop a policy. We decide whether we want to elect the practical expedient. This is applicable to both private and public. And then for non-public entities, we determine whether to elect the subsequent collections policy.

Remember, that is an election, it's not required. But if we want to do this, but here we have to take the practical expedient for private businesses. And then finally, of course, we want to make sure we document those decisions and what we do in terms of our disclosures when it comes to the implementation methodology.

Then for the practical expedient only, we would update the seasonal methodology to rely on historical loss rates. We would only adjust for current customer-specific conditions. We would remove those big macroeconomic forecasting requirements and document the rationale for excluding those macro factors and how most likely they had an immaterial impact.

And if you were to select that subsequent collections policy for private businesses, then we have to establish what that cutoff date is, somewhere between the year end and the issuance. Develop controls to capture those post balance sheet collections accurately, because that's important. Update any aging analysis based on actual collections through that cutoff date. And of course, apply adjusted historical rates only to those uncollected balances.

From a disclosure perspective, you're going to disclose whether you elected the expedient for private businesses. Did you also elect the accounting policy? And then, of course, the date for if you are going to do the election of the policy as a private business. From a controls and procedures perspective, we need to embed new method, embed rather new methodology in our financial clothes. Again, provide training, establish review procedures, and of course any governance type communication is important.

So, this is going to benefit not-for-profits when it comes to membership to use program fees, training revenue. It's going to help with private companies in terms of short-term receivables, healthcare, certainly patient service revenue, education, tuition, and fee receivables, and any kind of professional service for that matter, when it comes to unbuild services and receivables.

So, from a transition requirement perspective, again, it's perspective. It only applies to assets existing at the adoption date and thereafter, there is no preferability assessment. This is required for non-public entities adopting after the effective date. And again, if you are doing any interim adoption, this must apply at the beginning of the annual period. So this obviously is old news in the sense of like we probably already should have done this through the Q4 of 2025 in terms of assessing the scope, but I put it in there only because some of us are still catching up with everything else going on.

And then this first quarter, begin parallel testing and documentation updates by scrolling Q2, I would suggest to you you want to probably finalize the implementation for the calendar year end. And then in Q3, make sure everybody's trained and ready to go through this and do it right.

So what are the impacts of this? I think this is a biggie, right? So from an income statement effect perspective, we're going to have a lower provision because again, there's going to be the consideration of subsequent collections. There's going to be much more reduced volatility because we're going back to historical loss models. The timing benefits are going to be again earlier recognition of collection realities.

From a balance sheet perspective again, a lower balance in terms of a liability especially for non-public entities that use subsequent collections. And at the end of the day, we're going to have a better what we would consider asset quality metric, as in this would better reflect what is it that we do in terms of a true representation of the collectible amounts.

From a cash flow perspective, really no direct impact because this only applies to non-cash allowance. But again, one of the things we can say that might help indirectly is that it could help with improved covenant compliance when it comes to of course our clients, you know, lenders, banks, etc.

So, what let's talk a little bit about some other noteworthy things when it comes to the world of accounting. From a FASB perspective, they believe that single asset entities really is going to be the big challenge upcoming in terms of this year and next year. And the thought process is the following.

Single asset legal entities, commonly used to again finance large projects like, say, data centers and power plants, are triggering unexpected consolidations under GAAP. Again, potentially forcing companies to bring significant debt onto their balance sheets. Now, variable interest entity rules are the main driver because many of these entities operate with minimal equity and therefore they become VIEs, as in variable interest entities, increasing the likelihood that investors or even for that lessee.

They must consolidate these. Now, lessees can be required to consolidate even without equity ownership. These terms, such as residual value guarantees, renewal options, other purchase options, may consistently constitute variable interest in the entity itself, not just a leased asset. So the consequences can be pretty big because we're going to have off-balance sheet financing that's happening, and that might disappear.

Inflating reported debt, affecting key ratios, and again the perception of investors. Lease accounting becomes far more complex, requiring entity level consolidation analysis rather than a simple lease classification. Judgment is going to become critical as outcomes can change quickly based on the details of these contracts. And again, regular scrutiny is going to increase, especially from the SEC, with data center leasing already under review, because it is a big deal, right?

So the conclusion simply is the following that single assets entities are no longer a simple structuring solution.

The implications, especially under VIE analysis, can materially alter balance sheets, earning metrics, investor perceptions. You know, again, making early accounting analysis much more strategic than simply an afterthought in terms of compliance. So that's something we want to watch out for. Something else that's going on with the FASB is this whole jar of AI. And so the FASB currently is actively evaluating how AI may affect reporting.

With a special focus on existing accounting guidance, especially for software development, costs and intangibles, again needs to evolve as companies increase AI-related investments. A care of interest is whether the current disclosures and expense models adequately capture significant AI and data investments, even when they do not meet the accounting definition of R&D. So FASB's ongoing research on intangibles aims to improve transparency for the investor rather than simply expanding balance sheet recognition.

Controllers and chief accounting officers from major US companies again are expressing measured optimism about AI adoption. They stress the importance of governance, of course, having good controls in place. And again, process simplification before automation, with a clear tone of the top guidance when it comes to use of AI.

And obviously, leaders today view AI as a tool to enhance efficiency to enhance analysis and the ability to be able to break down things and do a lot more slicing and dicing, not just a replacement for accountants, but rather a highly, you know, what we call a highlighted collaboration with auditors and technology teams as critical as well.

Something else that came up of recent that's being discussed by the FASB is this whole notion of small public companies and goodwill testing. So small public companies are pleasing urging the FASB to reconsider the current impairment only model for Goodwill, arguing that it imposes high costs with limited usefulness, particularly especially for companies with lean accounting terms.

At a meeting that they had on November 13th, meeting what they call the PMAC, which is the Public Markets Advisory Committee, prepares widely described annual goodwill impairment testing as burdensome, painful, meaningless, noting that many investors routinely strip goodwill out of valuation methods as well.

And many preparers favored a return to systematic amortization, viewing goodwill as a wasting asset and questioning why purchase goodwill can remain indefinitely on the balance sheet while internally generated goodwill is never capitalized. Others even suggested expensing goodwill immediately or using the equity-only catch-up adjustments to avoid earnings volatility. And again, a lot of these ideas faced a lot of resistance.

So investors and academics during this PMAC meeting offered much more nuanced view. While acknowledging that goodwill is often excluded from valuation model models, several emphasize that impairment charges serve as an important signal of acquisition quality and management performance. And research cited at the meeting shows goodwill impairments are value relevant and can trigger market reactions, reinforcing their governance and again their accountability role.

So rather than have a one size fit all solution, the members of the PMAC, as he discussed, maybe compromise approaches. A leading alternative that is gaining traction is shifting from mandatory annual impairment testing to much more of a trigger-based model, which could significantly reduce compliance costs while preserving again those signaling benefits that they talked about. And immediate expensing was broadly rejected.

Due to concerns about distorted financial metrics and reduced again comparability across companies.

All right, so now we're going to get into section two, which is getting a little bit of a deep dive into these PCC updates that have been issued to date.

The Private Company Council was established in 2012. So it's been around now for a few years. And this was done by the FAF, the Financial Accounting Foundation, to address private company reporting concerns. PCC advises FASB on accounting alternatives and modifications for private entities. And this was really created in response to the feedback that US GAAP was overly complex and costly for private businesses.

And so for several years, up until 2012, there was a bit of a battle that was going on between what we might consider private GAAP versus public GAAP. And there was increasingly a thought out there, again, with the powers to be that could it be that we need to have two separate US GAAPs, one for private businesses and one for public entities?

And that decision was superseded by this notion of creating this council that would look at areas, ASUs, updates of regular gap and provide alternatives to non public entities, to private businesses to elect and that's the operative word. It's always a election.

Again, ASUs that make their lives a little bit easier. And this operates again under a decision-making framework. The PCC proposals are incorporated into US GAAP after FASB endorses them. And again, the goal here is to simplify high cost, low benefit areas, like say, for example, Goodwill or VIEs, derivatives, etc. So these are the PCC related ASUs, you know, to date that I think you know, are worth at least listing.

And I'll do a deep dive in some of these. So the important thing to consider here right off the bat is that whenever the private company council does have something that is issued related to private businesses, again, it's an election for the private business, they will be issued via standard ASUs. So it's not like you know it has a different nomenclature and naming convention, etc. It's going to be a regular ASU. The difference is that ASU is only applicable typically to private entities.

Now, if you think about what we just talked about a little bit in terms of ASU 2025-05, when it came to the update to credit losses, in that case, they had a practical expedient that was available to public companies. But the accounting policy election of considering subsequent collections was only available to private entities. So that's the way PCC's alternatives come out.

And you know, again, if I were you, I would always keep my eyes and ears open for what else could be coming. that could make again our lives a little bit easier. And that's the goal here is relief. So that overly complex US GAAP is more applicable and made simpler for non-public entities. and that's a driver of all of this.

So here's the big ones that you know I consider that we should certainly bear in mind the first one here is ASU 2014-02. This is under topic 350. Since we just talked about against small business and goodwill, they do have the ability for private businesses, you know, to where they can elect or amortize goodwill over a period of not exceeding 10 years and they can perform simplified trigger-based impairment assessments instead of the complex annual impairment assessment.

So this is one that I know many firms that I work with see their clients having adopted where they just amortize existing goodwill. And that means you have to also amortize on, you know, any new goodwill that'll come down the pike. And like all other ASUs, with the PCC elections where a private business elects to do so, there's extensive, you know, again, disclosure requirements for that first year of transition.

ASU 2014-18 as under Topic 805. This deals with business combination. This permits entities to again subsume certain intangible assets, specifically customer-related intangibles and non-competition agreements into goodwill, rather than recognizing them separately into a business combination. ASU 2014-07 and subsequently 2018-17 that both deal with the same topic around consolidations and VIEs.

They provide an accounting alternative that exempts, and this is the operative word, private companies from applying the complex VIE consolidation guidance to qualify to qualify in common control arrangements, such as common control leasing arrangements. And I and I remember this well because I remember when originally two zero one four seven came out interestingly enough a lot of accountants that were doing compilations for entities that use US GAAP, which you know, again, still happens, right?

There's plenty of again entities that want somebody to come in and compile their US GAAP financials. Well, this VIE comp you know analysis got to be so complex that clients were requiring the accountants not to do the VIE analysis. And so what happened in that case was that if you are doing a US GAAP compilation and financial statement, and if you're going to depart from US GAAP by not doing VIE analysis period, this is above and beyond private company discussion here right now, what I'm talking about. Then you know you need to modify the audit report by putting another matter paragraph to state that, you know, we have not the client has chosen not to do VIE analysis. Had the VI analysis done, it might be impacting, it would rather impact the financial statements.

Of course, how and when is not known. And so that's considered a departure from US GAAP, which is pretty standard when you think about it. If a client tells us, you know what, we're not going to use US GAAP.

So what was interesting back then is that the AICPA had to come out with a special bulletin for people that do compilations to emphasize and remember that if a client chooses not to do VI analysis and doesn't want you to do it, then you need to modify the standard compilation report with another matter paragraph, which to me is interesting because I'm like, wait a minute, if you do have a departure from US GAAP, don't you have to do that anyway?

So, anyway, in this case, of course, this would eliminate the need if you have this common control arrangement. So VIEs have always been a bit of an interesting area. I think most of us would agree. Not the most intuitive.

Rather painful, but it is what it is. ASU 2014-03 deals with topic 815 and derivatives and hedging. This offers a simplified hedge accounting approach for certain interest rate swaps used to hedge variable rate debt, again reducing the burden of complex hedge effectiveness testing. Remember, all of this is for private companies. 2021-07, this is under topic 718. Compensation when it deals with stock.

It provides a practical expedient for private companies to determine the current price of an underlying share for equity class share-based awards using a reasonable and consistent valuation method rather than a full fair value measurement. We also have 2021-09. This deals with topic 842 and leases. It allows leases that are not public business entities. Lessees, sorry, is what I meant to make a risk free rate election by class of underlying asset than determining the present value of lease payments rather than calculating a more complex incremental borrowing rate. So that's a biggie.

So again, these are things that I think are important for us to be aware of.

And a couple more. ASU 2023-02. This deals with topic 323 and investments. This deals with the equity method and joint ventures and expands the scope of the proportional amortization method to all qualified tax credit investments, not just lower income housing tax credits.

And then 2025-05, the one that we just talked about with financial instruments and credit losses. This C provides practical expedient for all entities and that policy election for non-public entities to simplify the measurement of expected credit losses for current ER and contract assets, the stuff that we just talked about. So that's of course to me a big one as well, currently.

So I think this is the big one. This is the one that I've seen most commonly elected by you know many firms. And again, when I say firms, I mean their clients. 2014-02, topic 350, accounting for goodwill. So again, it allows for private companies to amortize Goodwill, generally over 10 years, instead of annual impairment testing. It reduces that annual impairment mandatory testing with a trigger-based approach. So not only can you amortize Goodwill over 10 years, but if there is a triggering event, you can impair Goodwill if need be.

It simplifies Goodwill accounting. It certainly reduces the cost and complexity. Again, it's going to reduce the complexity of Goodwill accounting for private businesses. Remember that. Election is optional, it must be applied prospectively.

And again, big picture, lower compliance costs, more predictable earnings, and just basically simpler financial reporting. So the difference, right? When you look at with the ASU election, without. So again, it's always election, it's always a choice. A private company can continue using regular US GAAP that applies to everybody. If you were elect 2014-02, then goodwill be amortized straight line over 10 years.

So let's say in this situation you have a private company that acquires a company for 10 million and they allocate fair value, resulting in a \$2 million goodwill. So your annual amortization will be \$200,000 and it produces a carrying value each year through amortization. This consistency and it's predictable. Again, impairment testing, there is no annual impairment testing, only when a triggering event occurs, like a major decline in business.

Outcome again, predictability, fewer valuation costs. Without the election, there is no amortization of goodwill. It's treated as an indefinite lived asset. Annual impairment testing is required, comparing the fair value to carrying value. And if the fair value is below carrying value, then you perform a full impairment test. This used to be the two-step that was eliminated by US GAAP. And again, this must this results in more cost because there's monitoring.

And again, there's more complex and testing valuation procedures that are required. The next one is ASU 2014-18 under Topic 805 and Business Combinations. This clarifies accounting for identifiable intangibles in the business combination. It allows certain customer-related intangibles.

Example, for example, a customer list, contracts to be subsumed into goodwill if they are not separable and do not arise from what we call contractual or legal rights. This reduces the valuation complexity and cost by the number of intangibles that must be recognized separately, because they would all be, you know, again, rolled into goodwill. And the benefits of this election certainly lower complexity and cost, simpler financial instruments.

And again, what we would consider easier accounting once a transaction has gone through.

The next one deals with variable interest entities and common control leasing arrangements. And there's two updates that we need to talk about. The first one that came out was in 2014-07.

And there was a subsequent update with 2018-17. Let me first talk about 2014-07. This is only applying in situations where you have common control arrangements. Example, for like an operating company leasing property from an entity owned by the same owners. It allows for private companies to elect to not apply VIE consolidation guidance in certain situations. Here's the requirements.

The lease must be substantially all of the leasing entity's activity. The lessee guarantees or provides collateral for the lessor's debt. And instead of consolidation, the entity provides expanded disclosures. The benefits, many private companies avoid consolidating real estate holding entities. Everything becomes a little more simpler and more reflective of what the operations truly are.

Then came along ASU 2018-17 in 2018. What this did was this clarified how to determine whether decision-making fees are variable interests. That was a question. It reduced complexity in assessing the indirect interests held through related parties. And this is what 2018-17 said. Decision maker fees are not variable interest entities if the fees are commensurate with services, the arrangements are at market terms, the decision maker does not hold other significant economic interests.

And indirect interest health-related parties are evaluated on a proportionate basis.

We're going to look at one more here. This is derivatives and hedging under topic 815, and this is ASU 2014-03. And note, folks, that some of these PCC alternatives came out a long time ago, right? But I'm highlighting the ones that I see most commonly impacting most of us.

This simplifies hedge accounting for certain interest rate swaps used by private companies. It allows a practical expedient to align swap accounting with again variable rate debt reducing complexity. It eliminates the need for separate fair value accounting of qualifying swaps in some common structures. It reduces income statement volatility by avoiding mark-to-market impacts when criteria are met. Again, it lowers costs and efforts to apply hedge accounting for private entities.

Just briefly the ASU 2014-03, which deals with derivatives and hedging.

If these elections create better representative financials, why is it only available for non public entities? The reason being that many of these elections that have been provided really only apply to small businesses, larger companies, global companies, publicly creative companies that again require audited financial statements. Say a good example would be Goodwill.

A 10-year impairment for a public company with Goodwill would not accurately really reflect their financial statements as compared to truly doing impairment testing on an annual basis, because the dollar value, first of all, has typically a bigger magnitude and materiality.

And also from the perspective of, like, say, for example, the common control leasing arrangement type situation would probably better be more commonly found with private businesses versus public companies doing that kind of work. So that's why they've come up with you know this private company council alternative model. So with derivatives and hedging, this simplifies hedging.

Accounting again for certain interest rate swaps used by private businesses. It allows a practical expedient to align swap accounting with variable rate debt, reducing again the complexity. It eliminates the need for separate fair value accounting for of qualifying swaps in some common structures. It also reduces the income statement volatility by avoiding mark to market impacts when criteria are met. Overall lower costs and effort to apply hedge accounting.

So there's some things that the PCC is looking into. and so the goal here is to talk a little bit about what they're looking at because this might give us a road, you know, kind of a picture as to where things are. So they had a meeting on September 25, 2025.

And this was a meeting where they discussed leases, which I think is interesting. They discussed interest method and determining the effective interest rate. They talked about debt modifications and distinguishments. They talked about subjective acceleration clauses and also embedded derivatives. And again, this is a link that you can go and keep up to date as to what these meetings and what they discuss at these meetings.

So one of the other things that has come up as of late is this discussion where FASBI is considering easing the equity method for private companies. They're evaluating targeted changes to simplify equity method accounting for private businesses, responding to longstanding concerns that current rules impose, again unnecessary complexity when investors lack meaningful influence over partnerships.

A key issue is the definition of what significant influence means. Now, while corporations generally apply a 20% ownership threshold, private partnerships often trigger equity method accounting at ownership levels as low as three to five percent, even when the investors have little or no practical ability to really influence anything. Stakeholders argue this leads to what we call an intuitive outcomes.

And forces companies to apply burdensome accounting for investments they cannot control or really readily obtain information about. So the PCC had these discussions on December 12, 2025. And they've highlighted two primary reform paths. One is revisiting the significant influence threshold and potentially clarifying FASB ASC 323 or allowing certain low ownership partnership investments to use a simpler measurement approach, again similar to FASB ASC 321, when genuine influence is absent.

They also looked at a reform path that says simplify accounting for complex allocation structures, particularly by addressing challenges with what they call the hypothetical liquidation at book value method, which is widely viewed as difficult to apply and certainly error-prone for private businesses.

Also, another discussion that was held on September twenty sixth was private companies have paused efforts to simplify the gap interest method, signaling a limited appetite for a standalone overhaul. The PC decided to defer further research on a proposed alternative that would allow companies to calculate interest expense using contractual rates with straight line amortization of discounts, premiums, and insurance costs rather than the effective interest method.

Again, the alternative was intended to reduce complexity, but research found that it could produce materially different financial results, especially when you have significant debt discounts. A classic case would be, let's say, detachable warrants, creating discounts of maybe 10 to well over 50%. So this is something that again there's been a push back on. But there was a little bit of division here. And some supported the simplification. Many argued that the interest method is not a significant practical problem.

And that education may be appropriate. But importantly, financial statement users like bankers, surety providers emphasize that their decisions focus on cash interest, EBITDA, and liquidity, not that GAAP interest expense timing. So as a result, they tentatively conclude that any other reconsideration of the interest method should occur within a broader future project on debt modifications rather than a separate initiative.

So that's one of the latest updates that we have from the PCC perspective.

Though the PCC options apply to not-for-profits, again, this is really concern typically the PCC options only apply to private for profit companies. they do not apply to not-for-profits. So now what can you use if you're working with a not-for-profit?

You know, they may benefit from their own GAAP framework and targeted ASUs in some cases where we have examples like say the net classification or maybe liquidity availability disclosures, et cetera. So the goal here is there are certain, you know, updates, ASUs that only apply to not-for-profits, and that's where not-for-profits should really be focused on, generally speaking, when it comes to the PCC alternatives.

Alright, so as we continue, our next stop on our roadmap is going to be section three, which is auditing update. So one of the big things that came out as of late was SSARS 27. this applied to preparation services, of course, in terms of when a preparation service is you know included as part of a consulting engagement to where the CPA or the consultant has been hired to do some consulting work, and part of that consulting work includes the preparation of financial statements.

Then the big question that came up was: would that preparation service be considered, you know, to be subject to Section 70 of SSARS 21 and so forth in terms of guidance? And so SSARS 27, which of course is the statements on standards of accounting and review services. That is, you know, these are the standards that cover reviews, compilations, and preparation services by the ARSC committee of the AICPA.

They amended section 70 to exclude explicitly financial statements prepared as part of a consulting service, where the engagement would be performed in consent, you know, in accordance with CS section 100. And so to just clear the ambiguity that if you are preparing a financial statement that is part of a consulting service, then that is not a SARS service under section 70. And again, the goal here was to simply provide explicit guidance to address the misunderstanding. Because if it does come under section 70, then of course we have to apply section 60 of SSARS.

We have to apply the requirements of the general principles. We also then have to apply the principles and the standards of section 70 under preparation services, where every single page of the financials needs to have a footer to state that no assurance has been provided. And of course, then you're talking about peer review. Of course, peer review would only apply to preparation services when the firm is involved in at least one other service that is subject to peer review.

So if I have a tax practice and I do a few preparation services, but I do not do compilations, I do not do reviews, I do not do audits, then that preparation is not subject to peer review. On the other hand, if I do even one compilation or a review or an audit, any of those three engagements that are normally subject to a peer review, then automatically the preparation service that I'm performing could be subject to peer review and would be picked for peer review. That is something that we want to make sure we pay attention to, and that's why SSARS 27 was issued to say that, hey, if you're doing this under a consulting engagement, do not worry about Section 70.

Because again, all that other stuff that comes into play that is going to be completely covered by consulting standards. So that's just something that we want to make sure we remember with SSARS 27. Some practical implications, of course, of this would be to just remember that Section 70 preps are, of course, only applicable to those of us in public practice.

Again, if you're working as a controller of a company or in any other role that is not public accounting like, then SSARS, you know, SSARS and Section 70 do not apply. Ultimately, we want to make sure that we're clear about what we're doing in terms of the preparation service as to the reason for it, what are we we've been engaged to.

Here's my you know, thought around this to keep things very clear is if your engagement letter does not include a preparations service and the engagement letter does not include the language that we need to include per section 70 of SSARS when we do preparation services, then heck it ain't a preparation service under SSARS, period. Because there's very specific language that we need to use. And all of that language is available to us in section 70 within SSARS.

So just to be mindful of that and just to have another sense of perhaps a discerning or a disco a discerning factor or difference that we need to consider. Another SAS that's now, of course, been in play for a while, but I wanted to bring this up because I've talked to several firms and over this past summer and fall, it seemed like some firms are not aware of this.

And this is the notion that when you are dealing with initial audits, as in this is the first time that you are auditing a client. Of course, we have you know standards in place and rules in place to where using the client's approval, we can go and and make inquiry of the predecessor, auditor, look at their work papers, etc. But SAS 147 added one more important request requirement.

And of course, this has now been in effect for a while since June of 23, and it amends SAS 122. And what it does is it clarifies that once an engagement is accepted, the auditor should document the inquiries of the predecessor auditor and the results of those inquiries. And that should relate to also asking them anything that they might know as it relates to suspected fraud or non-compliance with laws or regulations.

So these are, of course, typically standards that are driven by the requirements of AU-C 240, which is a fraud standard, and AU-C 250, which is the illegal acts standard. But we want to make sure that when we do make inquiries off the predecessor accountant auditor, that we include questions around fraud and illegal acts.

It does not revise the audit that the auditor request management to authorize the predecessor auditor, of course, that remains in place. So this is the flowchart that was adapted from SAS 147. In this case, the auditor is required to request management to authorize the predecessor auditor to respond fully to the auditor's inquiry. If that's and so then the question is: does management authorize a predecessor auditor to respond? If the answer is no.

Then at that point, you and I need to ask big questions as to whether it's even worth the risk of taking on this client if the client is not willing for us to talk to the predecessor auditor, unless, of course, there are other circumstances that are dictating that besides what might be murky standard, you know, murky circumstances. And of course, if they do give us permission, then this is the new requirement that we need to add to the questions that we ask. We need to make sure we ask them about illegal acts.

And of course, we ask them about suspected fraud as well. Another one that we are supposed to do is we have to do this on a timely basis. And then we evaluate the response. And ultimately, at that point, we determine whether we want to accept the engagement or not. And if the engagement is accepted, then we need to make sure we document all the inquiries that we have made. SaaS 149, this is going to be an effect for audits approved financial statements for periods on or after December 15th, 2026.

So the scope here is this applies to group audits. This is where if you are doing group audits, whether you're the group auditor or the component auditor currently under the guidance of AU-C 600, then SAS 149 is making some updates to AU-C 600 where the key driver, of course, I've got a lot of detail in here, but the key driver is how do we determine whether again, a subsidiary or an entity within, of course, a financial reporting environment of the client is a component or not.

So as a reminder, group audits are only applicable to situations where the client and the way the client is structured determines a group audit.

Group audits are never determined by the structure of the audit firm or whether you know the audit firm has locations in different cities and/or overseas or not. And the reason AU-C six hundred comes into play with group audits is the notion that if you have a situation where this let's say the client has a parent company and there are multiple subsidiaries, but these subsidiaries, say for example, or what we call components, are operating in their own local IT systems and reporting environment. They're not centralized.

Then in that case, we have something called aggregation risk. Because when you consolidate the financial statements of components with the parent company, it creates additional risk given the fact that all these different entities are in different reporting environments. And that aggregation risk is the reason why it triggers the group comp the group audit model.

So remembering that within a group audit model, you as an auditor can be the group auditor or the component auditor or you can be both.

There is no rule preventing you from being both the group auditor and a component auditor. The reason why we're doing a group audit is because we want to make sure we audit each of these components that we consider to be significant separately with their own materiality thresholds to reduce the risk of aggregation of data. Now, under AFC six hundred, right now the soft requirement is that if a six, if a component constitutes to be anywhere between 15 to 20 percent of the revenue of the group, then it might be considered to be significant.

Of course, there's qualitative factors to be taken into account as well. Say, for example, if there are local statutory requirements for a subsidiary that is in a different country, and/or there are other risk factors.

That generate the need for that component to be audited separately, then that's a significant component. On the other hand, if that component is not deemed to be significant, then it would be perhaps one could do analytics and or do some other types of procedures, but not a full-on audit. So that's what we have in place now.

What SAS 149 does is it makes that judgment of whether a component is significant or not to be based on the professional judgment of the group auditor, and it removes this soft 15 to 20% rule. And then the component audit auditor is now going to be referenced as a referred to auditor.

And this says applies to all group audits, regardless of the size or complexity. So the group auditor will use professional judgment in determining the components at which the audit work will be performed. They'll also be required to determine the net nature, extent, and timing of the involvement of the component auditors, as in the procedures, when, the timing, all of that.

Component auditors are to be involved in all phases of the group audit under the direction and supervision of the group auditor. So they're increasing the responsibilities and accountability for the group auditor. The group auditor determines a reference to the audit of a referred-to-auditor and the auditor's report in situations where the referred-to-auditor has performed an audit of a component and issued a report. This also describes the procedures to be followed to obtain sufficient appropriate audit evidence.

When the group engagement partner determines to make a reference to the audit of a referred-to-auditor. Again, terminology change as well. And so the SAS expressly intends that the requirement of responsibility be fulfilled by the group engagement partner of the or the group auditor. And say just generally speaking, the notion that the group engagement partner takes more responsibility is the real drive behind SaaS 149. So that's something we need to consider for any of us who are doing group audits or where the component auditor maybe you're doing both.

The next thing, of course, that always comes to mind, and this is an important thing that we're all going through in terms of changes, because if the now the applicable framework that we have when it comes to quality management. This of course is a new framework that all of us have to be under working under the purview of as members of the AICPA.

And of course, if you have an accounting or auditing practice, we used to be under the purview of SQCS number eight, which was a statement of quality control standards that has now been superseded on December 15, 2025 and going forward by the quality management framework.

And now we have you know what we consider eight components to quality management that we need to be in compliance with. And this is the seal directly from the AICPA.

The big one that impacts us in 2026 is going to be SQMS number two, which is how do we go about doing engagement quality reviews? SQMS 3 just made a few amendments, primarily related to again SAS 149, the group audit standard that is getting updated this year that I talked about.

Then, of course, SSARS 146, which essentially brings all the auditing standards in compliance with the quality management framework. SSARS 26 does that for all the SARS in terms of reviews, compilations, and preparation services. And then SSAE 23 brings the statements and standards for attestation engagements to be in compliance with the new quality management framework. So audits are easy. SSARS, most of us do SSAEs, perhaps the big one you always think about when you think about SSAEs would be SSAE 18. And SSAE 18 is the standard that service organization auditors use to perform service organization audits of internal controls for a SOC one report. For those of you who do audits, in many cases you may be obtaining a SOC 1 type 2 report from that service organization, like a payroll company or a third-party administrator for an employee benefit plan. You could have a service organization that an insurance company uses to process its claims.

Any type of service organization that our client, the user entity uses that has an impact on the financial statements that you and me as user auditors can then reference that service auditor's report because you and I are not going to have the ability to go and audit ADP, a massive company, or any of that, right? So that's the framework that we're talking about here. And SSA 18 is what they use.

So these are the standards that basically bring in all these different standards in line with SQMS one, two, and three. From SQMS, one perspective, which is the new quality management service. Of course, all of us have to be in compliance with this already. there are eight different components compared to what we had in SQCS number eight, which were six. And the new ones that I'll highlight here that they added were the firm's risk assessment process, governance and leadership was already there, relevant ethical requirements already there.

Acceptance continuance, already there, engagement performance already there, resources already there, and then we have information and communication. That's again a new one that was added by the SQMS standards. And then they enhanced and a little more detail in terms of monitoring and the remediation process. So I'm going to say and call that out as perhaps, you know, again, a little bit of a change from the previous quality control standards.

The important word I always want to emphasize is we used to have control, now we have management. So control kind of inert innately, you know, emphasizes a notion of a checklist, whereas management is much more fluid because we manage our quality as far as going forward versus what we used to do.

The effective dates, just as a reminder, so that I can talk about what's important in 2026, is up until December 15th, we used SQMS number eight. That's now, of course, history. And we had to do some analyses, etc., to establish the fact that we're going forward with a new quality management system from December 15th, 2025. Now, this year will be the first year.

In consultation with your peer reviewers, where you will have to perform an annual evaluation of the system of quality management at the end of this year. Well, sometime during this year. But here's the big one that affects all of us. We have to now perform engagement quality reviews when required by firm policy. So very important that term, when required by firm policy, which means that as I mentioned, quality is much more of a management thing.

And so we're going to have to decide whether we believe an engagement quality review needs to be performed for a specific engagement for it to be in to if for it to help us with the mitigation of potential risks and quality issues, and for us to be in compliance with the new quality management framework.

So that's an important thing to consider here. And so this is going to apply to calendar year 2026 financial statement audits or review engagements, and any other engagements that begin on or after December 15th, 2025. And there's very specific rules within SQLS number two as to what that beginning of an engagement means. For most cases, it's going to be the signing of that engagement letter. And then of course going forward.

We have to apply the requirements of the quality management auditing standards, starting with calendar year 2026 financial statement audits. I wouldn't read that too much into it because essentially everything that you need to worry about is going to be within SQMS one and two. And so this is the way I'm going to call this out. You have your system of management. This year we care about SQMS number two quite a bit.

SQMS3 only matters if you're doing group audits or component audits. And then SAS 146 for those of us who do audits, SSARS twenty-six for those of us who do reviews, comms, reps, and SSAE 23 if any of us are involved in SSAE dictated engagements.

Now let's just talk about reviews in general because I think this is another area that sometimes gets a little confusing. There are review engagements that are available under SSARS, the audit standards, and SSAEs. And what does that really mean? Because when you and I talk about reviews, of course, first thing that we think about is going to be SARS reviews, obviously. So understanding the differences and staying in our lane is important.

So what I thought I would do is just kind of spell out some differences over the next two slides in terms of when these things apply and what does it actually mean. So when you think about the applicable standard, when I do a SARS review, that's going to be under AR-C section 90. When I'm doing a review under the auditing standards of let's say interim financial information, that's going to be under the audit standard AU-C 930.

And if I'm doing any kind of a specialty review under SSAEs, that would be again the standard AT-C 210. For reviews, of course, it's going to be financial instrument, financial statements. When you do reviews in the context of an audit, it's always going to be interim financial information, right? Because again, typically for a from an audit perspective, the annual annual year would be an audit. It's just the interim numbers that can be done to review upon. SSAE could be financial or non-financial subject matter.

A SSARS review, obviously, this is not going to be an audited entity. SAS review, of course, that's going to be in an audit. Of course, SSAE, this is not applicable. For SSARS review, identifying material misstatements. From a SAS review as an audit, this would be assessing any interim modifications.

Typically, under SSA, this would be assessing conformity with any specific criteria. Assurance on SSARS review is obviously going to be limited. Assurance level on a review for interim information and an annual audit again would be limited. And SSAE review would be limited as well. From a procedures perspective, if it is

A SSARS review, there's only two procedures we typically do, that is to say, inquiry and analytics. If you're doing an audit and you're doing a review of interim information, certainly inquiry analytics and other procedures may be involved that may be a little more extensive than a SSARS review. Same thing applies to SSAEs.

When it comes to internal controls, on a SSARS review, of course, there's no work done around controls. It's just no corroboration in querying analytics. Of course, SAS review, we do look at internal controls for interim information, and not required unless it's relevant for that specific SSAE type review. When it comes to opinions on a SSARS review, there is no opinion or on SAS review on an SSAE review, right? Because remember, in a SSARS review,

We issue a conclusion. And that's called limited assurance. Relative rigor, right? I would say on a SSARS review low, SAS a little bit higher, SSAE higher, because typically with the SAS review, it's very specific. And the typical use would be on a SARS review: this would be entities that do not need an audit. SAS only auditing interim reporting. Audited interim reporting for again audited financial statement.

And for the SSA, it could be any kind of specific attestation engagement. Just something to consider. So again, just be mindful of the fact that both SAS reviews and SSARS reviews apply to reviews of financial statements and again other historical information. The biggest difference is the following: if the entity is audited, then the interim review should be performed under AU-C SSARS.

Because the auditor has internal control knowledge and other knowledge that an accountant who performs a review of an unaudited entity would not have. On the other hand, if it's an attestation review service, a practitioner in public practice issues or is engaged to issue a report that provides conclusion on either a specific subject matter that is somebody else's responsibility, or two, in an assertion level based, assertion-based review.

Another party's assertion about a specific subject matter. So an SSE review is broader than a SSARS review or a SAS review because it can apply to non-financial information as well. So I hope this helps because I know that this comes up often. Again, for most of us, perhaps we're going to be either involved in audits or we're going to do simple SSARS reviews. Most of us probably don't do too much SSAE work. But for those of us who do annual audits, you know, again.

Those interim information reviews are under the audit standards because they are different than a SSARS engagement. Some other things to consider noteworthy in the space of auditing. There are some proposals in play. I've talked about these before, but this is going to be certainly something to consider.

One of the ones is there is an exposure draft out right now that concerns other fraud standard and SSAE 122 is supposed to get superseded by an update to AU-C 240y. The proposed effective date will be for financials beginning on or after December 15th, 26th.

So 27 will be the first year where we have an enhanced audit standard. We don't know yet when that audit standard is going to come out, but essentially AUC two forty will get updated with more explicit guidance. A lot of this is to bring things in again convergence with the international auditing standards. The proposal would require the auditor to obtain an understanding of the nature and circumstances of fraud. Again, while the need to obtain this understanding was implied, this makes it much more explicit going forward. Also, the ASB believes that the proposed SAS will help auditors perform appropriate procedures when fraud or suspected fraud is identified in an audit of a financial statement.

It'll help us again drive auditors to better exercise professional skepticism, etc. So this is something that's coming up.

There's also an exposure draft out on external confirmations. This is covered by AU-C 330 and 505. And this would be where there might be revisions made. I think it's going to happen. They believe that, you know, again, they file they're going to finalize a proposal in the first quarter of 2026. if adopted as expected, the standard will be effective for audits for periods ending no earlier than December 15, 2027.

Again, early implementation is permitted. The core here is that they are going to change the requirement for cash confirmations, where now we will be required to perform external confirmation procedures for cash and cash equivalents, in addition to what is already required, which is, of course, accounts receivable.

So AR confirmations have always been required and if we don't send out AR confirmations and audits, we need to justify why that is not happening. A history of non responsive clients, customers. Basically complete inefficiency when it comes to sending out confirmation requests. And so we go to alternate procedures immediately.

Since that is a departure from US GAAS, we have to justify as to why we don't do it. On the other hand, all these years, cash confirmations were not required. But we sent them out, most of us, because it's a best practice. Now going forward, it will be required once this is finalized.

So this will be a change for many of us who typically may have been testing the existence of cash by you know again looking at bank statements or just having the client log into their online banking website and just sitting with them and making sure that the balance is correct, etc. And so in this case now if we do not do cash confirmations, we would need to provide the rationale for not doing that in addition to AR like we've done before.

There's also some definitions that are going to be clarified for AU-C 505 when it comes to the confirmation request, confirming party, the procedures, and any middle party.

The other big thing that just happened in December 19th, 2025, is that the AICPA issued an updated version of their guide to analytics and guide to audit sampling. These are two guides that I believe are A-OK and very useful when it comes to doing audits.

And they've been updated, say in the case of analytics for SAS 142, that deals with, of course, data analytics, SAS 143 that deals with estimates and 145 that deals with risk assessment. And with audit sampling, there's a few other standards in addition to the three up there where they've included that guidance. I like these two guides. If you've never used these or you've never had access to these, I think it's well worth the investment. Should you need help in the space of again doing work with you know this type of audit procedure.

We're going to do a deep dive into testing journal entries. I suspect many of us, you know, land up looking at journal entries quite a bit because again, we work with small to mid-sized businesses and clients. And so journal entries typically are something that we care about because again, a smart fraudster, somebody who's going to be really smart about hiding the fraud that they may commit they will work at the sub ledger level.

We know that based on what we're looking at, we have information that comes into our quote-unquote hourglass that we can depict as a good process graphic for audit of our auditing. And we know we typically go through three typical phases. That is to say, we perform risk assessment procedures that include updating our understanding of the client, including internal controls. And then once we gain all that information.

Then we of course can churn that information and determine risk. We can typically determine whether a risk is high, medium, or low or maximum, slightly below maximum, what have you. And that ultimately results in us in terms of how do I respond to the audit via my further audit procedures, where you design a work program.

An audit program that may include journal entry testing, because it's of course required. And the goal would be that we have information flowing into the process, information flowing out of the process, and all of this needs to be clearly documented. And of course, with auditing, it always goes back to the audit risk model or the audit risk formula, where audit risk equals inherent risk times control risk times detection risk.

The goal here is nature, extend, and timing.

Well, the nature of course would be things like this on an audit. I can make inquiries, but I must corroborate the inquiry. Inspection, again, this would be where you trace your vouch, observation of a process like inventory, reperformance like a walkthrough, recalculating like interest expense, payroll, etc.

Confirmations, AR we know is required, cash soon to be required. And then of course analytics of balances. The extent is going to include depending on what we're doing. If it's tested controls, it's going to depend on the frequency of the controls. If it's simply monetary, then I'm going to look at the scopes, like say for example, high dollar, low volume. I might look at ISI, individually significant items. And then of course I can always sample. When we have a big population and does a lot of variability.

And then timing is going to be whether I do something at year-end, interim, or how far out do I go after year end. And all of this ultimately relates to what we think about in terms of the financial statement assertions. And again, directional risk is important. For profit, use gap, accrual-based accounting, we're concerned about overstatement of revenue, overstatement of income, overstatement of assets, overstatement of gains.

An understatement of expenses, liabilities, and losses. If it's any other type of framework, it would be the opposite. And then as we think about these assertions, we think about our procedure tree in terms of where we go.

So again, from our perspective, I always have the choice of testing, operating effectiveness, and key controls. And if I do that, the goal would be then to reduce my substantive testing. If I choose not to test controls because I have the choice not to for private businesses. Because simply put there's no cost benefit because chances are that a client doesn't have, you know, again, enough people, good segregation of duties to be able to enable good, effective controls throughout the year, then I'm going to do a substantive audit, substantive approach.

If I go there, again, I would always recommend think analytically first, because a good analytic might help us get better at doing the detailed test keeping in mind that we cannot do analytics alone if the risk is significant. When I go to detail, I always say look at ISI first, based on either scope or maybe your judgment, but you believe there is a risk attribute to something. And ultimately, of course, sampling should always be our last resort where we have huge populations of evidence to look through, and I simply cannot do a hundred percent test.

So I'm going to do sampling and I'm going to try and extrapolate what I find as an error in that sample onto what we would consider the population at large. Many of us for non, you know, again, smaller businesses are going to go about using statistical sampling. You always have the ability to do non-statistical sampling for which you need software to perform monitoring unit sampling and other things that are regression analysis type oriented stuff.

So we know that given all of this, we have quote unquote these procedures that are required by again auditing standards. Right now, confirming AR required, soon confirming cash flow required. We are required to do observation of inventory counts if it's material. We are supposed to reconcile everything to the accounting records, which makes sense. We have to test estimates for bias, which makes sense, and we test anything that is unusual.

The two areas of procedures that are important from a journal entry perspective is we must perform testing of journal entries that are financial closure related and testing journal entries for the risk of management override because that management override typically is what we would consider to be an overall risk, a risk that is so big that it could certainly pervasively impact the financial statements and also impact multiple assertions.

So, some of the top challenges that we see happening is typically there might be a high volume. There could be certainly data quality issues because you don't get clean extracts of journal entries. How do you balance again your judgment with looking at analytics? How do you make sure you identify the complete population? How do you how do you identify risky or anomalous entries?

And then what do you do as far as documentation under AU-C 240 for private entities and PCAOB AS 2401 for public company audits? And some common deficiencies that we see with journal entry testing typically have included things like this, where again, from our perspective, not testing the population completeness, certainly in some cases this notion that we have a firm minimum number of entries that need to be tested, not documenting what is it that you use in terms of your criteria, and then not performing the required journal entry testing around period and close, override, or even for that matter, revenue.

When it comes to the requirements from AU-C 240, again, two ways to look at journal entries. One, simply fraudulent finance reporting, you're cooking the books. The other one, journal entries to cover up the theft of a misappropriated asset.

The centralized, of course, area for our clients is a general ledger. From the GL, of course, we get our trial balance and financial statements. But try to understand where is this information all flowing into and from where. You may have subjected sub ledgers like AR sub ledger, the AP sub ledger, the fixed asset sub ledger, manufacturing, certainly payroll, where records are maintained at again the record level, whether it's a customer record, whether it's a vendor record, whether it's a fixed asset record, whether it's a material record, whether it's a payroll record.

And ultimately all that information is reconciled with the GL and what we call control accounts and the GL that all the detail at the employee level would summarize into a main payroll expense. So again, asking the client how often does this reconciliation take place? What if there are exceptions?

These are the questions that we can try and break down and understand because it always is a good idea to get a sense of where information is flowing from and flowing to. A client could be involved in manual analysis and posting journal entries manually. How do they do that? And how often do they do that? Once you get a sense of this, then, and this is just a legend to explain to you what I have there on the previous page in terms of the acronyms, but then I can.

Perhaps lay layer over this the software that the client is using. And in this case, could it be that their GL and their financials are in great planes? And so is AR, AP, and fixed assets. They have outsourced their payroll to ADP. They do use Excel. And then for manufacturing, they've got a custom system built in-house on an IBM AS400 system from years ago. So again, how does this information flow? Now you have a sense of where the information is, what the software is, and where they could actually create a journal entry.

And then within this entire sub ledger financial reporting landscape, could I nail down where potentially there could be fraud via journal entries? So, what I call topside journal entries is what you're perhaps most concerned with, where the client simply passes journal entries, not at the subledger level, but at the GL level, to clearly create issues where the subledger to the GL will not reconcile because these entries were done at the top side client says I want to increase inflate income let's just book a fictitious sale let's debit AR let's credit sales group those two accounts into that balance sheet grouping and boom you're done so it's interesting and of course you could have other issues taking place as well as far as third party information reconciliation external reporting delivery where things are done outside maybe in Excel.

And of course, in the space of inventory and materials accounting as well. So the other important thing that we want to always make sure we understand is what does a normal versus an abnormal journal entry really mean? And we can do that by understanding the client's business, looking at their reporting and IT landscape. And that'll help you define words like anomalous, unusual, abnormal.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Why is ASU 2025-05 potentially significant for entities with large volumes of short-term accounts receivable?
2. How do PCC accounting alternatives balance financial reporting usefulness against the cost of applying full U.S. GAAP?
3. Why does SAS 149 place increased emphasis on the professional judgment and responsibility of the group engagement partner?
4. How does the new quality management framework differ conceptually from the former quality control approach?
5. Why is it important for practitioners to distinguish among reviews performed under SSARS, auditing standards, and SSAE standards?
6. How should an auditor approach journal-entry testing as part of the response to fraud and management-override risk?

B. Suggested Answers to Discussion Questions

1. Why is ASU 2025-05 potentially significant for entities with large volumes of short-term accounts receivable?

ASU 2025-05 is significant because the traditional application of CECL can impose a disproportionate forecasting burden on entities whose receivables have very short lives. The transcript explains that entities previously needed to consider historical loss experience, current conditions, and reasonable and supportable forecasts when estimating expected credit losses. For receivables that may turn over within only a few weeks or months, sophisticated macroeconomic forecasts can add considerable complexity while producing relatively little change in the resulting estimate.

The practical expedient therefore allows qualifying entities to assume that current conditions remain unchanged over the remaining life of current accounts receivable and contract assets. This can allow historical loss information and customer-specific conditions to play a more prominent role while reducing unnecessary forecasting.

For qualifying private companies, the additional policy election involving subsequent collections can further align the allowance with actual economic experience. If a receivable is collected shortly after year-end and before the selected cutoff date, that information may provide particularly strong evidence regarding collectibility.

The key lesson is that simplification does not eliminate the need for judgment, documentation, internal controls, or consistency. Entities must determine scope, make and document elections, establish appropriate cutoff procedures, and maintain reliable information about post-balance-sheet collections.

2. How do PCC accounting alternatives balance financial reporting usefulness against the cost of applying full U.S. GAAP?

The Private Company Council framework reflects the idea that the benefits of financial reporting requirements should be considered in relation to the costs imposed on private-company preparers and users. Private companies frequently have fewer accounting personnel, less access to sophisticated valuation resources, and a financial-statement user base that differs from that of public companies. Consequently, requirements that may be appropriate for a large SEC registrant can sometimes produce substantial cost without an equivalent informational benefit for a smaller private entity.

The goodwill alternative provides a useful example. Under ASU 2014-02, an eligible private company may amortize goodwill, generally over 10 years, and perform impairment testing when triggering events occur rather than conducting mandatory annual impairment testing. This reduces recurring valuation costs and may make earnings effects more predictable.

Other PCC alternatives address identifiable intangible assets, common-control arrangements, interest-rate swaps, leases, and other complex areas. Importantly, these alternatives are generally **elective**. A private company can continue applying the general U.S. GAAP requirements when management believes that doing so produces more useful information.

Accordingly, PCC alternatives are not a separate form of GAAP. Instead, they represent targeted options incorporated into U.S. GAAP after FASB endorsement, designed to preserve useful reporting while reducing complexity in areas where the cost-benefit relationship may differ for private entities.

3. Why does SAS 149 place increased emphasis on the professional judgment and responsibility of the group engagement partner?

Group audits create special risk because financial information from different components may originate in different reporting systems, locations, control environments, or legal entities before being aggregated into consolidated financial statements. The transcript refers to this as aggregation risk. A component that appears relatively small based only on revenue or another quantitative measure could nevertheless create significant audit risk because of its operations, location, regulatory requirements, transactions, or control environment.

SAS 149 therefore moves away from excessive reliance on an informal quantitative benchmark, such as treating a component representing approximately 15% to 20% of group revenue as presumptively significant. Instead, the group auditor is expected to use professional judgment to decide where audit work should be performed and how much work is necessary.

The standard also increases the expected involvement of the group auditor in work performed by component—or "referred-to"—auditors. The group engagement partner determines the nature, timing, and extent of that involvement and ultimately remains responsible for obtaining sufficient appropriate audit evidence for the group engagement.

This approach recognizes that a group audit cannot be effectively managed merely by dividing the organization into percentages. The auditor must understand how risks arise throughout the reporting structure and design procedures responsive to those risks while appropriately directing and supervising other auditors involved in the engagement.

4. How does the new quality management framework differ conceptually from the former quality control approach?

The most important conceptual difference is the movement from a relatively static system of "quality control" toward an active, risk-based system of "quality management." The transcript describes the old control terminology as potentially encouraging a checklist mentality: a firm establishes required policies, confirms that specified steps have been completed, and documents compliance. Quality management instead requires firms to continually consider the risks that could prevent them from achieving their quality objectives and to develop responses tailored to those risks.

The framework includes components dealing with the firm's risk assessment process, governance and leadership, ethical requirements, client acceptance and continuance, engagement performance, resources, information and communication, and monitoring and remediation. These elements interact rather than operating as isolated compliance requirements.

A particularly important implementation issue is the engagement quality review. Under SQMS No. 2, firms must establish policies identifying engagements for which an engagement quality review is appropriate or required. This means a firm must evaluate the nature and circumstances of its practice instead of assuming that one uniform rule will necessarily address every quality risk.

The new framework also emphasizes ongoing evaluation. Firms must assess whether their system is functioning as designed, identify deficiencies, determine their causes, and remediate them. Quality therefore becomes an organizational process involving leadership, communication, resources, engagement execution, monitoring, and continuous improvement.

5. Why is it important for practitioners to distinguish among reviews performed under SSARS, auditing standards, and SSAE standards?

Although each type of review provides limited assurance, the engagements arise from different professional standards and different circumstances. Applying the wrong framework could result in inappropriate procedures, documentation, reporting, or engagement terms.

A SSARS review under AR-C Section 90 generally involves historical financial statements of an entity that is not being audited. The principal procedures are inquiries and analytical procedures. The accountant does not perform an audit of internal controls or obtain the level of corroborative evidence required in an audit.

A review of interim financial information for an entity whose annual financial statements are audited falls under the auditing standards, such as AU-C 930. Because the practitioner is also the auditor, the auditor possesses knowledge of the entity and its internal controls that would not ordinarily exist in a standalone SSARS review. Consequently, the professional context and procedures differ.

An SSAE review under AT-C 210 can be broader in subject matter. It may relate to financial or nonfinancial information and evaluates subject matter or an assertion against suitable criteria.

The important lesson is that the word **review** does not itself identify the governing standard. Practitioners must first determine the subject matter, the relationship to an audit, the responsible party, the applicable criteria, and the intended engagement before selecting the correct professional framework.

6. How should an auditor approach journal-entry testing as part of the response to fraud and management-override risk?

Effective journal-entry testing begins with understanding the entity rather than simply selecting a predetermined number of entries. The auditor should understand how transactions move from source systems and subledgers into the general ledger, which applications are involved, who has the ability to initiate or approve entries, how reconciliations are performed, and where manual or top-side entries can be recorded.

This understanding allows the auditor to define what a normal journal entry looks like and, therefore, what may be unusual or anomalous. Potentially higher-risk characteristics can include entries made near period-end, entries posted directly to the general ledger rather than through normal subledger processes, unusual account combinations, entries made by unexpected users, or transactions that appear inconsistent with normal business activity.

Completeness of the journal-entry population is also critical. An auditor cannot draw a meaningful conclusion from testing if the extracted population is incomplete. The transcript emphasizes the need to reconcile information back to the accounting records and appropriately document the selection criteria.

Testing should then be connected to the assessed risks and financial-statement assertions. For example, management attempting to inflate earnings could record fictitious revenue through a top-side debit to accounts receivable and credit to revenue. Thoughtful journal-entry testing therefore provides an important audit response to management override while complementing—not replacing—other substantive and control procedures.

GLOSSARY

Accounting Standards Update (ASU)—A FASB-issued document that communicates amendments to the Accounting Standards Codification.

CECL—The current expected credit losses model used to estimate expected credit losses over the life of applicable financial assets.

Confirming Party—The external individual or organization with knowledge of the information that the auditor seeks to verify.

Direct Access—Auditor access to information maintained by a knowledgeable external source using access authorized or provided by that source, such as independent read-only bank credentials.

Engagement Quality Review (EQR)—An objective evaluation of significant engagement judgments and conclusions performed by an eligible reviewer under applicable quality management requirements.

External Confirmations—Written audit evidence obtained through direct communication between the auditor and a knowledgeable external confirming party.

Goodwill—An acquisition-related asset generally representing the excess of the purchase consideration over identifiable net assets recognized in a business combination.

Group Audit—An audit of group financial statements that includes financial information from more than one component.

Intermediary—A third party that facilitates the external confirmation or direct-access process but is not itself the confirming party.

Management Override—The ability of management to circumvent otherwise effective controls, creating a presumed fraud risk in an audit.

Negative Confirmation—A confirmation request in which the recipient is asked to respond only when the information stated in the request is incorrect or disputed.

Practical Expedient—An optional accounting simplification permitted by authoritative guidance to reduce implementation burden.

Private Company Council (PCC)—The body that advises FASB regarding accounting alternatives and modifications appropriate for private companies.

Top-Side Journal Entry—An entry posted directly at the general-ledger or reporting level rather than originating through a normal transaction-processing subledger.

Variable Interest Entity (VIE)—An entity whose consolidation may be required because control is achieved through financial interests or arrangements rather than traditional voting ownership alone.

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

1. Which situation most closely represents "direct access" to information maintained by a knowledgeable external source?
 - A. Management downloads a bank statement and emails it to the auditor.
 - B. The auditor uses unique read-only credentials issued by the bank to access account information.
 - C. The auditor reviews a publicly available blockchain explorer.
 - D. Management logs into a vendor portal while the auditor observes.

2. Which of the following is an important responsibility of the auditor when maintaining control over an external confirmation process?
 - A. Allowing management to determine which customers receive confirmations
 - B. Allowing the confirming party to decide which assertion should be tested
 - C. Controlling the selection, design, sending, and receipt of confirmation requests
 - D. Requiring every account in the population to be confirmed

3. When an intermediary facilitates an electronic confirmation process, which consideration is particularly important to the auditor?
 - A. Whether the intermediary prepares the client's financial statements
 - B. Whether the intermediary's controls address alteration, interception, authentication, and data security risks
 - C. Whether the intermediary guarantees that every confirmation will receive a response
 - D. Whether the intermediary eliminates the need for professional judgment

4. Which set of circumstances is most supportive of using negative confirmations?
 - A. High assessed risk, few large balances, and a high expected exception rate
 - B. Low assessed risk, many small homogeneous balances, and a very low expected exception rate
 - C. High fraud risk and evidence that recipients routinely ignore requests
 - D. Significant uncertainty about the reliability of the population

5. An accounts receivable confirmation response shows a balance different from the client's recorded amount. What should the auditor do?
 - A. Automatically conclude that the financial statements are materially misstated.
 - B. Ignore the difference if the confirming party signed the response.
 - C. Replace the response with an internally generated customer account statement.
 - D. Investigate and resolve the exception to determine its nature and audit implications.

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6. Which entity may elect the subsequent-collections accounting policy described in ASU 2025-05?
- A. Any SEC registrant
 - B. Only governmental entities
 - C. A qualifying non-public entity that has elected the practical expedient
 - D. Any entity regardless of whether it uses the practical expedient
7. Which of the following is outside the scope of the ASU 2025-05 relief discussed in the course?
- A. Current receivables arising from ASC 606 transactions
 - B. Current contract assets arising from ASC 606 transactions
 - C. Lease receivables accounted for under ASC 842
 - D. Qualifying ASC 606 assets acquired in a business combination
8. Under the PCC alternative in ASU 2014-02, a private company may generally:
- A. Expense all goodwill immediately.
 - B. Amortize goodwill over a period not exceeding 10 years and use a trigger-based impairment approach.
 - C. Never test goodwill for impairment.
 - D. Recognize internally generated goodwill.
9. What is a central purpose of the Private Company Council?
- A. Establish IFRS requirements for U.S. private companies
 - B. Eliminate the need for private-company financial statements
 - C. Recommend alternatives and modifications that reduce unnecessary cost and complexity for private companies
 - D. Regulate public-company auditors
10. What clarification does SSARS 27 provide regarding financial statements prepared as part of certain consulting engagements?
- A. They always constitute a review engagement.
 - B. They are explicitly excluded from Section 70 when prepared as part of a qualifying consulting service under the applicable consulting standards.
 - C. They automatically require an audit.
 - D. They may be prepared only by an independent CPA.

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11. What additional area should an auditor address when communicating with a predecessor auditor under SAS 147?
- A. The predecessor's marketing strategy
 - B. Suspected fraud and noncompliance with laws or regulations
 - C. The successor firm's billing rates
 - D. Future tax legislation
12. What major conceptual change does SAS 149 make to identifying components for group-audit work, according to the transcript?
- A. Every subsidiary must automatically receive a separate audit.
 - B. The former soft percentage benchmark is replaced by greater reliance on the group auditor's professional judgment.
 - C. Group audits are determined by the number of offices operated by the audit firm.
 - D. Component auditors become solely responsible for the group opinion.
13. Which statement best reflects the transition from quality control to quality management?
- A. Firms no longer need policies and procedures.
 - B. Quality management uses a risk-based, ongoing approach rather than relying primarily on a checklist mentality.
 - C. Quality management applies only to public companies.
 - D. Annual evaluation of the system is prohibited.
14. Which procedures ordinarily form the core of a SSARS review of unaudited financial statements?
- A. Confirmation and physical inspection
 - B. Inquiry and analytical procedures
 - C. Tests of controls and substantive sampling
 - D. Reperformance and external confirmation only
15. Why is journal-entry testing particularly important in an audit?
- A. It eliminates the need to understand internal controls.
 - B. It addresses risks including fraudulent financial reporting and management override.
 - C. It is required only when the auditor has already found fraud.
 - D. It replaces all other substantive procedures.

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

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

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

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

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

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

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Mr. Sunish Mehta			

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

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- Must be 3 CPE credits (min. 2.5 hours); see User Guide.
- Record actual time attended if participant arrives late or leaves early.

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CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

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

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

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

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

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

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

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

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

Requesting Participant CPE Certificates

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

Email: grading-cpedge@cerifi.com

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Email

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

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

grading-cpedge@cerifi.com

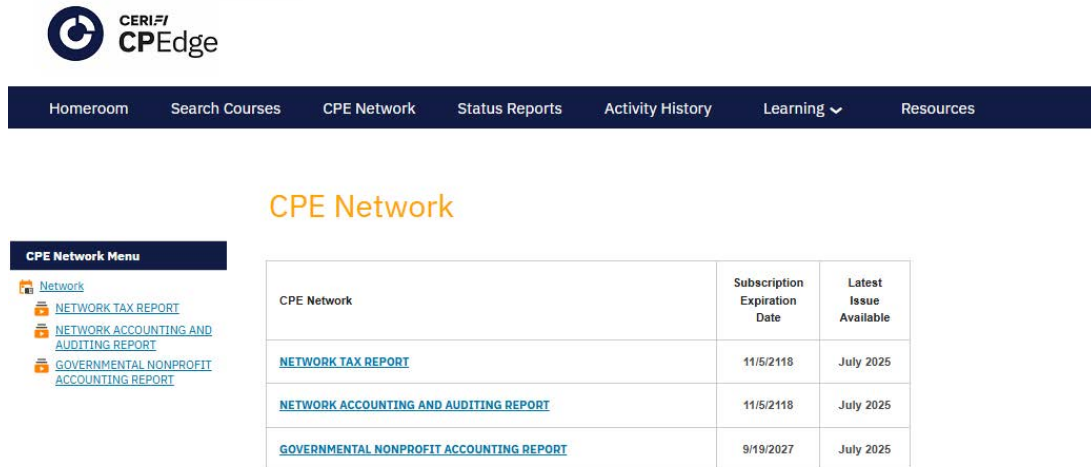
Self-Study—Online

Follow these simple steps to use the online program:

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

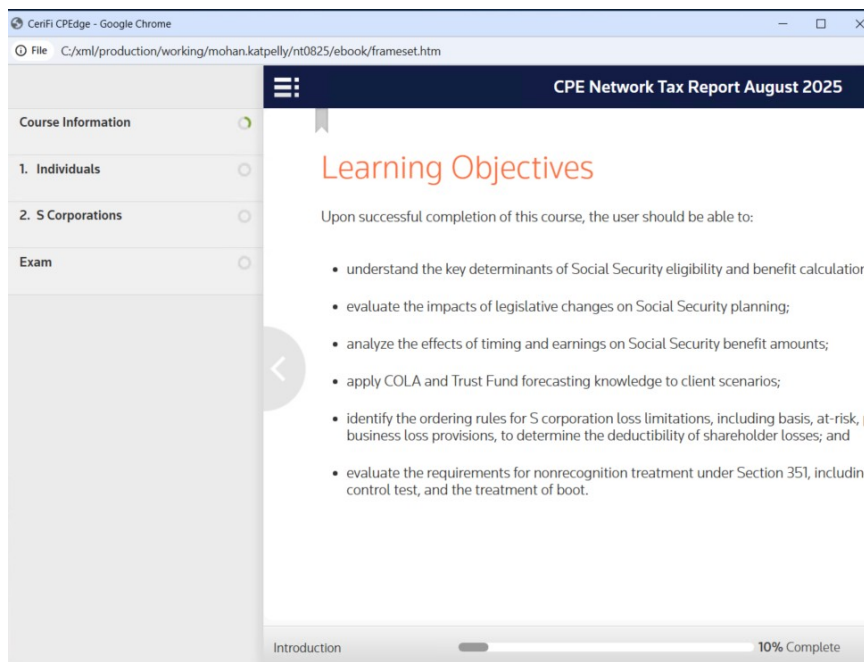
The screenshot shows the CeriFi CPEdge website. At the top, there is a navigation bar with the text "CHECKPOINT LEARNING IS NOW" and the CeriFi CPEdge logo. To the right of the logo are links for "Contact Us", a shopping cart icon, and a "Login" button. Below the navigation bar is a search bar with the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

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



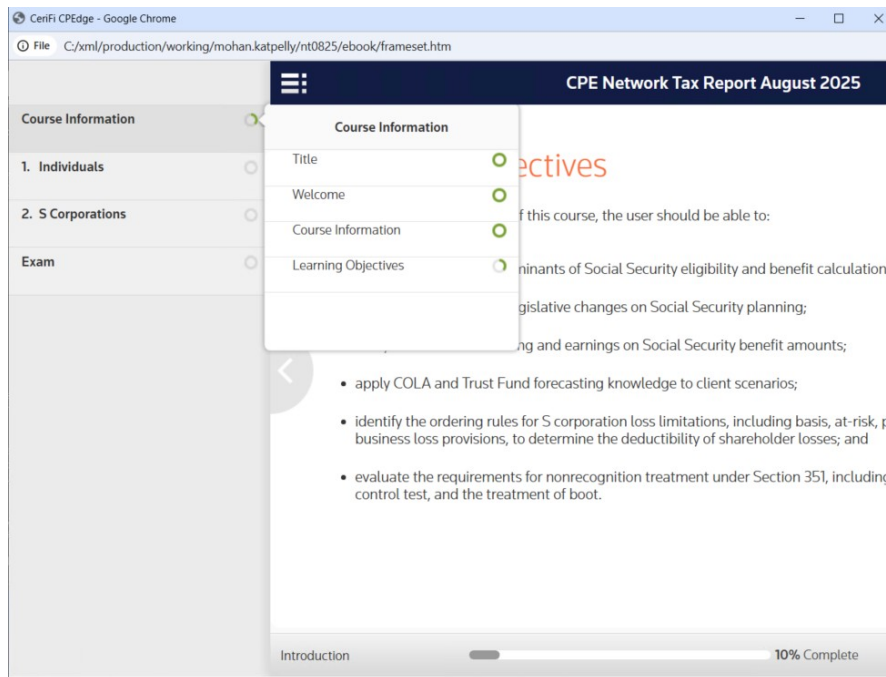
CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	July 2025
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	July 2025
GOVERNMENTAL NONPROFIT ACCOUNTING REPORT	9/19/2027	July 2025

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



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

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



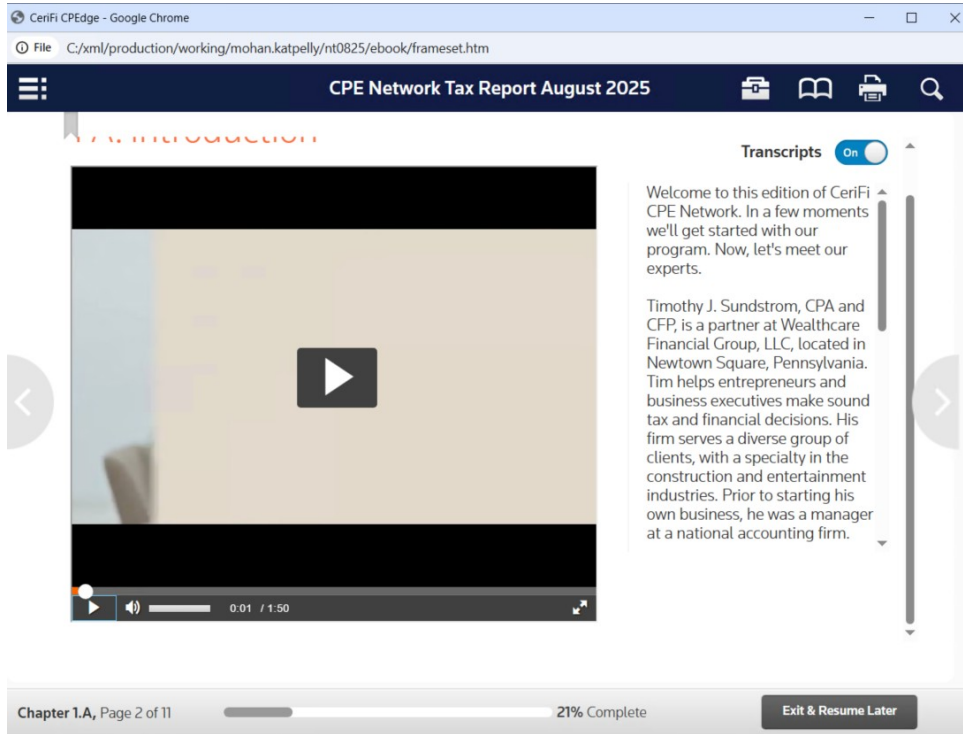
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access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



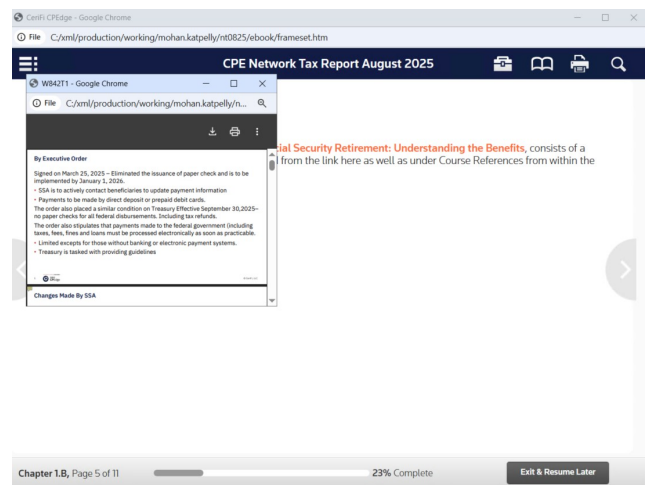
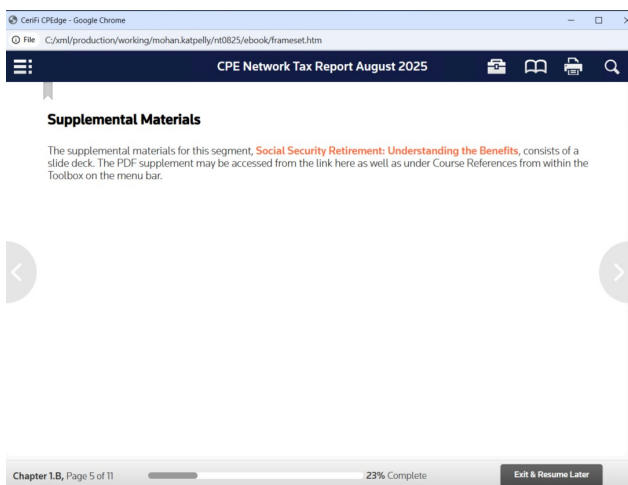
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

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

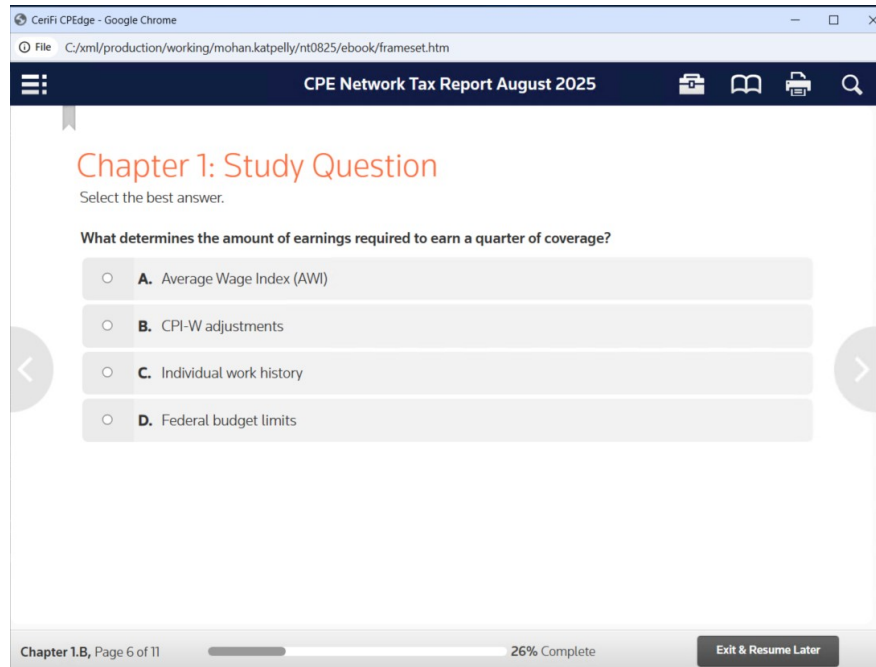
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.



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

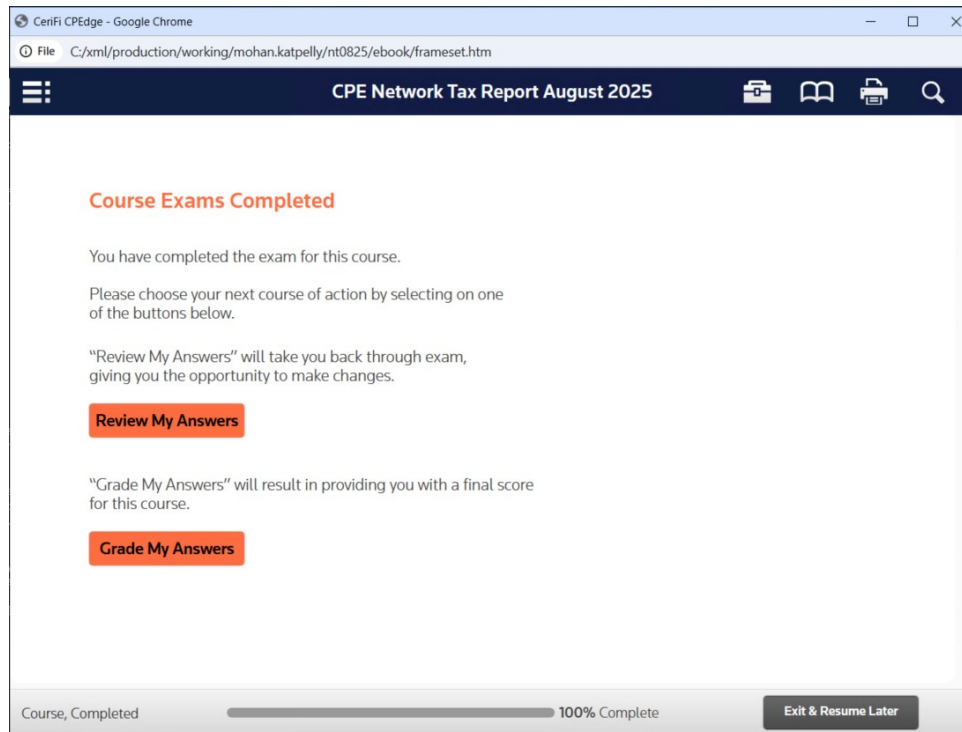


Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.



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

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



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

Additional Features Search

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

Search Results are displayed with the number of hits.

Print

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

Determining CPE Credit Increments

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

Program Presentation

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

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

Disclose Significant Features of Program in Advance

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

Monitor Attendance

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Awarding CPE Certificates

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

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

Seminar Quality Evaluations for Firm Sponsor

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

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

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

Retention of Records

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

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

Appendix: Forms

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

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

Getting Help

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

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