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**CPE NETWORK**

## **ACCOUNTING & AUDITING REPORT**

**OCTOBER 2022**

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Topics for future editions may include:

- Accounting & Auditing Crypto and Other Digital Assets
- Compilation Reports
- Restricted Stock Awards



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# EXECUTIVE SUMMARY

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## PART 1. ACCOUNTING

### SEC Proposed Guidance on Climate Change..... 3

Concerns about climate change and sustainability have been around for quite some time. The SEC has recently proposed disclosures related to climate change. Jennifer Louis, CPA discusses what that means for practitioners. [Running time: 36:55]

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

- Identify items to be reported
- Identify levels of impact and requirements for disclosures
- Identify effective dates
- List countries and regulatory/standard setters with guidance

## PART 2. AUDITING

### Recent PEEC Guidance ..... 23

Jennifer Louis, CPA reviews recent PEEC guidance on NOCLAR and independence. [Running time: 34:48]

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

- Identify effective dates for interpretations
- Identify a hallmark of the accounting profession
- Determine who has what responsibilities related to NOCLAR
- Identify the effective date for the new unpaid fee guidance

## PART 3. SMALL BUSINESS

### Agreed Upon Procedure Engagements ..... 41

Kurt Oestriecher, CPA, reviews the requirements for AUP engagements and where they can be very useful. [Running time: 33:02]

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

- Identify authoritative guidance for AUP engagements
- Determine what needs to be included in an AUP engagement letter
- Determine what needs to be included in an AUP report

## ABOUT THE SPEAKERS

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

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### PART 1. ACCOUNTING

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#### SEC Proposed Guidance on Climate Change

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While sustainability has been gaining attention for several decades, it's only recently that the SEC has taken an interest in detailed reporting by public companies related to their climate-related risks. In addition to investors scrutinizing the climate risk entities are exposed to, customers and employees are increasingly considering a company's sustainability efforts in their decisions.

For a look at what the SEC is proposing, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

#### Ms. Grove Casey

So today we want to talk a little bit about the SEC proposed climate change disclosures. In summary, why is the SEC proposing climate change disclosures?

#### Ms. Louis

Well, ultimately, as we're looking at some considerations we think about, how much is going to be invested into sustainability-type goals and how are we allocating capital for these publicly traded entities? And so we were looking at, for example, a study by McKinsey & Company says up to \$5 trillion will be invested annually through 2025, while ultimately approximately \$11 trillion worth of assets will have to be retired because of the sustainability type goals. What is important then from the SEC perspective is to ensure that there's enough detailed information that would be provided related to what organizations are planning, including things related to their climate-related risks emissions, any like net-zero transition plans, so that investor scrutiny can be had related to these items. We're seeing a lot also of massive shifting to create some sectors related to this area of climate change, and, therefore, they wanted to ensure that there was enough disclosure guidelines related to what should be done as it relates to these organizations principally in north America.

#### Ms. Grove Casey

Is there an executive summary of the nature of proposed disclosures?

#### Ms. Louis

Well, there's three broad categories of disclosures that we should focus on as we think about the impact, as we think about the material risks and strategic implications related to climate change, that would require companies

to disclose risks related to physical hazards such as fires, floods, but also assets that are exposed to these risks and that there also would be disclosures of transition risks that could come over the course of time as regulations, technology and other things also are affected. Now, these would talk about strategic risk, financial risk, operational impact, and then, secondarily, there's a category that's focusing just on the greenhouse gas emissions. If we hear GHG, that acronym is your greenhouse gas emissions, and this would require there to be some reporting about different levels of emissions that are generated by the company's operations. But, also, through the energy that it purchases there would be a separate disclosure that would also require some additional information as it is material to the organization.

As we think about upstream and downstream emissions through the company's entire value chain this emissions reporting would be more in terms of intensity, as we think about matters as well as emissions such as per car manufactured or per unit of production of some matter. They would talk about, well, how do I come up with these estimates and what does it include? Then, the third, and final category is related to disclosing any existing targets that they have around emission reduction conservancy, and also to discuss their transition plans for achieving those specific targets – what would be important, including things like renewable energy credits and offsets that might exist.

#### Ms. Grove Casey

Well, could you discuss a little bit more about the greenhouse gas emissions disclosures?

#### Ms. Louis

Yes, those are particularly important because you basically, you have scope one, scope two, and scope three emissions. Scope one and scope two emissions

come from the registrant's owned or controlled operations, but also any purchased or acquired electricity, heat, cooling, et cetera. This would be separately disclosed and disaggregated by each greenhouse gas emission, as well as on an aggregated basis. As we're looking at gross presentation before you have any type of offsets and it would be disclosed on relative intensity in some way, like tons of carbon dioxide per dollar of revenue. Whereas your scope three greenhouse gas emissions are indirect because of your activities. As I mentioned, either upstream or downstream, as we are thinking about items, which also would be shown gross before any consideration of offsets, and also, would be provided by relative intensity. If the registrant does have some sort of emissions target or goal that includes scope three omissions, or if scope three emissions are material, then we would also provide that additional information, subject to ensuring that there's just fair presentation of this information as well.

**Ms. Grove Casey**

What types of financial statement note disclosures would be required?

**Ms. Louis**

Well, the requirement would focus on the financial statement line effect as it relates to things like weather events and other natural conditions. Like did you have an impairment that had to be booked? Was there any increase in your loss reserves? But also to provide information related to transition activities like changes in my useful lives of assets or changes in salvage values, if such amount exceeded more than 1% of the related line item. Also there would be disclosures related to mitigating the risk of weather related events and other natural conditions and activities and how these events and natural conditions and transition activities affected the estimates and assumptions that are included in those actual financial statements.

**Ms. Grove Casey**

Can you give some specific examples about types of disclosures that might be made for climate-related events and transition activities?

**Ms. Louis**

It does provide some examples. For example, with a climate related event, it might be that impairment charges of X amount were made against our inventory

or intangibles or a PP&E. It might be changes in loss contingencies, or reserves, such as loan loss, allowances, or environmental reserves. It could be changes in total expected insured losses due to flooding or wildfire patterns. So those would be things related to climate-related events. And then separately, we talked about transition activities. So it could be changes to revenue due to new emissions regulations or resulting in the loss of a sales contract, or it could be changes to our cash flows from changes in our transportation, raw materials or other upstream costs. It could be changes in interest expense driven by the fact that we have climate linked bonds that we issued as financing instruments. So both of those in their two separate categories would have kind of their own effect on a particular line item or aspect of the actual financial statements.

**Ms. Grove Casey**

Would both positive and negative impacts be disclosed or just negative impacts?

**Ms. Louis**

Well, you would have to separately disclose all negative and all positive effects of both climate related events, separated from the positive and negative effects of your transition activities. The disclosures would be required for your financial statement line items as assuming they meet some sort of threshold on an aggregated basis. If we think about the absolute value of the positive and negative effect, if it exceeds more than 1% of the related line item, then it would be considered something that would be material for that disclosure.

**Ms. Grove Casey**

Well, is there a predetermined materiality threshold that we would apply that 1% maybe that you mentioned?

**Ms. Louis**

So if we think about all of the aspects of things, we did talk about that 1% threshold as a bright line type guidance. When we're thinking about the financial effect as we think about metrics that were the effect or the expenditures that might have occurred so it is important that as you think through that, that registrants would need to have policies and procedures and controls in place in order to figure out where is it that I do have a disclosure that would be necessary because it exceeds this bright line guidance that's being proposed related to preparing those financial statements.

**Ms. Grove Casey**

Could you give us some examples of expenditure metrics that may apply in the proposed climate change disclosures?

**Ms. Louis**

So if they're thinking about what would expenditures be that are meant to mitigate our exposure to climate related events and transition activities, it could include expenditures intended to perhaps retire or shorten the estimated useful life of assets, right? That might need to be transitioned out. It could be expenditures related to assets or operations that are at risk of a climate related event. It also could be expenditures related to maybe research and development of new technologies or expenditures related to increasing our energy efficiency or purchasing offset emissions and purchase of energy credits. All of those are examples of things that may end up being something that would be something that would be relevant to put in these footnotes.

**Ms. Grove Casey**

Well, is there a materiality limit for the expenditure disclosures?

**Ms. Louis**

Yes, we talked about the 1% guidelines as far as like the financial statement line item effect. If we're also looking at amounts that are expensed for climate related events, transition activities, or just the total amount capitalized for such events and activities, they're also using a 1% rule of your total expenditures or your total capitalized costs. And, then, ensuring that as we have disclosures, that once we have amounts that need to be disclosed, that we are disaggregating them though by the climate related events, separate from the transition activities. You would need to perform this calculation relative to total expenditures and capitalized costs, even if the financial statement line item in which the amounts are included are somewhere else. And so, regardless of where the line-item effect is, it still would be looked at in proportion to those particular totals, as you're trying to figure out what would be material. And this might cause some difficulties in trying to identify expenditures that are specifically associated with these matters climate related events and the transition activities.

So for example, if I have some newly acquired assets, so there might be a change in my insurance premium, well, is it directly related to climate or not? And, and particularly, if we have technological advances and other factors that also might contribute and change my insurance costs. We can't always assume that these are directly related to the climate.

**Ms. Grove Casey**

Would there be any disclosures related to financial estimates and assumptions?

**Ms. Louis**

They would need to talk about risks and uncertainties, and other factors that are associated with these matters and understanding where they do affect estimates and assumptions. So qualitatively disclosing how estimates and assumptions might be affected. But also, ensuring that we, for example, may have where we're retiring certain assets early, because we're trying to reduce our greenhouse gas emissions. And so the change in the useful life would represent a change in estimate that was affected by transition activities. Transitioning out of trying to reduce emissions, and other targets could be a reflection of that area as we talk about disclosures associated with our property plant & equipment.

**Ms. Grove Casey**

So would that be showing up under the climate change disclosure or under risks and uncertainties, because we probably wouldn't want to do both and trying to reduce the quantity of overlap that we have running throughout the statements in general.

**Ms. Louis**

Right. So as we talk about some of these disclosures, as it would be with any disclosures that you have, that there can be some cross referencing between different footnote disclosures that you could have. And so, the specificity of kind of where it ends up there might be more clarity of that as we actually look towards the implementation. But, typically, you would think that you would try to aggregate all your climate related disclosures together, and then, just cross reference to them when you're in the PP&E section.

**Ms. Grove Casey**

Well, is there anything else that we should discuss related to the financial statement disclosures?

**Ms. Louis**

So related to the financial statements themselves, we do need to ensure that we perform these calculations related to the financial effect or the expenditure effect in a way that's consistent with the consolidation principles that are reflected on our financial statements, and to ensure that we're using the same accounting principles and that these disclosures would be required for all periods presented. We may need to give more context beyond what the minimum requirements are to talk about how our metrics were derived or talking about significant policy choices that we might have had to make as we're looking at calculating these metrics. So ultimately we have to also keep in mind that these disclosures would be subject to audit in accordance with our PCAOB audit standards.

**Ms. Grove Casey**

Well, let's circle back about those greenhouse gas emission disclosures. It seems as if the scope three disclosures would be particularly challenging since it's the indirect effects, do you think that's true?

**Ms. Louis**

I do believe that as we're thinking about how to measure this, there's pretty limited access to that information, as we are looking at our upstream and downstream indirect effects. So we do need to think about in the end, how do we perhaps approximate certain things? So if we know a vehicle is driven X number of miles, could I convert that into an emission estimate based on the make model and year of the car? There is going to be some margin of error as they relate to producing these metrics for any given sector. That certainly is going to be a challenge, particularly as we think about the global supply chain, that there may be companies that aren't subject to these disclosures. How do I get that indirect information as I think about my suppliers, my customers? As a result, you also could have private suppliers that aren't going to be subject to SEC disclosure rules. It might be hard to identify and quantify that effect in my multi-layered supply chains that exist. Some organizations will have more detailed information that could be used. In other cases, there might need to be some sort of estimate or assumptions that we're making, as we're trying to think about those scope three-type pieces of information.

**Ms. Grove Casey**

So it would seem like that there is a real risk of double counting those scope three disclosures. Is that the case?

**Ms. Louis**

Yes, I think that by definition, it's going to be hard to segregate when I've got overlapping circles between the organization and the economy around me. There are ways. The SEC realizes that this is going to be the case, and that in essence, it's... just a start, right? As we start trying to report these emissions and face the challenges, like that's the goal, and they understand that double counting is going to happen. The same greenhouse gas emissions could be scope three for many companies as we're looking at a supply chain. And so we have cases...even if I'm not filing these disclosures directly, I could be in another organization's supply chain, and I might end up affecting their scope three emission calculations in the end.

**Ms. Grove Casey**

Well, are there any qualitative disclosures that we should highlight?

**Ms. Louis**

When we think about the qualitative disclosures, it is around how it's going to affect our strategy, our business model, our outlook. So some of it is, well, how's it going to materially affect the financial statements and the business? In other cases, it's more outlook, prospective type information. They also want to know what your process is for detecting and evaluating and managing these climate-related risks, and how is that integrated into your broader risk management program from an entity wide point of view. If a registrant uses an internal carbon price, then what is that internal carbon price? And, how did you determine that if they use a scenario analysis to assess the business in the context of climate risk, then what's the description of the scenarios and assumptions, the projected financial effect of those items. What's a description of any transition plan and any relevant targets in markets, so those are all things that qualitatively you're also going to see.

**Ms. Grove Casey**

What other disclosures would be relevant?

**Ms. Louis**

Well, there are some disclosures related to governance where the proposal would require disclosure on how the SEC registrant board of directors and management, how do they oversee the climate related risk and what

is the risk management process, and what are some of the things that have been done to try and respond to the climate risks.

**Ms. Grove Casey**

What is the proposed effective date of these disclosures?

**Ms. Louis**

They're really looking at most of this information being available for large companies as of fiscal year 2023, so it would be for their 2024 filings, smaller companies are expected to have a one-year grace period, as we're looking at these items. Now this would be effective and applicable to 10-K filers in the U.S., as well as foreign private issuers, who file 20F forms for the SEC. Now there is an exception, as we think about scope three emissions, where there would be an additional year beyond those deadlines, so that we could use what we know from scope one and scope two filings, at least initially, as we're starting to figure out the scope three, because as we discussed quantifying scope three effects is going to be particularly hard and challenging, as there needs to be a more detailed understanding of emissions effects within a given supply chain. Scope one and scope two, ultimately, can more generally get provided in a more direct way to the organization. That's going to certainly be key as we're looking at the data that needs to be pulled together from a wide variety of sources. And some of it's going to be industry specific as we're even thinking about things like the banking industry and other factors, as well as they're looking at some of these effects.

**Ms. Grove Casey**

So we talked a little bit before about risks and uncertainties and the climate change disclosures. And, you know, obviously some disclosures show up in different places. What's the proposed location and timing of these disclosures once this standard is implemented

**Ms. Louis**

They're going to be focused on in the registration statements, as well as in the actual reports that are filed, and there are going to be disclosures outlined in the financial statement footnote disclosure section that would be required as a part of the financial statements. Then the remaining disclosures, including the disclosures related to your greenhouse gas emissions

that we were talking about, your scope one, two, and three would be required, perhaps in a newly created section of your form 10-K, that would be presented immediately before your management discussion and analysis (MD&A). The disclosures would be due at the same time as you file your annual report and would be required. As we mentioned, for both domestic and foreign registrants, there would be for smaller reporting companies that they would be exempt from the scope three GH emission disclosure requirements for just that segment of the SEC filers.

**Ms. Grove Casey**

So what would be the attestation requirements for these proposed disclosures?

**Ms. Louis**

The attest requirements, ultimately the financial statement footnote disclosures would obviously be already subject to existing financial statement audit requirements, and for the emissions disclosures, at least the Scope one and Scope two, there would be some limited assurance at least during a phase-in period, and then, perhaps more of a reasonable assurance, like an examination. So maybe reviewing them at first, and then, switching to an examination of those items that are presented outside of the financial statement disclosures.

**Ms. Grove Casey**

So this kind of seems like it's part of a global movement that we've seen coming for quite some time. It kind of goes back to the sustainability. Obviously we've had greenhouse gas emissions reporting for several decades at this point, but maybe you want to talk about what else is going on globally, as far as this kind of thing is concerned related to climate change disclosures.

**Ms. Louis**

There's a lot of areas of the world that are all moving ahead with similar type measures. As we look at the European Union and the United Kingdom and Japan and Hong Kong and New Zealand, there is a task force on climate related financial disclosures that has some voluntary guidelines that seems to have some endorsement around trying to just move forward with presenting and preparing certain information. A lot of institutional type investors are looking at climate risk as a leading issue that is helping them with their strategic initiatives and decisions that they're making. But, in

addition, there is also the international financial reporting foundation, the IFRS. They've created an international sustainability standards board. The ISSB that is also going to be releasing some guidelines that could be used as a benchmark, as we saw.

What's the criteria that we're applying as we're trying to put forth these different measures. There tends to be some similarity in what the International Sustainability Standards Board is putting out compared to what already is being implemented with the European Union and the United Kingdom. The IFR standards do tend to be a little broader than the SEC's proposed requirements, in that they have Scope one, two, and three emissions having to be disclosed, whether they're material or not. It also has some more forward looking analyses under different scenarios, as we're looking at reducing the carbon effect.

**Ms. Grove Casey**

In general, how will the U.S. rules conceptually differ from the international rules?

**Ms. Louis**

Well, ultimately as we think about things from a global perspective, it really all started from the same source, at least globally, as we looked at that task force on climate-related disclosures. Then there may be that as we think about the SEC's focus, that it's a little bit narrower in that as we even think about, some differences that exist in U.S. GAAP compared to international financial reporting standards, right? They're going to be converged, but they're not going to be exactly the same because as we think about just our needs, as we think about the SEC specifically, that there are going to be some differences that might exist as we all try to roll out these disclosures.

**Ms. Grove Casey**

Are there any lessons learned so far related to these disclosures? I know we're looking at an implementation a few years out.

**Ms. Louis**

There are. Yes, there's been a lot of entities that have been voluntarily reporting this information, whereas in the European Union and the UK, there's starting to be some mandatory disclosures that we're starting to see in effect. The key is to ensure that there's adequate focus by management and governance of these organizations

to not delay trying to figure out, first of all, what is our ambition? What's our strategy? What's our targets? What's our transition plan because strategically we have to know what's the direction of the organization, so that there's even something to try and measure in the end, right? We have to know what are we attempting to measure and how are we going to gather the data and the information as we're starting to execute on these things? Because it makes clear that we're thinking about enterprise risk management.

We're thinking about pulling together a cohesive story, that ties our strategies into the financial effect and how it is that we can come up with some targets and demonstrate progress towards these projects, these targets that exist, how feasible are we in putting forth the targets and the goals that we've established for ourselves? Another lesson learned is focused on data quality and tracking as they start thinking about the information that we need, and to get not just better internal data and the technology to pull information together, but how do I get data from other sources, particularly as we think about those Scope three greenhouse gas emission disclosures, and the lack of expertise to be able to really understand how to tackle these issues is ultimately going to be a really big challenge for a lot of organizations,

**Ms. Grove Casey**

How will CFOs be most likely impacted?

**Ms. Louis**

Well, the CFO is going to lead a lot of the reporting. And so that is going to lead to more complexity in the role of the CFO as they incorporate this lens of sustainability into their job. And to understand the starting point of where you are as an organization in managing your climate related risks, but what are we going to do with our transition and capabilities for transition? Then there needs to be a credible plan to meet these commitments while also driving the value creation aspect of publicly traded organizations. And so, we need to ensure that because there is going to be accountability as we put forth our plans and CFOs are going to have to think through, how do I interact with the board on setting these targets, managing risks, but to also be able to show how we're progressing against the plan, and there's going to have to be coordination amongst the CFO with other senior management team members and governance, as we put together that strategy and to think about the costs that will be

associated with that. But, how does that counterbalance around the benefits or the potential upside as we think about cost-benefit analysis, right? There's more intangible benefits as we think about society and the improvement of things, as we focus on managing these climate risks.

**Ms. Grove Casey**

Do you think that this will all ultimately have a real effect on the perceptions of capital markets?

**Ms. Louis**

Well, I think there's going to be different audiences for the information. I think that government agencies, the SEC, they're using this as an opportunity to require new reporting. Some of it may be relevant to investors, some of it may not, investors only can absorb some level of detail, but the audience isn't just your investors, right? It's also activists and politicians and your...

**Ms. Grove Casey**

Stakeholders.

**Ms. Louis**

Yes. The stakeholders that exist. And so therefore, we do need to think about that broader audience as we're looking at establishing our strategy and our targets that exist even within investors, some investors are going to be looking at this to decide, well, should I invest in your company or not? Others are going to be looking about, well, how is your strategy going to affect the business, right? As they're more focused on the economics of the story and that exists, there's going to be things that are going to be material to different audiences and in public companies are going to have to understand how their strategy is going to have to link into the story. They're trying to tell investors and potential investors about how we're creating value for you, and at the same time facing that there's going to be higher cost of capital and other effects as we're now also making this overall transition in the end.

**Ms. Grove Casey**

So lastly, I want to talk about whether or not the disclosures lead to a broader mechanism for change. Usually the FASB starts out with making disclosure a requirement, and then we move on to measurement. Now this isn't the FASB, this is the SEC that's proposing this, so it may take us a little longer to get there, but that's typically the path we've seen occur in

the past. I'm just thinking because it's climate change and the global impact of that, that we may see governments hop on the bandwagon, so to speak and push that along a little faster. What do you think?

**Ms. Louis**

I think that is part of the goal, right? Is to just make this a highlight. And the SEC has actually said, like, we understand that this is just a starting point, but we're just trying to start putting whatever information we can out there, and then over the course of time, we can adapt and modify, but it is a mechanism of just highlighting the issue. It is. We try to embrace, a fact that as we think about redesigning organizations, we have to what they call green sheeting your company, right? Figuring out the green implications of everything that we're doing right from beginning to end. That we will ultimately have to think about a lot of problem solving around the way, if we're really trying to reach a net zero emissions rate in some given timeframe that everybody has to be committed to, but it is purposely intended to just highlight the issue and be a mechanism for change in our actions and our behaviors, as we all work together with this broader based goal.



### SEC Proposed Climate Change Disclosures

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by Jennifer F. Louis, CPA

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#### Introduction

US Securities and Exchange Commission (SEC) has proposed a new rule that, if adopted, would require public companies to provide detailed reporting of their climate-related risks, emissions, and net-zero transition plans.

A handful of forces are making sustainability a critical consideration for organizations today. Per McKinsey & Company up to \$5 trillion annually will be invested in sustainability by 2025—the largest capital reallocation in history. At the same time, approximately \$11 trillion worth of assets will have to be retired.

Investor scrutiny of climate risk is rising, and consumers and employees are increasingly factoring sustainability into their decisions. This is like the early days of digital. Like then, we are seeing massive shifts in value pools that will create new sector winners and losers and the basis of competition will shift in most industries. In this context, the SEC's proposed disclosure guidelines represent both an inflection point and a catalyst for business in North America.

#### Three Categories of Disclosures

Proposed rules would require three categories of disclosure: material climate impacts, greenhouse-gas emissions, and any targets or transition plans.

On material risks and strategic implications, the rule as written would require companies to disclose risks from physical climate-related hazards, such as fires or floods by location and by share of assets exposed. It also asks for disclosure of transition risks, which could be regulatory, technological, market, or reputational risks, over the short term, medium term, and long term. Filers would need to disclose strategic impacts, financial impacts, and operational impacts, as well as their governance and risk management processes to manage these risks.

The second category is greenhouse-gas (GHG) emissions. The proposed rule would require reporting of audited Scope 1 and Scope 2 emissions, which are emissions generated by a company's own operations

and through the energy it purchases. The rule would also require Scope 3 disclosures if they are material or if the filer has a target. Scope 3 are upstream and downstream emissions along the company's entire value chain.

The emissions reporting would need to be in absolute terms and in terms of intensity, both per unit of revenue, that is, greenhouse gases per dollar in sales and per unit of product, such as emissions per car manufactured. Filers would need to disclose how they arrived at those estimates and what greenhouse gases the estimates cover—be they methane, nitrous oxide, or CO<sub>2</sub>—and the type of source.

GHG emission disclosures would include the following:

- Scope 1 and Scope 2 GHG emissions (i.e., from a registrant's owned or controlled operations and purchased or acquired electricity, steam, heat, or cooling, respectively), which would need to be separately disclosed on a disaggregated (by each GHG) and aggregated basis. This disclosure would be required on a gross basis (before consideration of any offsets) and relative to intensity (e.g., tons of carbon dioxide per dollar of revenue).
- Scope 3 GHG emissions (i.e., from indirect upstream and downstream activities) in gross terms (before consideration of any offsets) and relative to intensity, if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions or if Scope 3 emissions are material. Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.

The last category is targets and transition plans. Under the current text of the rule, companies would need to disclose any existing targets around emission reductions, energy use, nature conservation, or revenues from low-carbon products. The SEC would want disclosure of the transition plans to achieve those targets, including specific information on the use of offsets or renewable-energy credits. If a company uses an internal carbon price, that price, as well as how it's set and what it covers, would need to be disclosed.

### Focus on Financial Statement Note Disclosures

The following financial statement note disclosures would be required:

- The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and transition activities (e.g., changes in salvage values or useful lives of assets) if such amount exceeds 1% of the related line item.
- The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities.
- How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.

The proposed rule provides examples of the types of disclosures registrants would provide to reflect the impact of climate-related events and transition activities.

These include the following for climate-related events:

- “Changes to revenue or costs from disruptions to business operations or supply chains”
- “Impairment charges... of assets (such as inventory, intangibles, and property, plant and equipment)”
- “Changes to loss contingencies or reserves (such as environmental reserves or loan loss allowances)”
- “Changes to total expected insured losses due to flooding or wildfire patterns”

These include the following for transition activities:

- “Changes to revenue or cost due to new emissions pricing or regulations resulting in the loss of a sales contract”
- “Changes to... cash flow[s] from changes in upstream costs, such as transportation of raw materials”
- “Changes to the carrying amount of assets... due to a reduction of the asset’s useful life or a change in the asset’s salvage value”
- “Changes to interest expense driven by financing instruments such as climate-linked bonds issued”

Registrants would be required to separately disclose all negative and all positive impacts of climate-related events as well as separately disclose all negative and all positive impacts of transition activities. These disclosures would be required for each affected financial statement line item if, on an aggregated basis, the absolute value of all such impacts (i.e., the absolute value of both negative impacts and positive impacts for both climate-related events and transition activities) exceeds 1 percent of the related line item.

When disclosing financial impact metrics and expenditure metrics, registrants would use a “bright line” 1 percent threshold for disclosure purposes. Accordingly, registrants would need to have appropriate processes, procedures, and internal controls in place for tracking this information and developing the disclosures when preparing financial statements.

### Focus on Expenditure Metrics

The proposed rule provides examples of expenditures that a registrant may incur, and therefore be required to disclose, to mitigate exposure to climate-related events and transition activities, including the following:

1. Expenditures intended to:
  - Increase the resilience of assets or “operations” to climate-related events
  - Retire or shorten the estimated useful lives of impacted assets
  - Relocate assets or operations “at risk” of climate-related events
2. Expenditures related to “research and development of new technologies, purchase of assets, infrastructure or products” that are intended to:
  - Reduce GHG emissions
  - Increase energy efficiency
  - Offset emissions ([including] purchase of energy credits)
  - Improve other resource efficiency
3. Expenditures related to disclosed climate targets and goals

If the total amount expensed for climate-related events and transition activities or the total amount capitalized for such events and activities exceeds 1 percent of the registrant's total expenditures or capitalized costs, respectively, separate disclosure of those amounts would be required, disaggregated by climate-related events and transition activities. A registrant would perform this calculation relative to total expenditures and capitalized costs, regardless of the financial statement line items in which the amounts are included.

In a manner consistent with the requirements related to financial impact metrics under the proposed rule, registrants may need to put additional processes, procedures, and internal controls in place to track the information needed to provide expenditure metrics when preparing their financial statements. However, it may be difficult for registrants to identify expenditures specifically associated with climate-related events and transition activities. For example, the portion of a newly acquired fixed asset or the change in an insurance premium that is directly attributable to climate may be difficult to ascertain, particularly when other factors are at play (e.g., technological advances or other factors that contribute to insurance cost).

### **Financial Estimates and Assumptions**

Under the proposed rule, registrants would need to provide disclosures about whether risks, uncertainties, or known factors associated with climate-related events and transition activities (including the registrant's own climate-related targets or goals) affected the estimates and assumptions reflected in its financial statements. If applicable, a registrant would be required to qualitatively disclose how the estimates and assumptions were affected. For example, a registrant that establishes a specific climate target may plan to retire certain assets early to reduce GHG emissions. Any change in the useful life associated with these assets would represent a financial estimate affected by transition activities.

### **Additional Considerations for Financial Statement Disclosures**

A registrant would perform these financial impact metric and expenditure metric calculations in a manner consistent with the consolidation principles reflected in its financial statements and, if applicable, would consider the same accounting principles. The disclosures would be required for all periods presented in the financial statements (i.e., two years or three

years, depending on the registrant's requirements). Appropriate context would need to be provided, including a description of how the metrics were derived, the significant inputs or assumptions used, and any policy choices related to the calculation of the metrics. The disclosures would also be subject to audit in accordance with PCAOB standards.

The proposed rule states that if a registrant has not previously presented the metrics in historical periods and the "historical information necessary to calculate or estimate such metric is not reasonably available to the registrant without unreasonable effort or expense, the registrant may be able to rely on Rule 409 or Rule 12b-21 [of the Securities Exchange Act of 1934] to exclude a corresponding historical metric." While those rules allow a registrant to disclose, in its required SEC filings, information that is available and include a statement that omitted information could not be obtained without unreasonable effort or expense, registrants rarely avail themselves of this accommodation.

### **Challenge of Scope 3 Disclosures**

Scope 3 is a challenge because while the Greenhouse Gas Protocol offers guidance on how to measure Scope 3, there is limited access to that information. The first triage point is getting the data directly from the company. The second is using emissions factors to approximate the emissions from specific activities. For example, if you know the vehicle miles driven, you can convert that into emission estimates based on the make, model, and year of a vehicle. The final triage point, which has a large margin of error, is approximating production metrics for a given sector and thus the imputed emissions.

There are a few areas that Scope 1 and 2 disclosures won't address. One is global supply chains, which may include companies not subject to these disclosures. Another challenge are private suppliers that would not be under SEC disclosure rules, so their emissions would be hard to identify and quantify. Additionally, supply chains are multilayered. A company may have detailed information on its direct suppliers' emissions but that is only the first level. You also need data on your suppliers' suppliers, and their suppliers, and their suppliers, and data quality grows poorer with each step.

This affects various aspects of disclosure, such as transition plans. Any company that has a Scope 3 target will find it challenging to understand where the

emissions happen along its value chain, what drives them, and how to work with the suppliers and potentially the entire industry to reduce them. Many companies struggle to get even a basic understanding of the emissions upstream.

### **Risk of Double Counting**

Double counting will almost by definition be hard to limit with Scope 3. It's hard to segregate concentric circles between your entity and the economy around you. The SEC recognizes that this is a reality until we find better ways as a society. These disclosure regimes are, in a sense, forcing events to get people to start reporting emissions and face up to the challenges. We need to remember that earlier US regimes such as Comprehensive Capital Analysis and Review (CCAR) and the Sarbanes-Oxley Act took many years to figure out, and climate disclosure may be a similar case.

Double counting in Scope 3 is expected. The same greenhouse-gas emissions could be Scope 3 for many companies. Those not filing these disclosures directly are impacted because they could be supplying to companies that are or they could be financed by companies that are, which would likely make them part of Scope 3 emissions calculations.

### **Qualitative Disclosures**

The following are proposed qualitative disclosures related to climate change:

- How climate-related risks have (a) had or are likely to have a material impact on the business and its financial statements as well as (b) affected or are likely to affect the registrant's "strategy, business model, and outlook."
- The registrant's processes for detecting, evaluating, and managing climate-related risks and whether those processes are integrated into the registrant's broader risk management program.
- If a registrant uses an internal carbon price, the registrant's internal carbon price and how such price is determined.
- If the registrant uses a scenario analysis to assess its business in the context of climate-related risks, a description of the scenarios, assumptions, and projected financial impacts.

- If a registrant has adopted a climate transition plan, a description of such plan as well as relevant targets and metrics.
- If the registrant has publicly disclosed climate-related targets or goals:
  - The scope of activities encompassed, the time horizon envisioned, and any interim targets established.
  - How the registrant plans to achieve its targets or goals.
  - An update each year of how the registrant is progressing relative to its targets or goals and how such progress has been achieved.
  - If carbon offsets or renewable energy certificates (RECs) have been used as part of the plan to achieve climate-related targets or goals, information about the carbon offsets or RECs, including how much of the progress made is attributable to offsets or RECs.

### **Governance Disclosures**

The proposal would require disclosure of how the registrant's board of directors and management oversee climate-related risks, the risk management process, and the registrant's response.

### **Potential Effective Date**

The proposed rule would apply to US 10-K filers as well as foreign private issuers who file 20-F forms with the SEC. Large companies would have to disclose most of this information as of fiscal year 2023, so filing year 2024. Smaller companies would have a yearlong grace period until fiscal year 2024.

For Scope 3 emissions, the SEC would provide an additional year beyond those deadlines, allowing companies to lean on Scope 1 and 2 filings by other companies in the prior year. As discussed earlier, Scope 3 quantification is extremely hard because few companies have a detailed understanding of emissions in their supply chains.

Scope 1 and 2 reporting would come first in part because companies could then interpolate that data into their Scope 3 disclosures. The US Environmental

Protection Agency already requires reporting of major point sources emissions and that covers most of U.S. greenhouse-gas inventory. The question is, how do you quantify the small share not covered? And what about emissions in other countries, particularly where there are no disclosure mandates? That is the challenge with Scope 3.

Public companies already do a fair amount of reporting, for example in their Carbon Disclosure Project [CDP] reports. Many data aggregators also pull together that information. There is a much bigger challenge in private markets, although a few start-ups are starting to collect this data. Entities, particularly in banking where Scope 3 financed emissions are a key consideration, are already starting to form internal teams to tackle these disclosures. Whether or not the rule passes, everyone wants to have as much time as they can to prepare.

On the financed emissions point, in the current draft the SEC says these emissions would likely be considered part of Scope 3. That's important because companies that are not required to file these disclosures may be financed by parties, or be in the supply chains of companies, that need to file Scope 3. So even companies that don't file directly may be affected.

### Location & Timing of Disclosures

Under the proposed rule, a registrant would provide the disclosures in its registration statements as well as its annual reports filed under the Securities Exchange Act of 1934. The disclosures outlined in the *financial statement footnote disclosures* section would be required in the financial statements, whereas the remaining disclosures, including GHG emissions, would be required in a newly created section of Form 10-K (Item 6) immediately before MD&A.

The disclosures would be due at the same time as a registrant's annual report and would be required for both domestic and foreign registrants. Smaller reporting companies would be exempt from Scope 3 GHG emission disclosure requirements.

### Attestation Requirements

The financial statement footnote disclosures would be subject to existing financial statement audit requirements. The Scope 1 and Scope 2 GHG emission disclosures would be subject to limited assurance during a phase-in period, followed by reasonable assurance.

### Global Movement

The proposed rule comes in the context of growing global momentum toward climate action and standardized disclosure of climate-related risks. The United Kingdom, New Zealand, Japan, Hong Kong, and the EU are all moving ahead with similar measures. The Task Force on Climate-related Financial Disclosures [TCFD] issued voluntary guidelines that 2,600 companies around the world endorsed in 2021. The vast majority of institutional investors are citing climate risk as a leading issue driving their engagement with companies, and last year the International Financial Reporting Standards Foundation [IFRS] created the International Sustainability Standards Board [ISSB] that will also release guidelines.

Generally, the climate disclosure standards in the UK and the EU, as well as the IFRS's first draft of the ISSB standards, are very similar. However, the IFRS standards are broader than the SEC's in two ways. First, IFRS requires Scope 1 and Scope 2 emissions as well as Scope 3 emissions whether they are material or not. It also requires a forward-looking analysis under different scenarios for decarbonization.

Across the board, however, these regimes all put a strong focus on governance, including board oversight. The rules all had a single parent, which is TCFD, and that parent defined many of the principles around governance, strategy, risk management, targets, and metrics. The key difference between the SEC and other disclosure regimes is that the SEC's breadth is a little narrower and its prescription a little greater. That is akin to the differences between the US generally accepted accounting principles [GAAP] and the IFRS standards.

One further distinction is that the IFRS draws on the Sustainability Accounting Standards Board [SASB], which is a disclosure standard rooted in sector-specific guidance. SASB focuses on reporting relative to the sector so investors can compare company performance to its peers, whereas the SEC goes deeper on prescriptions around financial metrics.

### Lessons Learned

Many entities have been reporting on a voluntary basis. Others have gone through mandatory disclosures required in the UK or the EU or through stress-testing exercises. The key challenge they identify is lack of ambition, focus, or urgency at the board and

management level, especially when companies are still trying to figure out their climate ambition and the extent to which they want to report it publicly.

Another issue is decentralized execution teams that lack sufficient resources or a holistic direction. The SEC's proposed rule makes clear the importance of finance, strategy, and risk collaborating to pull together a coherent investor story.

The third problem that comes up is companies setting climate targets without a pressure-tested plan or demonstrated progress. One takeaway from this proposal is the importance of having a feasibility plan when setting targets and a clear sense of decarbonization levers you can use.

Poor quality of data and tracking is an issue. This goes beyond access to emissions data and risk information that we discussed. Many organizations need better internal data and technology if they are to bring together information from multiple businesses and geographies into reports that meet audit standards.

Inadequate expertise and analytical tools can also be a problem. It takes high analytical acumen to identify what is material, not just from an accounting perspective but from a climate science perspective. The proposed rule tackles some things outside most companies' wheelhouse. Physical climate risk analysis, for example, is geospatial analysis of future climate events that most companies are not accustomed to doing.

The CFO will need to lead much of this reporting, adding considerably to the complexity of the role. CFOs will need to incorporate the sustainability lens into various dimensions of their role. The first challenge is understanding the organization's starting point, not only on emissions but on transition risks and capabilities. Secondly, you need to ensure that you have a credible plan to meet your climate commitments while also driving value creation. Many companies have publicized commitments with great intent, with the assumption that they will figure out the details later. For those companies, the "later" is now.

The third dimension is around governance. CFOs have to think through how they will interact with the board on target setting, risk management, and plan approval and how they will demonstrate the company's progress against the plan. As a CFO, you will have to coordinate

with the senior-management team and incorporate net-zero planning and performance management into the strategy and operational review cadence.

Another dimension is factoring in the costs associated with climate risk as well as the potential upside. What are the implications for your cost of capital assumptions, the portfolio strategy, and resource allocation? Where will you set the cost of carbon offsets?

Importantly, all this work will require considerable time and talent, both financial and climate science, to create the tracking, reporting, and compliance mechanisms. Finally, the CFO will need to grapple with crafting an investor story that fully integrates the climate pathway and the value creation pathway.

### **Impact on Capital Market Perceptions**

It's important to understand the different audiences for this information. The SEC and other government agencies have used this as an opportunity to require new reporting, some of which will not be relevant to many investors because investors cannot absorb that level of detail. Filers need to realize that the audience is not just investors but the government and regulators, activists, politicians and political parties, and perhaps consumer groups. Different investors will approach this information differently as well. Some will be looking for a score to decide whether or not to invest in your company. Others are more sophisticated and will focus on elements that materially affect the economics of the business. So when you craft your investor story, you have to boil it down to the things material to those different audiences.

Fundamentally, you need to figure out how your climate strategy ties into the value creation story.

On the downside, you could face a higher cost of capital if you lag your industry peers and the costs of decarbonization over time. You may also face market share losses if your business is perceived as browner than competitors.

But costs can be offset by opportunities for growth given the shifting value pools. Incumbents in most sectors have opportunities to build green businesses with new business models. They can also gain market share through product redesign and repositioning and by finding high-growth subsegments to pursue with a

green focus. Finally, opportunities exist in green operations that not only help you advance your environmental goals but also reduce costs.

### **Mechanism for Change**

The proposed disclosure requirements are an important inflection point. They would set a new standard for compliance, but the mindset and approach need to go beyond that. Leaders need to embrace an intentional enterprise redesign, what we call really “green-sheeting” your company end to end, and the action needs to happen at pace. It will require considerable problem-solving to reach net zero in the timeframe to which most people have committed.



## GROUP STUDY MATERIALS

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### **A. Discussion Problems**

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1. Discuss the three categories needing disclosure in the proposed rules.
2. What are some examples of specific financial disclosures that may be made as a result of these proposed climate change disclosures?
3. Discuss the expenditures that need to be disclosed under the proposed rules related to mitigation and transition activities.

## B. Suggested Answers to Discussion Problems

1. On material risks and strategic implications, the rule as written would require companies to disclose risks from physical climate-related hazards, such as fires or floods by location and by share of assets exposed. It also asks for disclosure of transition risks, which could be regulatory, technological, market, or reputational risks, over the short term, medium term, and long term. Filers would need to disclose strategic impacts, financial impacts, and operational impacts, as well as their governance and risk management processes to manage these risks.

The second category is greenhouse-gas (GHG) emissions. The proposed rule would require reporting of audited Scope 1 and Scope 2 emissions, which are emissions generated by a company's own operations and through the energy it purchases. The rule would also require Scope 3 disclosures if they are material or if the filer has a target. Scope 3 are upstream and downstream emissions along the company's entire value chain.

The emissions reporting would need to be in absolute terms and in terms of intensity, both per unit of revenue, that is, greenhouse gases per dollar in sales and per unit of product, such as emissions per car manufactured. Filers would need to disclose how they arrived at those estimates and what greenhouse gases the estimates cover—be they methane, nitrous oxide, or CO<sub>2</sub>—and the type of source.

2. The following financial statement note disclosures would be required:
- The impact on financial statement line items related to severe weather events and other natural conditions (e.g., impairment charges, increased loss reserves) and transition activities (e.g., changes in salvage values or useful lives of assets) if such amount exceeds 1% of the related line item.
  - The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities.
  - How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.

The proposed rule provides examples of the types of disclosures registrants would provide to reflect the impact of climate-related events and transition activities.

These include the following for climate-related events:

- “Changes to revenue or costs from disruptions to business operations or supply chains”
- “Impairment charges... of assets (such as inventory, intangibles, and property, plant and equipment)”
- “Changes to loss contingencies or reserves (such as environmental reserves or loan loss allowances)”
- “Changes to total expected insured losses due to flooding or wildfire patterns”

These include the following for transition activities:

- “Changes to revenue or cost due to new emissions pricing or regulations resulting in the loss of a sales contract”
- “Changes to... cash flow[s] from changes in upstream costs, such as transportation of raw materials”
- “Changes to the carrying amount of assets... due to a reduction of the asset's useful life or a change in the asset's salvage value”
- “Changes to interest expense driven by financing instruments such as climate-linked bonds issued”

3. The proposed rule provides examples of expenditures that a registrant may incur, and therefore be required to disclose, to mitigate exposure to climate-related events and transition activities, including the following:

Expenditures intended to:

- Increase the resilience of assets or “operations” to climate-related events
- Retire or shorten the estimated useful lives of impacted assets

- Relocate assets or operations “at risk” of climate-related events

Expenditures related to “research and development of new technologies, purchase of assets, infrastructure or products” that are intended to:

- Reduce GHG emissions
- Increase energy efficiency
- Offset emissions ([including] purchase of energy credits)
- Improve other resource efficiency

Expenditures related to disclosed climate targets and goals

If the total amount expensed for climate-related events and transition activities or the total amount capitalized for such events and activities exceeds 1 percent of the registrant’s total expenditures or capitalized costs, respectively, separate disclosure of those amounts would be required, disaggregated by climate-related events and transition activities. A registrant would perform this calculation relative to total expenditures and capitalized costs, regardless of the financial statement line items in which the amounts are included.



## PART 2. AUDITING

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### Recent PEEC Guidance

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The Professional Ethics Executive Committee provides accounting professionals with ethics guidance. In March 2022, the Committee issued guidance on how professionals should respond when a member encounters or becomes aware of a client who is in noncompliance with laws and regulations.

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

#### Ms. Grove Casey

So today we want to talk about some recent PEEC ethics guidance to begin with. There was recent ethical guidance, like I mentioned, issued related to responding to non-compliance with laws and regulations. Typically we call that NOCLAR. So what falls under this new guidance?

#### Ms. Louis

It deals with non-compliance with laws and regulations that relates to acts of omission or commission. It can be intentional or unintentional but they're contrary to prevailing laws and regulations. They can be committed by a client. They can be committed by management, governance, other individuals that may be working for, or under the direction of a client or an employing organization. So as we think about ethical rules non-compliance can be related to, I have a client that's doing something that's in non-compliance, or I could be working for an employing organization where there's non-compliance with laws and regulations. This really is focused on both of those situations. It is setting out a member's responsibilities when you encounter or even suspect non-compliance and guiding them on evaluating the implications and ensuring that there is a proper course of action that's taken in the circumstances.

#### Ms. Grove Casey

I would think that that probably has become more difficult as commerce has gone more electronic, right? Because maybe knowing who your customer, your client's customers are, right? So whether or not they're in compliance might be a little harder than it was in the past when they had customers who were confined to a specific geographic region. But is there any sense of significance or materiality attached to this guidance, or are we looking at, I had one transaction or my client had

one transaction that was non-compliant because they sold something to somebody in a country that is not acceptable for lack of a better word.

#### Ms. Louis

They are. The concept that still really underlies responsibilities is thinking about, does it have a direct and material effect? Laws and regulations have a direct material effect on the determination of a material amount or material disclosure in the financial statements. There may be other laws and regulations that don't have a direct effect on what's in the financial statements, but yet compliance could still be fundamental to the operating characteristics of the business, the ability of the organization to continue as a going concern, to avoid lawsuits and fines, and penalties. An act that causes substantial harm is one that results in serious adverse consequences. As we think about, various parties that are involved, and so, if I'm thinking about something that's clearly inconsequential, like I'm not required to comply with this interpretation, if it's clearly inconsequential. So there is a sense around things that I don't have to necessarily look at, but it could be that it's something that has consequences that cause substantial harm. There could be adverse results that either directly affect the financial statements, but also could affect other things that ultimately will affect the financial statements like going concern and litigation, lawsuits, other things like that.

#### Ms. Grove Casey

Well, what's the effective date of this interpretation?

#### Ms. Louis

It is effective for June 30, 2023, but early implementation is permitted related to this particular interpretation.

**Ms. Grove Casey**

Well, why is it important for a CPA to have better defined responsibilities related to these non-compliance matters?

**Ms. Louis**

Well, because of the fact that as I mentioned, non-compliance ultimately may result in litigation, fines, penalties, other consequences for the client that could end up having material effects on the financial statements. Plus, as we think about just from an ethical point of view, that non-compliance can have wider implications on just the public's interest. As we think about the hallmark of our profession as looking out for the general public's interest, as far as the harm that it potentially could cause employees, investors, creditors, but also just the general public. So it ultimately could be that we may be dealing with fraud. It could be money laundering, it could be something related to data protection. It could be related to something that deals with pension liabilities. It could be something related to banking securities trading, environmental protection. These are all laws and regulations that ultimately could have substantial harm on these different groups, investors, creditors, employees, the general public, if the organization is not in compliance.

**Ms. Grove Casey**

Well, who does the CPA owe responsibilities to under this interpretation?

**Ms. Louis**

The responsibilities are owed to the person or the entity that's engaged me. As we think about who has engaged me, if I'm in an external audit type situation to perform professional services, but it doesn't have to be an audit, it can be other professional services, or it could be your employing organization as well. What's important there is that the engaging entity and the subject of my professional services may end up being different. And so, when we think about the client in this interpretation, though, they're thinking about the engaging entity when we're discussing what a member in public practice's responsibilities are.

**Ms. Grove Casey**

Well, are there any specified scope exclusions in this interpretation?

**Ms. Louis**

It doesn't apply to personal misconduct that is unrelated to the business activities of your client, the engaging entity or the employing organization. It also doesn't apply to non-compliance by parties other than the client or the employing organization or governance or management or other individuals working for or under the direction of the client or the employing organization. This includes circumstances where a member has been engaged by a client to do due diligence perhaps of a third party. And I've identified suspected non-compliance committed by that third party. There still may be conversations that I have, right? Like ultimately this interpretation is saying non-compliance with parties other than the client or the employing organization are really separately considered. It's not under this specific interpretation, even though there still may be things that I do in response to knowing that if I have another special service as well, like as I'm doing litigation or investigation engagements as defined underneath the standards for forensic services. If my engagement is where the primary purpose is to identify or reach a conclusion regarding some sort of non-compliance, if I have an engagement where I'm looking at things say underneath the certain sections of the Internal Revenue Code so ultimately there may be there, if there's a separate set of standards, it's already guiding me on what to do when I'm looking at these situations, they're saying you're going to follow that. I'm engaged specifically to do attest on compliance with laws and regulations, there'll be standards for me to follow in those circumstances. But there are going to be certain things that they would say would really be outside of the scope of what they're really trying to look at for this specific interpretation.

**Ms. Grove Casey**

Who's ultimately responsible for compliance with laws and regulations?

**Ms. Louis**

It's the management of the client, or management of the employing organization, right? They're ultimately responsible working with governance to ensure that an entity's business activities are conducted in accordance with laws and regulations, and it's their responsibility to make sure that there's somebody in charge of monitoring that. And it could be somebody within the client or the employing organization. It could be a

member of management, a member of governance, or it could be other individuals that are working for, or under the direction of, the client or employing organization, depending whether I'm in public practice or not.

**Ms. Grove Casey**

How does the confidential information role come into play when there is known or suspected non-compliance with laws and regulations?

**Ms. Louis**

Right. Particularly as I think about a member in public practice, we can't communicate information about my client without the client's consent, because there's a confidential client information rule that's built into our Code of Professional Conduct. And so as I think about reporting non-compliance or suspected non-compliance to a regulatory authority when I am responding to a non-compliance, as I did a professional service, I might have to think about my obligations that are a part of this. So yes, I still need to think about as I think about my responsibilities, that sometimes there's a conflict that exists between keeping my client's information confidential, but also responding to something that I think really needs to be responded to. You always are going to have that situation where there might be conflicts between two different rules from an ethical point of view.

And so that is something that they're recognizing is an issue. And, if I'm a member in business, I should think about, I have a responsibility of keeping my employer's information confidential, but I also can't partake in an act discreditable. So, as I think about, if it's expressly prohibited for me to do something, I need to think about that issue. As we think about, particularly when there's a regulatory authority and there are kind of scenarios, right, where we need to, to perhaps consult with an attorney or somebody to figure out what's our best course of action when I have those conflicts, which is something that we have to do already, anyhow.

**Ms. Grove Casey**

Well, does the CPA have to consider other provisions of laws and regulations that may be applicable to the situation?

**Ms. Louis**

So what we're talking about in this case might be, do I have a responsibility of thinking about you as I encounter one issue? Do I have to think about SEC

regulations and state and federal like civil and criminal like regulations? I do need to think about, once I suspect something or I encounter a non-compliance, I do need to think about trickledown effect. And as we think about the substantial harm that could accompany this, I need to think about what types of communications do I need to have to alert, the client or the employing organization around certain circumstances because of the aggregation of the effect?

**Ms. Grove Casey**

Well, the AICPA Code of Professional Conduct has a foundation principle to act in the public interest. And we talked a little bit about, the public interest being kind of critical to the profession. That's the whole hallmark of it. We're supposed to be protecting the public interest. How does that influence this new interpretation?

**Ms. Louis**

Yes, it's certainly key, as we mentioned. Acting in the public interest is an overall arching principle. In the end, we want to make sure that members are complying with the integrity and objectivity rule also though, and that we are sharing what we know, alerting management, governance of a client or an employing organization to allow them to fix the problem, to mitigate the consequences. As we think about the identified or suspected non-compliance and work towards trying to deter and prevent commission of non-compliance when it has not yet occurred, we want to work with them, to enable them to do their job with management and governance. But we also need to think about when is it that non-compliance is so severe that I should, as a member in public practice, maybe withdraw from an engagement, or where should I take further action, because it's appropriate because of the public interest, as we think about the conflict that might exist, as we just talked about with confidentiality to a degree. But, how do I ensure that I'm thinking about acting in the overall public's interest as a broader based concern?

**Ms. Grove Casey**

In general, what is a member's responsibility related to identifying or suspecting non-compliance while providing professional services?

**Ms. Louis**

Right. So when you're doing professional services, I'm engaged to do something for the client. I become aware of credible information concerning an instance of non-

compliance or suspected non-compliance. It could either be as I'm doing the work or through information provided by other parties. If I get this credible information, I have to get an understanding of the matter, which would include the nature of the act, the circumstances in which it occurred, or it's likely to occur. Now I'm providing and applying knowledge and information and expertise that ultimately I'm not required to have a level of expertise that's greater than what's required to undertake the professional service that I already accepted. Right. So they're not asking for you to go out and get, additional training and other things, right? You are not expected to have a level of knowledge greater than what was needed to do the professional service, but yet as I'm doing the service, I have to try and get an understanding of the matter as I identified with respect to this non-compliance because I have credible information. That's leading me down that path. And if I believe that it occurred or it's likely occurred, I'm going to discuss the matter with an appropriate level of management and as appropriate those charged with governance. And I need to figure out well, who is this person or persons that I need to be having these conversations with. It's going to be a matter of professional judgment, looking at the nature of the circumstances, what's appropriate, right? You, decide what's appropriate, but the key is to share information, right? To understand it and share my concerns with management and governance as a result of performing any professional service.

**Ms. Grove Casey**

Well, are there any different responsibilities when it relates to a member of the AICPA that's providing financial statement audit or review services?

**Ms. Louis**

Well, certainly as we think about these types of services, like there already was like these byproduct communications that happened as a result of a review or an audit that's built into the SSARS or the SSAEs. And it is important that as we think about what else we should be communicating though, it's, let's encourage them to eliminate, fix, mitigate the consequences of a non-compliance to deter the commission of it and to think about, do I need to encourage them, advise them to disclose the matter to an appropriate authority where a law or regulation, ultimately, has been violated and to think about their ability to get legal advice. So it's more that as we think about advising them, if they haven't already done so to take that appropriate timely action.

Cause I'm dealing with financial statements that I'm going to be forming a conclusion or giving you an opinion on, and there could be an effect on those financial statements. So that's why it's more important to communicate the need for timely appropriate action on their part, so that I can get sufficient, appropriate evidence to support my review or my audit.

**Ms. Grove Casey**

Does it matter if it's a group audit engagement?

**Ms. Louis**

Certainly, if we think about, the communication, that needs to be held we do want to make sure that if I'm the component auditor that I'm communicating with the group engagement team partner. And so certainly there is two-way communication that should be happening between the group and the component engagement team. It ultimately, as we think about things, is the component communicating to the group, but it's also the group deciding whether or not a matter may be relevant to one or more components where we know that there's implications on a separate review or audit that's being done. So we do need to think about things that are relevant to circumstances where there is some sort of attest or assurance that's being taken on a group and also a component.

**Ms. Grove Casey**

Are there times when a public accountant should simply withdraw from the engagement?

**Ms. Louis**

Certainly, as we think about cases where we may determine that I just don't want to be associated with this client anymore because they're not investigating the known or suspected non-compliance or ultimately, what are they doing to deter a future non-compliance? Is there a risk that this non-compliance could be a reoccurring-type issue? Yes, are they not properly disclosing things as appropriate where I think disclosure would be needed? So there can be cases where I'm just not comfortable with what's happening as far as management and governance's responses. In any professional service I have to communicate if it's a review or an audit, I also want to focus on timely appropriate responses. And if I don't feel that the feedback I'm getting from management and governance is appropriate in the circumstances, looking at a variety of factors, including the urgency of the matter and the

circumstances, and the principle-based approach, the pervasiveness of the matter, could it be recurring, all of these should, could have me make determinations about, do I want to withdraw from this particular engagement, this professional service? Do I want to withdraw? I'm not providing any services for this client overall.

**Ms. Grove Casey**

Yes. There are certainly interesting tone-at-the-top considerations there, for sure. Are there any special documentation requirements related to this interpretation? I know you mentioned the documentation and what kinds of things we were looking at there when we have concerns about that.

**Ms. Louis**

Right. So it requires that you get an understanding of the matter. So what's my understanding of the matter. And then, it requires for you to communicate to appropriate parties. So who did I communicate with and when, what were the results of that communication, and how has management and governance responded? Right. And are there any judgments that I had to make that I want to make sure I capture as far as my line of logic and thinking around the scenario?

**Ms. Grove Casey**

What if a member in public practice also has a professional services client that has a separate financial statement auditor/review provider? What are the members' obligations there?

**Ms. Louis**

Right. So I'm doing one level of service for them. They have a separate review or auditor involved. Ultimately, if I'm not doing the review or the audit, right, I still need to think about as we're thinking about those circumstances, part of it might be, well, is it within my firm or is it a different firm? Because sometimes it might be I'm the tax person and I come across something and our firm also does the audit, but it's not me. Well, if it's within your firm, then communication can be made within your firm in accordance with your firm's policies and procedures. As we think about making sure that the review or audit engagement partner is involved, they also talk about maybe it's a network firm and there may be network protocols, procedures, but still, if it's my firm or a network firm, I'm allowed to have conversations to make sure that

they're aware of the circumstances. Now, if it's not me, now I'm not permitted to have communications with this external auditor because of the client confidentiality rule except as required by law or regulation. Because I can't just go to that without thinking about the client confidentiality information rule first and dealing with any conflicts I have with that rule accordingly.

**Ms. Grove Casey**

Well, are there any special responsibilities for members in business, those who aren't in public practice?

**Ms. Louis**

Normally, an organization is going to have policies and procedures like whistleblower policies or ethics policies. How should an employee respond internally when they know or suspect some sort of issue like non-compliance with laws and regulations? It may allow for anonymous reporting, right? Whatever that procedure is, if you are considering how do I respond giving these overall policies and procedures of my organization? However, if I'm a senior professional accountant in business, like I'm considered more of a senior employee, an officer, a director, where I have the ability to exert significant influence, make decisions about the organization, whether it's the organization's HR, financial, technological, as I can exhibit influence and control over my resources of an organization because of my role or my position or my circle of influence within the employing organization, they said they would expect a greater expectation for you to take appropriate action in the public's interest. They'll expect more of senior professional accountants because you have an enhanced ability to take better action compared to say somebody that's a lower-level employee.

**Ms. Grove Casey**

Well, another recent ethics interpretation relates to the impact of unpaid fees on independence. Let's talk a little bit more about this guidance.

**Ms. Louis**

Alright, so the existence of unpaid fees ultimately they create a self-interest threat, an undue influence threat, right? We have to think about the independence and it doesn't matter whether they're billed or unbilled or whether they're in a note receivable or not, right. They're still unpaid fees. And as you think about the threats, is the threat at an acceptable level? If the

significance is that they're minor, they're not significant to me the covered member, the fact that they haven't been outstanding for a very long period of time, the client's going to be able to pay the fees. There's factors that I consider to say, well, is this even a threat, right? That needs to be safeguarded could be a first determination.

**Ms. Grove Casey**

Well, what factors are required to be met in order for the independence threat to be at an acceptable level?

**Ms. Louis**

All right. They can be at an acceptable level if when I have an attest report on the current year and there's unpaid fees, but the unpaid fees are clearly insignificant to me, the covered member, and they relate to professional services that have been provided less than a year prior to when I'm issuing the current date of my current year attest report. So if those two criteria are met, then I can't just assume that the threat is on an acceptable level. So as we think about that case, then you have to think about then, how do I safeguard things to have them be an acceptable level, if they are significant or they have been outstanding more than a year?

**Ms. Grove Casey**

So let's talk about the safeguards that could eliminate or mitigate threats that are not at an acceptable level.

**Ms. Louis**

So if I go in and I say, okay, it doesn't meet these two criteria. It's not an acceptable level just by its nature. What types of safeguards can I do? And it might be that I have an appropriate reviewer who is not a part of my attest services team to look at the work that's being done on my current year attest report, like a quality control review. I might get partial payment, so that the fact that what's remaining is insignificant to me, or we might set up a payment schedule before the current year attest report is issued, or it could be that I just stop work and not accept new engagements until they are caught up to speed. So the key being that you can try to put safeguards in place to at least reduce the threat to something that a prudent person would say, well, alright. It seems like the fact that you have unpaid fees, isn't going to impair your ability to do this work with independence.

**Ms. Grove Casey**

And when is this interpretation effective?

**Ms. Louis**

It's effective December 31, 2022, but early implementation is involved.

**Ms. Grove Casey**

Of course, the sooner, the better I'm sure is what they're thinking. So yet another recent ethics interpretation relates to assisting an attest client with implementing accounting standards. And obviously we want to talk about this. This is like, I don't want to say half of what we do, but certainly there are a number of our clients that need our help in implementing some of these new accounting standards, say, for example, leases and revenue recognition, but what are the general requirements of this guidance?

**Ms. Louis**

It tries to give circumstances to say, we understand that you're assisting your client and that may create a self-review or management participation threat. But we could say that threats are an acceptable level if independence is not impaired – if you're just developing and providing training to assist the client to understand the effects of the standard, or I'm just researching, making recommendations, providing advice around the standard, providing recommendations and observations, helping them draft a strategy for implementation. The key is going to be assist, recommend, observe, propose, those types of things are all going to be okay for you to do.

**Ms. Grove Casey**

Just stay out of management's decision making. So let's talk about some examples of threats that would not be at an acceptable level and could not be reduced to an acceptable level by applying safeguards.

**Ms. Louis**

You can't set the policy. You can't lead the implementation team. You can't make decisions or prioritize how to implement the standard. You can't accept responsibility for designing or redesigning controls. I can't design or develop your financial information systems that are going to be used. Those things would be now out of bounds and they would be things that you couldn't even establish safeguards for as I'm now functioning like management and taking on management's roles and responsibilities.

**Ms. Grove Casey**

Yes. It's that last part – you're acting like management. So when is this interpretation effective?

**Ms. Louis**

It's also effective December 31, 2022, with early implementation.

**Ms. Grove Casey**

Well, the final ethics interpretation that I want to look at relates to loans, acquisitions and other transactions. And I think there used to be grandfathering. So let's talk about the general purpose behind this recent guidance.

**Ms. Louis**

It does look at the self-interest threat that exists when a member has a loan from an attest client, an officer or director of the attest client that can affect decision making or any individual that has a beneficial ownership interest that gives an individual significant influence over the attest client. And what they first did was to really focus on, what do we mean by a beneficial ownership interest? A financial interest that provides an entity or an individual, the right to some or all of the underlying benefits of ownership, which could include the authority to direct voting, to receive economic benefits of ownership, to dispose of their interest. Is there a beneficial owned interest that also I have a loan with them, right, and they can influence the attest client? So that really is broadening to make sure that they really think about better describing the circumstances that might be met.

**Ms. Grove Casey**

Well, does this interpretation provide for situations where loans may be at an acceptable level to not violate independence rules?

**Ms. Louis**

It does. It says there may be times during the period of professional engagement where I might have certain loans related to an officer/director or, beneficial interest, but they have clarified the exceptions to the rules and there's lots of details around it that you would need to go and look at. But, there are ultimately situations where I could say I'm really not violating independence, just because of this situation that we're really looking at as far as the overall circumstances.

**Ms. Grove Casey**

And when is this new interpretation effective?

**Ms. Louis**

It's also effective December 31, 2022 with early implementation allowed.



### Recent PEEC Ethics Guidance Issued March 2022

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by Jennifer F. Louis, CPA

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#### Responding to Noncompliance With Laws and Regulations

##### Background

Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by those charged with governance, by management, or by other individuals working for or under the direction of a client/employing organization.

The purpose of this interpretation is to set out the member's responsibilities when encountering such noncompliance or suspected noncompliance and guide the member in evaluating the implications of the matter and the possible courses of action when responding to it.

This interpretation sets out the approach to be taken by a member who encounters or is made aware of noncompliance or suspected noncompliance with the following:

- Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements
- Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties

This interpretation is effective June 30, 2023. Early implementation is allowed

##### Why It is Important

Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its financial statements. Importantly, such

noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public.

For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms. A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

##### Who Responsibilities are Owed To

The member's responsibilities in this interpretation are owed to a person or entity that engages the member or member's firm to perform professional services (engaging entity or employing organization). Therefore, when the engaging entity and subject entity are different, the term client refers to the engaging entity when discussing members in public practice.

##### Management's Responsibilities

The client's/employing organization's management is responsible, with the oversight of those charged with governance, to ensure that the business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any noncompliance by the client/employing organization, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client/employing organization.

##### Confidential Information Rule

A member in public practice should not disclose the noncompliance or suspected noncompliance to a third party without the client's consent unless expressly permitted under the "Confidential Client Information Rule," such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations or the "Compliance With Standards Rule". When responding to noncompliance or suspected noncompliance in the course of providing a professional service to a client, the member should consider the member's obligations.

When responding to noncompliance or suspected noncompliance in the course of carrying out professional services as a member in business, the member should consider the member's obligations under the "Confidential Information Obtained From Employment or Volunteer Activities" of the "Acts Discreditable Rule". For example, a member should not disclose the noncompliance or suspected noncompliance to a third party without the employer's consent unless expressly permitted under the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation, such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations.

### **Other Laws and Regulations May Apply**

When encountering noncompliance or suspected noncompliance, a member has a responsibility to obtain an understanding of all legal or regulatory provisions (such as SEC, state and federal civil and criminal, etc.) and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure.

### **Acting in the Public Interest**

A distinguishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a member are as follows:

- To comply with the "Integrity and Objectivity Rule"
- To alert management or, when appropriate, those charged with governance of the client, to enable them to rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or deter the commission of the noncompliance when it has not yet occurred
- To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
- To take such further action as appropriate in the public interest
- To comply with applicable laws, regulations, and the "Compliance With Standards Rule"

### **Integrity and Objectivity Rule**

When a member encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a professional service to a client, threats to compliance with the "Integrity and Objectivity Rule" may exist.

### **Members Providing Professional Services**

If a member engaged to professional services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement.

If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance. With whom to discuss is a matter of professional judgment considering relevant factors, such as the nature and circumstances of the matter or whether management is involved. The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter.

These discussions may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.

### **Members Providing Financial Statement Audit or Review Services**

Advise those communicated with to take appropriate and timely actions, if they have not already done so, which may include the following:

- Rectifying, remediating, or mitigating the consequences of the noncompliance.
- Deterring the commission of the noncompliance if it has not yet occurred.
- Disclosing the matter to an appropriate authority where required by law or regulation or when otherwise considered necessary.

- Suggest appropriate sources of information or recommend that they obtain legal advice, when needed.

### Group Audit Engagements

If the member becomes aware of noncompliance or suspected noncompliance, the member should, in addition to responding to the matter in accordance with the provisions of this section, communicate the noncompliance or suspected noncompliance to the group audit engagement partner in accordance with AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, unless prohibited from doing so by law or regulation.

The group audit engagement partner should consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement. Take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

### Documentation

In addition to complying with the documentation requirements under applicable professional standards, document the following:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance, have responded to the matter.
- The judgments made and the courses of action the member took.

### Communicating with the Client’s Financial Statement Audit or Review Provider

If the member is performing a service other than a financial statement audit or review service for a financial statement audit or review client of the firm or

a component of a financial statement audit or review client of the firm, the member should communicate the noncompliance or suspected noncompliance within the firm. The communication should be made in accordance with the firm’s protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner.

If the member is performing a service for a financial statement audit or review client of a network firm or a component of a financial statement audit or review client of a network firm, the member should consider whether to communicate the noncompliance or suspected noncompliance to the network firm. If the communication is made, it should be made in accordance with the network’s protocols or procedures or, in the absence of such protocols and procedures, directly to the financial statement audit or review engagement partner.

If the member is performing services for a client that is **not** a financial statement audit or review client of the firm, except as required by law or regulation, the member is **not** permitted to communicate the noncompliance or suspected noncompliance to the firm that is the client’s external auditor, if one exists. See the “Confidential Client Information Rule”.

### Responsibilities of Members in Business

Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistleblowing mechanism) regarding how noncompliance or suspected noncompliance by the employing organization should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the member’s employing organization, the member should consider them in determining how to respond to such noncompliance.

Members who are senior professional accountants in business are directors, officers, or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment, and control of the employing organization’s human, financial, technological, physical, and intangible resources. Because of their roles, positions, and spheres of influence within the employing organization, there is a greater expectation for them to take whatever action

is appropriate in the public interest to respond to noncompliance or suspected noncompliance than other professional accountants within the employing organization.

Senior professional accountants have enhanced responsibilities for obtaining an understanding of the matter, addressing the matter, and determining whether further action is necessary compared to those not in senior positions.

### Unpaid Fees

The existence of unpaid fees to a covered member for professional services previously rendered to an attest client may create self-interest, or undue influence, or advocacy threats to the covered member's compliance with the "Independence Rule". Unpaid fees include fees that are unbilled or a note receivable arising from such fees.

Factors to consider when evaluating whether threats are at an acceptable level include the following:

- The significance of the unpaid fees to the covered member
- The length of time the fees have been due from the attest client
- The attest client's agreement to pay the unpaid fees
- The covered member's assessment of factors affecting the ability of the attest client to pay the fees

Threats to independence are at an acceptable level if, when the current-year attest report is issued, unpaid fees are both

- Clearly insignificant to the covered member and
- Relate to professional services provided less than one year prior to the issue date of the current-year attest report.

Alternatively, threats would not be at an acceptable level if, when the current-year attest report is issued, unpaid fees are both significant to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report.

Other situations may require judgment to assess whether there are threats to the covered member's compliance with the "Independence Rule."

If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level. Application of more than one safeguard may be required to eliminate or reduce threats to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired.

Communication with those charged with governance regarding evaluation of the unpaid fees and safeguards applied is not a sufficient safeguard when applied alone; however, it may be considered a safeguard when supplemented by other safeguard(s).

This interpretation does not apply to unpaid fees from an attest client in bankruptcy.

The revisions are effective December 31, 2022, and early implementation is allowed.

### Assisting Attest Clients with Implementing Accounting Standards

When a member assists an attest client with planning and executing the implementation of an accounting standard, self-review or management participation threats to compliance with the "Independence Rule" may exist.

Threats may be at an acceptable level and independence would not be impaired if, for example, a member does the following:

- Develops and provides training to attest client personnel on the effects of the accounting standard
- Researches, provides advice, makes recommendations, and assists management in identifying financial statement account balances, contracts, and transactions to be assessed under the accounting standard
- Provides advice and recommendations related to the application of the accounting standard
- Provides observations and recommendations on management's existing overall project plan timeline or assists management in developing an overall project plan timeline to adopt the accounting standard

- Assists management in drafting implementation strategies or methods used to implement the accounting standard
- Assists the attest client in developing implementation templates or provides the attest client with firm-developed templates or tools, including those related to specific calculations under the accounting standard that meet the exception in the “Information Systems Services” interpretation under the “Independence Rule,” provided the attest client’s management understands the nature of any underlying calculations and the impact the results will have on the financial statements
- Proposes standard journal entries or adjustments to existing journal entries necessary for adoption of the accounting standard, subject to attest client approval in accordance with the “Bookkeeping, Payroll, and Other Disbursements” interpretation
- Provides recommendations related to existing or new information systems as a result of the accounting standard

Threats to compliance with the “Independence Rule” would **not** be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired if, for example, a member does any of the following:

- Leads or supervises any attest client implementation team
- Makes decisions on which recommendations to prioritize or how to implement the accounting standard
- Sets any policy or procedures related to the accounting standard
- Accepts responsibility for designing new or redesigning existing internal controls over financial reporting
- Designs or develops new or redesigns existing financial information systems as described in the “Information System Services” interpretation under the “Independence Rule”

The revisions are effective December 31, 2022, and early implementation is allowed.

## Loans, Acquisitions, and Other Transactions

“Beneficially owned, beneficial ownership interest” describes a financial interest providing an individual or entity the right to some or all of the underlying benefits of ownership. These benefits include the authority to direct the voting or disposition of the interest or to receive the economic benefits of the ownership of the interest.

An example of a self-interest threat includes a member has a loan from the attest client, an officer or a director of the attest client with the ability to affect decision-making, or any individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.

Financial interests in, and other relationships with, affiliates of a financial statement attest client may create threats to a member’s compliance with the “Independence Rule”.

When a client is a financial statement attest client, members should apply the “Independence Rule” and related interpretations applicable to the financial statement attest client to their affiliates, except in specified situations.

The revised interpretation clarifies the following exception to the rule:

- During the period of the professional engagement, a covered member may have a loan to or from an
  - Officer or director of an affiliate of a financial statement attest client, unless the officer or director has the ability to affect the decision-making at the financial statement attest client.
  - Individual with a beneficial ownership interest (known through reasonable inquiry) in an affiliate of a financial statement attest client, unless the ownership interest gives the individual significant influence over the financial statement attest client.

Additional guidance is provided by this revised interpretation for the following situations:

1. Acquisitions or other transactions involving a financial statement attest client or its affiliates that result in the creation of a new affiliate

2. An existing financial statement attest client is acquired and the member or member's firm will not continue providing financial statement attest services to such client after the current attest report is issued and the report does not cover periods after the effective date of the acquisition
3. An existing financial statement attest client or its affiliate is involved in an acquisition or other transaction and the member or member's firm expects to continue providing financial statement attest services to such client
4. An existing financial statement attest client or its affiliate is involved in an acquisition or other transaction and the member or member's firm will complete the existing financial statement attest engagement but will not continue providing such services after the current attest report is issued but the report may cover periods after the effective date of the acquisition or other transaction

The new interpretations and revisions are effective December 31, 2022, and early implementation is allowed.

## GROUP STUDY MATERIALS

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### A. Discussion Problems

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1. What is noncompliance and why is it important that it's reported?
2. In general, what is a member of the AICPA's responsibilities (whether in public practice or in business) when identifying or suspecting noncompliance with laws or regulations?
3. When a member assists an attest client with planning and executing the implementation of an accounting standard, self-review or management participation threats to compliance with the "Independence Rule" may exist. Discuss when threats may be acceptable and independence is, therefore, not impaired.

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## B. Suggested Answers to Discussion Problems

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1. Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by those charged with governance, by management, or by other individuals working for or under the direction of a client/employing organization.

Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its financial statements. Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public.

2. If a member engaged to provide professional services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the member should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement.

If the member identifies or suspects that noncompliance has occurred or is likely to occur, the member should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance. With whom to discuss is a matter of professional judgment considering relevant factors, such as the nature and circumstances of the matter or whether management is involved. The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter.

These discussions may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.

3. Threats may be at an acceptable level and independence would not be impaired if, for example, a member does the following:

- Develops and provides training to attest client personnel on the effects of the accounting standard
- Researches, provides advice, makes recommendations, and assists management in identifying financial statement account balances, contracts, and transactions to be assessed under the accounting standard
- Provides advice and recommendations related to the application of the accounting standard, including
  - Analyzing and advising management on the potential impact of the accounting standard on the entity's accounting policies, procedures, and internal controls
  - Recommending possible revisions to existing policies, procedures, and internal controls
  - Assisting the attest client with summarizing the attest client's analysis and policies related to the accounting positions under the accounting standard
  - Preparing transition-related calculations to illustrate the impact of the application of the accounting standard for management's consideration and selection
- Provides observations and recommendations on management's existing overall project plan timeline or assists management in developing an overall project plan timeline to adopt the accounting standard
- Assists management in drafting implementation strategies or methods used to implement the accounting standard
- Assists the attest client in developing implementation templates or provides the attest client with firm-developed templates or tools, including those related to specific calculations under the accounting standard that meet the

exception in the “Information Systems Services” interpretation under the “Independence Rule,” provided the attest client’s management understands the nature of any underlying calculations and the impact the results will have on the financial statements

- Proposes standard journal entries or adjustments to existing journal entries necessary for adoption of the accounting standard, subject to attest client approval in accordance with the “Bookkeeping, Payroll, and Other Disbursements” interpretation
- Provides recommendations related to existing or new information systems as a result of the accounting standard



## PART 3. SMALL BUSINESS

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### Agreed Upon Procedure Engagements

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The guidance on agreed upon procedures is found in the attestation literature. AUP engagements are those where specific procedures are performed by the professional related to underlying subject matter or information. Findings are then reported, however, no opinion or conclusion is provided.

For more on agreed upon procedure engagements, let's join Kurt Oestrieher, CPA and a partner with Oestrieher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

#### Ms. Grove Casey

So today we want to talk a little bit about, agreed upon procedures and to begin with, could you maybe talk about what the applicable guidance is there?

#### Mr. Oestrieher

Right. We've heard of agreed upon procedures and it's I guess the third rung of the ladder under the attestation standards. And, of course the attestation standards were developed years ago by the AICPA's Auditing Standards Board and, the Auditing Standards Board still updates those standards. But that's where we want to provide some sort of assurance or, again, attest on something other than financial statements. So it covers lots of different information that we can do. There are examinations, reviews, but agreed upon procedures are the topic of today. It's by far the most flexible, I believe of all the attestation standards that's, of course, just my opinion, but that's where you'll find them. They're going to be in the AT-C Section 215. And again, just like all of our other standards they've been clarified, it used to just be AT dash.

So we see the AT-C §215. But of course you also have the common concepts where we're seeing this. We saw it in compilation and review engagements, like Section 60 is your umbrella standards. That no matter what you're doing under SSARS, whether it be a review, a compilation or a preparation, you first have to look at the common concepts. And that's what we have with AT-C §100. So some of the topics we're going to talk to there or requirements, some are going to come out of section 100, some are going to come out of section 215 with the bulk of them being in section 215.

#### Ms. Grove Casey

Well, did you want to talk a little bit about the common concepts?

#### Mr. Oestrieher

Yes. The first thing we see is the definition I talked briefly about attestation engagements. And generally, I don't like to read things verbatim, but I'm going to read the definition verbatim because it helps to understand what we're trying to accomplish. So, it's an attestation engagement in which a practitioner performs a specific procedure on underlying subject matter or subject matter information or an assertion and reports on findings without providing an opinion or a conclusion. So when you look at this definition that we have under a common concepts of what is an agreed upon procedure, a lot of elements in there. And like I said, it's wide open. It is designed to be wide open. So we're going to perform specific procedures. What does that mean? We're going to talk about, we're going to have an engagement letter that we're going to talk about exactly what we're going to do compared to an audit where I just say, Hey, I'm going to perform procedures.

I get to choose from a plethora of potential audit procedures based on my risk assessment. No, we're going to agree, and we're going to do specific procedures on what are we going to do this on either an underlying subject matter, boy, that's broad, or subject matter information. So now we're going to take subject matter and do a subset and just say information, or an assertion of management, such as we do this every day or an assertion. The example we get into is like when my daughter was going to different colleges. They're saying, oh, we believe this. Or, is this a skilled nursing facility that says, this is the percentage of outcomes that we have, or a rehab hospital that talks about their performance. Those would be assertions and reports on those findings. So I'm going to issue, a report, but I'm not going to provide an opinion or a conclusion.

I'm just going to simply say it's almost binary – yes or no. And that's why we have the flexibility that I was talking about in an agreed-upon procedure engagement

to fit it to what our clients' needs are. And again, it is very rare that I would have someone walk into my office and say, Kurt I want you to perform an agreed-upon procedures engagement. Usually they come in and say, I have this problem. And it's almost always, they think people are stealing from them. And so they want me to do an audit. And so I said, well, why would you like an opinion as to whether or not your financial statements are in accordance with an applicable financial reporting framework? And, they look at me kind of confused. I don't know what you just said. I just want to find if my cashiers are taking money and I said, okay, then you don't want an audit. And then we guide them there. And, because we have the flexibility in that definition, now we start talking to the client about where do you think people are stealing? What part of the process? What procedures can I do that we agree on that would help either allay your fears and find out they're not stealing or confirm your fears and figure out they are. So that's why we have the flexibility in here. And then that's why that is such a broad definition. And when you first read it, you just go, what are they talking about? And underlying subject matter or subject matter information, it is intended to be very broad.

#### **Ms. Grove Casey**

So most of our engagements have certain precursors for us, the CPAs, in deciding whether or not we can accept an engagement. What about these? Because we do have a very broad aspect there of what it is we can look at.

#### **Mr. Oestrieher**

Right? Well, the first thing is you have to be independent, and this is where in Section 100, these are these common concepts and you must be independent. And so you need to go over now to the ethics standards and determine who are the members of the engagement team and who are partners that can exert significant influence. But there is a caveat. It's a little known concept. There's a caveat within the independence rules that allows a little bit more flexibility when you are performing agreed-upon procedures. And the example is, we're a one-person office. So under the covered member rule, every partner in our office is considered to be a covered member on any engagement. It doesn't matter if he or she has any involvement, they're a covered member, but there's an exception for agreed upon procedures that the spouse of a covered member where he or she would otherwise have their independence impaired, as long as the spouse partner, isn't involved in the engagement, we can do it. So an

example, I know I used a lot of words. Dale is a partner in our firm. If Dale's wife has a business and she thinks people are stealing and wants our firm to do an agreed upon procedure, if they didn't have that caveat, our firm could not do it because we would not be independent because spouses and spousal equivalents have the same independence guideline. They

#### **Ms. Grove Casey**

Are equivalent

#### **Mr. Oestrieher**

Right, and she has a hundred percent ownership. So there's a direct financial relationship. But as long as Dale doesn't work on the agreed upon procedures, believe it or not, our firm could do the agreed upon procedure. And again, because typically it is just between us and management. We're giving them information there. There've been very good arguments that, and we've seen these over the years, that if the agreed upon procedure engagement, if we could restrict the report just to management, then we should throw the independence rule out because third parties aren't relying on it. And again, when you think we don't do a conclusion, we're probably going off on a tangent here, but so many people don't believe that you need to be independent because we're not forming, we're not giving an opinion or our conclusion. So why do we have to, it is just going to be factual.

And, I can't tell you the reasons why I can't remember when they first came up, so maybe the compromise is they've loosened some of those independence rules. So first of all, make sure you're independent, but understand that there are special caveats for certain covered members. ...It's like any other engagement with AICPA, we have to determine whether the responsible party, other than the CPA or who is the responsible party and whether or not they take responsibility. And in almost all cases, the responsible party is going to be the client. We did have a very unique situation in Louisiana a few years ago, where members of our legislature were upset that every time a report came out about someone stealing funds from a local government agency, people would say, well, where were the auditors?

And this might come as a shock to you, but in Louisiana, I don't think we're different than any other state. Sometimes people can get sticky fingers, even when they're a government employee and, it happens.

Right. But the legislative auditor would respond to the legislature inquiry by saying it's in the engagement letter and it's in the report. The objective of our audit is to express an opinion on the financial statements, not to find out if there is fraud and the members of the legislature said, well, that may be what you think, but my constituents and we think an auditor is supposed to find fraud. So the compromise was in the state of Louisiana now, if you are subject to our legislative auditor oversight and you have to have an audit or review, you do what we call statewide agreed upon procedures.

And I was working with Brad Cryer. He was way high up in the office, may he rest in peace, he's not with us anymore, but I was helping him design these procedures and they can get very cumbersome. But at first the legislative auditor didn't want to be the responsible party. Well, these local offices said, well, we're not the responsible party. We're not the one legislature. And finally, the legislative auditor said yes, but we think something as innocuous as this, but it can happen, maybe a bank wants agreed upon procedures on a receivable balance that are used for a borrowing. So the bank will be the responsible party that says, yes, these are sufficient. So we're doing the work at the client. So you have to look at who the user is to identify the responsible party. The next thing is the subject matter is appropriate and evidence can be obtained.

We'll kind of look at those two together. It has to be something that is not subjective. An example of where you could maybe do an agreed-upon procedure.... When my daughter was looking at colleges Liesl was a little bit more thorough than Garrett. Garrett had gone up to Louisiana Monroe. That's where I went to school and thought if it was good enough for you, Dad, it's good enough for me. But Liesl, looked at different colleges and she would come home with all this data of what are the graduation rates? What is the average student loan debt? She was going into nursing. What percentage of their students passed the NCLEX? What percentage had job placements? They had all this wonderful data. And finally, I said, Liesl, how do you know they're telling the truth? Well it comes from a college. Well, again, they're competing for students. How do you know? And it's your money they're competing for.

**Ms. Grove Casey**

They're competing for your loan money.

**Mr. Oestriecher**

Yes, that whole thing about statistics. They weren't competing for loan money. They were competing for daddy's money there. Those are things that would be subject matter. That's appropriate. Because I can measure, in other words, there is data, if a university said, okay, we're going to put all of this in our student recruitment, but we want a CPA firm, and we want a report attached where we did agreed upon procedures, where we compared the graduation rate with enrollment data and number of graduates to determine if the calculation was correct. That would be an example of the specific agreed upon procedure, so that anyone that doubted the sincerity of the college, if you will we could do that now again. They could also, if they wanted, under the attestation standard, they could have done an examination or a review and provided an opinion. You can use whatever one, but just say they wanted to use the agreed upon procedure so that at least they see that a third party CPA has done the procedures. Then we would either say that calculation was correct or incorrect. It's binary. It's one of the two.

**Ms. Grove Casey**

Like test of controls.

**Mr. Oestriecher**

Right. That would be,

**Ms. Grove Casey**

The internal control is working or it's not.

**Mr. Oestriecher**

Exactly. And that's an example of appropriate subject matter. If the school said and our students are awesome and better than anybody else, well, no, that you can't test. That is purely subjective. So it has to be objective not subjective data. We also have to determine that we will have access to all information needed. So it's incumbent upon me as the practitioner to think through these procedures that management or a responsible party wants me to perform. Okay, what if this is what they're saying? This is their assertion, or this is the information, what data is there, and then, will I have access to it? That's all part of the appropriate evidence and will I have information to the data. Then will all relevant ethical requirements be met? And, of course, at the top of the list, we already talked about was independence, but potentially, maybe there's some

weird conflict of interest out there, or maybe there's some other area in ethics that you're concerned about. In most cases I would think, no, but just make sure it's not just independence. It's all part of your ethical obligations. We have to reach an understanding with the client meaning we have to have an engagement letter with the client. And again, that engagement letter, an example of which is in your material, that is going to outline exactly what we're going to do, that the body of the letter is much shorter than almost any other engagement letter we have in professional standards. Most of the letter is what we're going to do. And, it could be as few as just three or four procedures, depending on the needs of the client. It could be 20 or 25. And fortunately for us in the latest version of the standard that's been updated and clarified. It used to be, if we agreed on 13 things, that's what we had to do. But as we know, if we're doing an audit and a lot of times we think initially a certain procedure is good, and then, as we get through, we go, oh no, no. If we do this, it's better. If an agreed upon procedure, you had to go back and amend the engagement letter and get a different engagement. Now you're actually allowed to inform management, but as you go along, you can perform, you know what? You're allowed to go a little bit off. Now, you can't just go off on a tangent, but we're allowed to kind of amend as we go on. But I would think in most cases, the majority, if not all of what is contemplated by the client, y'all have already agreed upon. We have a recurring agreed upon procedures engagement with a company that has multiple offices down in south Louisiana.

And it's exactly that first scenario I described. He had heard other people in similar types of businesses were getting money stolen. So we did agreed upon procedures and every now and then, it's not a regular thing – like we go every quarter, just, I think whenever he gets nervous, he calls us. he first few times we did this, we said, well, look, we learned this, let's do this procedure a little bit different. So if it is a recurring thing like that, a lot of times you might say, well, instead of changing this one, we're still going to go with our original plan. But if we come back next quarter, or next year, we make a little note in the file and we might add, and, and talk it over with management and say, this is a procedure that might give you a little bit more information. Because that's what we're doing – we're not giving comfort; we're providing information to the client. So those are the preconditions. If you cannot get all of that accomplished, then please do not proceed with an agreed upon procedures engagement.

### **Ms. Grove Casey**

Well, assuming that we're going forward with these agreed upon procedures engagements, what kind of documentation is required there?

### **Mr. Oestrieher**

Again, this is in the general standards. It has to be on a timely basis. It is going to be 60 days, everything has to be completed. So you can issue your report and just like our audits, we have 60 days. But the reality is because there's not a lot of cleanup work my experience with the agreed upon procedures. I can't see any obvious scenarios where you would not have your documentation completed when you issued the report. Cause your documentation we'll talk later, you have a rep letter report. So you have your engagement letter, your representation letter, and then, your procedures performed. It's not like an audit where you have all the internal control documentation and risk assessments and all that. So it's kind of, as you're moving along and performing the procedures, you should have everything. So it has just been my experience that we wrap 'em up, but do make sure it's within 60 days. And then you have all the other guidance on client confidentiality, ownership of the documentation. And, of course, the documentation itself, as we talk about a few procedures has to clearly indicate the procedures performed. When the work was done, who reviewed it and your conclusions reached. So there's nothing special from that standpoint, as you know, if you want to compare it to an audit.

### **Ms. Grove Casey**

Well, let's talk a little bit more about the procedures. Do they have concepts about that? Because the procedures are really the guts of an agreed upon procedures engagement.

### **Mr. Oestrieher**

And, this is where, again, as we read this or go through it, you can see that the standards are trying to provide us guidance, but not limit us. I don't know if there's a better way to say it, but it starts first about talking about the engagement party, knows what they need. In other words, this is rather than us going and telling them. If I were to ever go to a client and say, you need agreed upon procedures for this reason. It's like, I don't know about, but do you ever get phone calls from people that are very concerned about the costs you may incur for your car warranty and your repairs and you get three or

four of those phone calls a day and it is so nice that those people are so concerned about your, I know financial wellbeing, isn't it?

**Ms. Grove Casey**

It is. And not just mine, but every family member that owns one <laugh>

**Mr. Oestrieher**

Yes, and even if you sold the car, they'll still sometimes call you back and for years ago. So we are not going to our clients and creating problems to solve. The client has to understand their needs. And so that's why we call them agreed upon procedures. This is just, these procedures are designed for us to be able to give a written report in some manner, less than an opinion or a conclusion, which again is an examination or a review. And so the purpose of this or the concept, the underlying concept is the client may not know how to go get the information or know exactly what are the best procedures to perform. So that's why we consult with them and use our expertise to say, well, if you think money is being stolen out of your cash register, and maybe they don't exactly understand how their point of sale system works and documentation and all that, we can help them understand that and say, these are the procedures that we can perform to determine whether or not your objective is that all the dollars that come through the drive through window that went into that cash register, get deposited in the bank.

That's what the client fears and while you, and I would think, it's common sense, you should be able to kind of look at this. A lot of them don't have common financial sense. They have great business sense. They have great common sense, but things that you and I might take for granted or another practitioner because we have 30 plus years of experience. No, the business owner doesn't know that. So that's where our expertise comes in to kind of help them solve the problem. Then we get them the written report, and then, they use that information to then draw their own conclusions and determine future if any processes that the company's going to take. So that's the underlying concept, if you will, as to why we have the agreed upon procedures.

**Ms. Grove Casey**

So do you know, we, by talking with a client, we have an understanding hopefully of what it is that they think they want, but let's talk about what the objectives of the practitioner are in performing these engagements and maybe how that's reflected in the engagement letter.

**Mr. Oestrieher**

It's in the engagement letter and the report. This is where we have to stay in our lane. Okay. It is very specific procedures to that subject matter. And once we agree with them on the client, then that's what you're going to do. And, so I can take an example if anyone's watching this and they want to see, they can go to the Louisiana legislative auditor's website and there are sample engagement letters of exactly what the agreed upon procedures are. And they're very specific, it doesn't say test cash disbursements. It will say five locations that receive cash and take two sample months and determine if all the cash deposits that are collected per internal reports for those days have been properly deposited within 24 hours. Don't say, within a timely manner, because then that's within 24 hours, within two days, or within Louisiana law. Everything has to be very specific when you read that again. I always think of binary. If I have to use my judgment to determine whether or not something is timely or appropriate, those are not the words that you'll want to use, because the objectives have what is in the guidance in section 215. So very, very specific procedures. And then, and I know it's kind of a broken record, but then based on that we issue the written report and then there is going to be potential further communications required. That's in other courses. We could talk for two or three hours, I guess, on agreed upon procedures, to comply with all of the standards out there.

**Ms. Grove Casey**

So I don't know how specific you want to get in the engagement letter, but what it sounded like to me was when you're detailing the procedures that you're going to be doing, if you cannot answer that with a yes or a no, then you're probably not specific enough.

**Mr. Oestrieher**

Exactly. And, that's the problem. The issue that we have and, and because we're designing them, this is where people want to go to third party practice aids just to see an example. I mean, we give you an example engagement letter for a compilation, but it is tailor made to every single client. Don't have a staff person do the engagement letter. We talked about it earlier. In the 20 minutes we've been talking so far, but now when you get into the specifics, quite frankly, the most senior member on the engagement, which will typically either be a partner or a very experienced manager level and different firms use different ones, but please have at

least five years of experience. If it's less than five, make sure it's a really smart person that he or she truly understands these concepts. Because if you mess up the engagement letter, you're going to have a bad engagement, because you're going to realize, oh wait, we can't do this, or this is too subjective. So you have to have not only those procedures, very detailed that I've talked about, but the intended users of the report need to be in the engagement letter. Whether you're going to restrict it or not. And again, depending on who's asking, it could be a regulator. I do recommend if it is requested by a third party, such as a bank and a borrowing-based certificate. So they may want to do agreed upon procedures on subsequent collections on a borrowing based certificate or receivable subsidiary though. That's something we see at asset-based lending every now and then. And yes, I would want to restrict it to just that bank and because I don't want this going off to other people, because again, the more people that use that report, then the more you're opening yourself up for exposure.

And remember that while we're following the standards on here, okay, we're not obtaining an understanding of internal control. So, I'm not going to look at the internal controls to look at cash receipts. Whether or not stuff is missing or not, it should be posted. So generally, if someone is getting an agreed-upon procedures report and using it, we have to remember, there's a very specific reason for this. It is an owner of a business looking for theft. It is a bank or a lender or an investor looking at a risk element and they want something via attestation services done. They want this comfort that whatever it is, they should get from agreed upon procedures. And even though you put all the limitations in there, if you screw this up and people use this report and then they lose money because money was being stolen and you didn't detect it, even though the responsible party says they're taking responsibility for the sufficiency of the procedures, don't try to convince that jury when you're the CPA and they own seven ice cream stores, or whatever it might be. This is just Kurt's opinion to restrict the use to the known users. That way you can assess or restrict the use that way you assess your risk, and when you're pricing these, a lot of firms that I talk about that they will charge a little premium because this is out of the ordinary. It's like you, you have a manufacturing process and, you're doing a lot of normal stuff that you sell. Well, now you have to re-engineer your product line almost. And again, there are very specific risks addressed with almost anything under the attestation standards. And so usually that is

going to be reflected in the fee. In fact, the legislative auditor, that was one thing they did not realize the cost of this to the governmental entities. There's a little bit of back and forth complaint, but the practitioners were saying, no, if you want us to dig down in there and get the engagement letter, right, get the rep letter, right, and take this risk, we're not going to do this for \$500. So it's just not going to happen.

#### **Ms. Grove Casey**

Well, I want to be a little cognizant of our time and we do have a few more things to talk about. So let's talk about the findings because that's one of the things that really sets these types of engagements apart from the other services we provide.

#### **Mr. Oestrieher**

Right, and again, it's just the results of the procedures. So the example that I gave earlier is, if we have an agreed upon procedure to go to local government and determine if bank deposits from five locations over a two-month period are made within five days, the finding would state we... determined that money collected at location A was deposited in bank ABC within three business days of collection. And then we would list the dates that we looked at and say either yes or no. I mean, that's how specific you want to get. Some people might say we performed that service and we looked at 37 independent deposits and all 37 deposits were made within the timeframe. Or, they might say 35 were made within the timeframe. One was made in four days and one was made in six days.

And you might put those days down. So you do have some flexibility there, but the finding shouldn't say, overall look pretty good, which is again, we need, and I know you use some slang term there, but when I'm doing an audit, if I take a sample of 150 items and there's one or two deviations, then we say, okay, that's enough audit evidence that it's materially correct over this isn't material. We don't say things like, eh, for the most part, they did a pretty good job. So it has to be very, very specific based on what procedures you did. So get your person that speaks the best English and the most concise person in your office to write that letter, to report.

#### **Ms. Grove Casey**

Just as the procedure is specific, the finding has to be specific. So it's very factual. There's no conclusion drawing here.

**Mr. Oestriecher**

Exactly.

**Ms. Grove Casey**

So let's talk about the representation letter and what needs to go in there. And then we'll talk about the report.

**Mr. Oestriecher**

Right. Very straightforward on the representation letter describes who the responsible party is that they retained all the necessary agreements that they responded to. All of our inquiries provided all the information if there's any contradicting subject matter. So it, it's very straightforward. It's in the text. ...I don't need to go through each line during the video segment of this, but just make sure you get the representation letter. That is something talking to our peer reviewer, so many people forgot to do this in the governmental realm. They get the representation letter on the financials and forget to get a rep letter. So that's actually pretty straightforward. And this is where there are lots of great examples in third party practice aids to start from, but again, make sure the language in the representation letter, when you're talking about specific procedures, perform, match up with what you did, which is what is in the engagement letter. And again, it has to be signed by the responsible party. It's usually going to be the CEO or the CFO of the organization.

**Ms. Grove Casey**

Let's talk about the report a little bit, because that's where we go from the representation letter. You want to make sure what's in the report matches up with what it is that they're representing.

**Mr. Oestriecher**

Right. In the form of it, just like we have independent auditors report, there will be a title and you have to have the word independent in there. And typically we put independent, agreed upon procedures report. You have to have the address, the name and address of the entity, the identification of the engaging and the responsible party, which sometimes will be the same party. Sometimes it's the third party. Like it will be the responsible party like we discussed earlier. You identify the subject matter, which again, you might have multiple different types of subject matter, but whatever they are, both parties agreed that they were appropriate. The purpose of the engagement, again, is

to perform those procedures, any limitations of the engagement. And this is where you have the boiler plate. You know, it's not an evaluation of internal controls, it's not issuing an opinion.

So you have all those various limitations. Then you get into the body of it, the description of the procedures and the findings, and that that's very detailed. And this could be 5, 6, 7 pages long, depending on what you did. In fact, one of the ways that you do this is you copy and paste when you get to this section, from the engagement letter, which you say you're going to do, then you fill in. It's like if step one was obtained and then you put in your procedure. So truly the copy and paste way. If anyone's comparing my engagement letter to the report, my report should say, clearly what we were engaged to do. And then, of course, you have to say that you did this in accordance with AICPA standards again, on the limitations. It was not an examination or review and do not use the word audit.

You used the word examination, because under the attestation standards, to do an examination or an audit, just like all over other reports now where independence is required, you have an affirmative statement in the report that you're required to be independent. And of course you sign it, the city and state, the office that did the work. If it's ordered on your letterhead, then that's fine. Then the date, which is the date that you completed your procedures and reviewed and all. And again, this is usually very simultaneous. This is a report that doesn't sit around on your desk. It's very easy to wrap these engagements up once the report's done. Usually it's just in a couple of days, it's in the hands of our clients. Of course we sent them a draft copy of the report with rep letter, just like we do the financial statements. That way they can review exactly what we did and then they can make the representation that, yes, we provided the information for these items. When we get the signed rep letter back then we send the final report to the client or a third-party user or both.

**Ms. Grove Casey**

Well, you mentioned a couple of other occasions, other places where these things are used, but what are the most practical uses of this type of engagement?

**Mr. Oestriecher**

Yes, I mean regulatory and banking are probably the most common, but for our firm, and again, we're a small firm in central Louisiana, it is a way when a client has

a concern about their business. And again, it is almost either theft of cash, theft or inventory, but it could be compliance. Maybe it is a trucking company. And they're concerned about compliance with either drug testing for their drivers or compliance with the number of miles driven. Again, those are all hard criteria that the miles driven might be tough because maybe there's logs and you don't know exactly how many hours, but if there are monitoring systems within the vehicles and maybe they've had troubles with regulators before dispute. So to show regulators, Hey, we're serious about this, they could get a third party CPA to do what my client would refer to as an internal audit of those logs. Right? But again, it's an agreed upon procedure. So anytime a client is looking at either a compliance issue or trying to get third parties to have more trust for lack of a better word, but that's what we do more and more trust in data they're providing to third parties, then that's going to be when agreed-upon procedures would be appropriate.

## SUPPLEMENTAL MATERIALS

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### Performing Agreed Upon Procedures under AICPA Attestation Standards

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by Kurt Oestrieher, CPA

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#### Introduction

More than ever, companies are requesting that an accounting firm provide assurance on information other than financial statements. The AICPA Auditing Standards Board has developed the Attestation Standards (AT-C) to provide guidance to the accountant when providing such services. The accountant may provide an examination engagement, review engagement, or perform Agreed Upon Procedures (AUPs) in order to achieve the desired objectives of the client.

#### Common Concepts

AT-C 100.12 defines an Agreed Upon Procedures engagement as an engagement in which a practitioner performs specific procedures on underlying subject matter or subject matter information or an assertion and reports the findings without providing an opinion or a conclusion. An analogy can be made between an AUP engagement and the character Joe Friday from the 60s television show *Dragnet* – “Just the Facts Ma’am”. The practitioner reports the factual findings and the user of the report will draw his or her own conclusions from the facts presented.

#### Pre-Conditions for Acceptance

A practitioner must be independent with respect to the client in order to perform an agreed upon procedures engagement. The independence guidance may be found in ET 1.200.000. In addition to the independence requirement, the practitioner must determine the following criteria is met:

- Whether the responsible party is a party other than the CPA and takes responsibility for the engagement
- The subject matter is appropriate
- Evidence can be obtained
- The practitioner will have access to all information that is needed

- All relevant ethical requirements can be met
- An understanding in the form of an engagement letter has been reached with the client

Most of the pre-conditions are self-explanatory, however the determination as to whether or not the subject matter is appropriate has been an issue in some cases. In determining whether the subject matter is appropriate, the practitioner must look to the subjectivity of the subject matter. If a definitive conclusion cannot be reached regarding the subject matter, the subject matter will not be appropriate. To illustrate, if a client requests that a practitioner perform procedures to determine if a high school has an “acceptable graduation rate”, the subject matter is not appropriate. However, if the practitioner is engaged to recalculate the stated graduation rate of 94.6%, the engagement is acceptable because there is definitive criteria: (1) has a student graduated in four years – this is a yes or no proposition, and (2) the percentage of graduating students compared to the population of four-year students can be calculated.

#### Concepts and Objectives

The engaging party is considered to have the knowledge to determine the suitability of the procedures as management understands the objectives of the engagement. If the engaging party or responsible party does not agree to the suitability of the procedures and that they are appropriate for the intended purpose, the practitioner should not accept the engagement.

It is acceptable and probable that the practitioner will assist the client in determining the appropriate procedures based on conversations between the two parties. Most clients that desire AUP engagements have an idea of the objectives they wish to accomplish, but do not have an in-depth understanding of what types of procedures a practitioner may perform to accomplish those objectives. Regardless of the amount of involvement a practitioner may have in forming the procedures, ultimately the client and/or responsible party must take responsibility for the procedures. This understanding will be documented in the engagement letter.

## Engagement Letter

A practitioner must obtain an engagement letter, signed by both the practitioner and the client, before performing the agreed-upon procedures. The following elements are required in the engagement letter:

- The intended purpose of the engagement and the intended users of the agreed-upon procedures report.
- Whether the practitioner's agreed-upon procedures report is expected to be restricted to the use of the specified parties.
- Whether the engagement to be performed is pursuant to any law, regulation, or contract
- Whether parties in addition to the engaging party will be requested to agree to the procedures and acknowledge that the procedures performed are appropriate for their purposes
- The nature of the engagement
- Identification of the subject matter and the responsible party
- The responsibilities of the practitioner
- A statement that the engagement will be conducted in accordance with attestation standards issued by the AICPA
- A statement that the responsible party is responsible for the subject matter
- A statement that the engaging party agrees to provide the practitioner, prior to the completion of the engagement, with a written agreement and acknowledgement that the procedures are appropriate for the intended purpose of the engagement
- A statement that the engaging party agrees to provide, at the conclusion of the engagement, a representation letter
- If known at the onset of the engagement, an identification of any other parties, in addition to the engaging party, that will be requested to agree to the procedures and acknowledge that the procedures performed are appropriate for their purposes. If the request is expected to be made by

the engaging party, a statement that the engaging party agrees to provide, at the conclusion of the engagement, a written representation that the engaging party has obtained from all necessary other parties agreement to the procedures and acknowledgment that the procedures performed are appropriate for their purposes

- If the engaging party is not the responsible party, a statement that written representations may be requested from the responsible party
- Reference to the expected form and content of the practitioner's agreed-upon procedures report, including any use restrictions, if applicable
- Disclaimers expected to be included in the practitioner's report, if applicable
- Assistance to be provided to the practitioner, if applicable
- Involvement of a practitioner's external specialist, if applicable
- Specified thresholds for reporting exceptions, if applicable

In addition to the above required elements, the procedures that have been agreed to shall be part of the engagement letter. It is common that a practitioner shall attach an exhibit to the engagement letter that lists all of the procedures that will be performed, and refer to the exhibit in the body of the engagement letter.

## Procedures

The procedures performed may be limited to a single procedure or multiple procedures. The extent of the procedures will be totally dependent upon the objectives of management.

The practitioner should perform the procedures exactly as described and agreed to in the engagement letter. Prior standards required that any modification of the procedures must be agreed to by management. However, recent revisions of the AT standards allow the practitioner to perform expanded procedures if, during the performance of the agreed-upon procedures, the practitioner determines that additional procedures are required to meet the objectives of the client and/or responsible party.

The procedures should be as specific as practical in the circumstances. Vague terms such as review, check, or test, should not be used. More appropriate terms are: compare, recalculate, or trace.

Examples of appropriate procedures are:

- Trace the amount of the total cash recorded on the Z tape from cash register 1 to a deposit in ABC Bank, and determine that the deposit was made within one business day of the date recorded on the Z tape.
- Determine that a bank reconciliation was performed by the 5th day of the close of the month and that the reconciliation was approved by one of the managers listed in the accounting procedures manual Exhibit C.
- Select a random sample of 25 cash disbursements for the months of February and April. The sample should be selected based on the check number. Compare the details of each check to the supporting invoice and determine that the amount paid was the amount that is reflected in the invoice. Determine that each invoice was properly approved by a department head that is listed in the accounting procedures manual Exhibit D.

An example of a procedure that would not be appropriate is:

- Review some deposits during the year and determine if the deposit is appropriate.

## Findings

The results of the procedures performed should be presented in the report as findings. In most cases, the findings are binary, i.e. the subject matter was either in conformity with the criteria or it was not in conformity with the criteria. Each item in a sample does not have to be individually reported. As an example, if the AUP was to select 50 random invoices to determine if a purchase order was completed for each invoice and attached to the paid invoice, the practitioner may report in his or her finding that “of the 50 items selected for testing, 48 of the invoices had a purchase order attached and 2 invoices did not have an appropriate purchase order attached.

## Representation Letter

Before issuing the Agreed-Upon Procedures report, the practitioner needs to obtain a representation letter from the client that contains the following required elements:

- A statement that the responsible party is responsible for the subject matter
- If applicable, a statement that the engaging party has obtained from all necessary parties agreement to the procedures and acknowledgment that the procedures are appropriate for their purposes
- A statement that it has provided the practitioner with all relevant information and access, as applicable, as agreed upon in the terms of the engagement
- A statement that all known matters contradicting the subject matter and any communication from regulatory agencies or others affecting the subject matter have been disclosed to the practitioner, including communications received between the end of the period addressed by the subject matter and the date of the practitioner's report
- A statement that it is not aware of any material misstatements in the subject matter
- A statement that it has disclosed to the practitioner all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter
- Any additional representations that the practitioner determines are appropriate

The representation letter should be dated the date of the Agreed-Upon Procedures report. If the client refuses to sign the representation letter, the practitioner should withdraw from the engagement and not issue the report.

## Report

Upon completion of the procedures and receipt of the representation letter, the practitioner should prepare a report, in writing, to the appropriate parties. The report should not provide an opinion or a conclusion, but instead clearly state the procedures performed and the related findings.

The report should contain the following required elements:

- A title that includes the word independent
- An appropriate address
- Identification of the engaging party and the responsible party
- Identification of the subject matter
- A statement that the engaging party agrees that the procedures are appropriate
- Intended purposes of the engagement
- Any limitations of the engagement
- A description of the procedures and findings
- A statement that procedures were performed in accordance with AICPA Attestation Standards
- The fact that the CPA did not conduct an examination or a review of the subject matter
- A statement that the CPA is required to be independent
- A signature
- City and State of the CPA or firm that performed the procedures
- Date

### **Documentation**

The practitioner should maintain documentation of all procedures performed and any other relevant memoranda or documents that will allow an experienced practitioner to determine the nature and extent of procedures performed. The practitioner is not required to maintain a copy of all client documents that are inspected when performing procedures, but an identifying reference to each document should be maintained, such as a check number, so that the document can be re-examined if necessary.

The documentation should be complete and final within sixty days of issuing the report. Any subsequent revision of the documentation should be noted and the reasons for the revisions.

### **Summary**

Agreed-Upon Procedures engagements are very useful in providing relevant information to management or governance of an organization in an efficient manner. Often, a client will request an “audit” because they suspect that the company is not operating efficiently or they suspect theft or fraud. The practitioner can steer the client to an AUP engagement that, properly designed, will provide the information that management requires in order to make decisions in a timely and efficient manner.

## GROUP STUDY MATERIALS

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### **A. Discussion Problems**

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1. Discuss the preconditions to accepting an agreed upon procedures engagement.
2. Discuss the representation letter the practitioner should receive before issuing a report in an agreed upon procedures engagement.
3. Discuss the report and its requirements that would be issued in an agreed upon procedures engagement.

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## B. Suggested Answers to Discussion Problems

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1. A practitioner must be independent with respect to the client in order to perform an agreed upon procedures engagement. The independence guidance may be found in ET 1.200.000. In addition to the independence requirement, the practitioner must determine the following criteria is met:
  - Whether the responsible party is a party other than the CPA and takes responsibility for the engagement
  - The subject matter is appropriate
  - Evidence can be obtained
  - The practitioner will have access to all information that is needed
  - All relevant ethical requirements can be met
  - An understanding in the form of an engagement letter has been reached with the client
2. Before issuing the Agreed-Upon Procedures report, the practitioner needs to obtain a representation letter from the client that contains the following required elements:
  - A statement that the responsible party is responsible for the subject matter
  - If applicable, a statement that the engaging party has obtained from all necessary parties agreement to the procedures and acknowledgment that the procedures are appropriate for their purposes
  - A statement that it has provided the practitioner with all relevant information and access, as applicable, as agreed upon in the terms of the engagement
  - A statement that all known matters contradicting the subject matter and any communication from regulatory agencies or others affecting the subject matter have been disclosed to the practitioner, including communications received between the end of the period addressed by the subject matter and the date of the practitioner's report
  - A statement that it is not aware of any material misstatements in the subject matter
  - A statement that it has disclosed to the practitioner all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter
  - Any additional representations that the practitioner determines are appropriate
3. The practitioner should prepare a report, in writing, to the appropriate parties. The report should not provide an opinion or a conclusion, but instead clearly state the procedures performed and the related findings.

The report should contain the following required elements:

  - A title that includes the word independent
  - An appropriate address
  - Identification of the engaging party and the responsible party
  - Identification of the subject matter
  - A statement that the engaging party agrees that the procedures are appropriate
  - Intended purposes of the engagement
  - Any limitations of the engagement
  - A description of the procedures and findings
  - A statement that procedures were performed in accordance with AICPA Attestation Standards
  - The fact that the CPA did not conduct an examination or a review of the subject matter
  - A statement that the CPA is required to be independent
  - A signature
  - City and State of the CPA or firm that performed the procedures
  - Date

## GLOSSARY OF KEY TERMS

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**Agreed Upon Procedure Engagement**—an attestation engagement in which a practitioner performs a specific procedure on underlying subject matter or subject matter information or an assertion and reports on findings without providing an opinion or a conclusion

**Attestation Engagements**—an arrangement with a client where an independent third party investigates and reports on subject matter created by a client.

**IFRS**—International Financial Reporting Standards

**ISSB**—International Sustainability Standards Board; an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS). The ISSB operates under the oversight of the IFRS Foundation.

**Net Zero Emissions Rate**—when all GHG emissions released by human activities are counterbalanced by removing GHGs from the atmosphere in a process known as carbon removal.

**PEEC**—Professional Ethics Executive Committee

**Sustainability Accounting**—the practice of measuring, analyzing and reporting a company's social and environmental impacts



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**BY SPEAKER**

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Russ Madray.....	Jan-Feb, May-Aug	Kurt Oestriecher .....	Jan-Mar, May-Oct
Jennifer Louis.....	Jan, Mar, May-Oct		

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

1. According to Jennifer Louis, the acronym for Greenhouse Gas Emissions is which of the following?
  - A. CO2.
  - B. GHG.
  - C. O3.
  - D. H3O
  
2. According to Jennifer Louis, which of the following are indirect?
  - A. Scope I.
  - B. Scope II.
  - C. Scope III.
  - D. Scope IV.
  
3. According to Jennifer Louis, what is the proposed effective date related to the climate change disclosures for large SEC registrants?
  - A. 2023 filings.
  - B. 2024 filings.
  - C. 2025 filings.
  - D. 2026 filings.
  
4. According to Jennifer Louis, which of the following was *not* mentioned as a place looking at climate related disclosures?
  - A. European Union.
  - B. Japan.
  - C. Canada.
  - D. New Zealand.
  
5. According to Jennifer Louis, which of the following is *not* currently an organization with sustainability disclosures or standards?
  - A. SASB.
  - B. ISSB.
  - C. IFRS.
  - D. FASB.

*Continued on next page*

6. According to Jennifer Louis, when does the NOCLAR interpretation become effective?
  - A. June 30, 2022.
  - B. December 31, 2022.
  - C. June 30, 2023.
  - D. December 31, 2023.
  
7. According to Jennifer Louis, which of the following is a hallmark of the accounting profession?
  - A. Giving investors information to buy stocks.
  - B. Looking out for the general public's interest.
  - C. Protecting business owners from fraudsters.
  - D. Advocating for clients in front of regulators.
  
8. According to Jennifer Louis, who does the CPA owe responsibilities to under the PEEC guidance on NOCLAR?
  - A. The engaging party.
  - B. Shareholders of the entity.
  - C. Regulators.
  - D. Legislators.
  
9. According to Jennifer Louis, who is ultimately responsible for an entity's compliance with laws and regulations?
  - A. Front line employees only.
  - B. Management.
  - C. CPAs.
  - D. State regulators.
  
10. According to Jennifer Louis, when is the earliest the ethics interpretation on the impact of unpaid fees on independence effective?
  - A. December 31, 2022.
  - B. December 31, 2023.
  - C. December 31, 2024.
  - D. December 31, 2025.

*Continued on next page*

11. According to Kurt Oestrieher, guidance on agreed upon procedures engagements is found in which of the following?
- A. AT-C §210.
  - B. AT-C §215.
  - C. AT-C §220.
  - D. AT-C §230.
12. According to Kurt Oestrieher, with an agreed upon procedures engagement, the report is going to be which of the following?
- A. Almost binary.
  - B. Furnishing a conclusion.
  - C. Providing an opinion.
  - D. Giving reasonable assurance like an audit.
13. According to Kurt Oestrieher, the requirement for a practitioner to be independent in an agreed-upon procedures engagement is found where in the authoritative guidance?
- A. AR-C §60.
  - B. AR-C §100.
  - C. AT-C §100.
  - D. AT-C §215.
14. According to Kurt Oestrieher, which of the following is **not** part of an agreed-upon procedures engagement?
- A. Following the standards.
  - B. Reporting findings.
  - C. Gaining an understanding of internal control.
  - D. Getting an engagement letter.
15. According to Kurt Oestrieher, which of the following does **not** need to be in an agreed-upon procedures report?
- A. The name and address of the entity.
  - B. A title.
  - C. Identification of the engaging and the responsible parties.
  - D. Done in accordance with GAAP.



## Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to [CPLgrading@thomsonreuters.com](mailto:CPLgrading@thomsonreuters.com).

How would you rate the topics covered in the October 2022 **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
SEC Proposed Guidance on Climate Change	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Recent PEEC Guidance	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Agreed Upon Procedure Engagements	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the October 2022 issue of **CPE Network® A&A Report** did you like the most, and why?

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Which segments of the October 2022 issue of **CPE Network® A&A Report** did you like the least, and why?

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

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How would you rate the effectiveness of the speakers in the October 2022 **CPE Network® A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

	<b>Overall</b>	<b>Knowledge of Topic</b>	<b>Presentation Skills</b>
Jennifer Louis	____	____	____
Kurt Oestrieher	____	____	____

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD  Streaming  Both

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

Were the stated learning objectives met? Yes  No  \_\_\_\_\_

If applicable, were prerequisite requirements appropriate? Yes  No  \_\_\_\_\_

Were program materials accurate? Yes  No  \_\_\_\_\_

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

Were the time allocations for the program appropriate? Yes  No  \_\_\_\_\_

Were the supplemental reading materials satisfactory? Yes  No  \_\_\_\_\_

Were the discussion questions and answers satisfactory? Yes  No  \_\_\_\_\_

Specific Comments: \_\_\_\_\_

Name/Company \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_

Email \_\_\_\_\_

**Once Again, Thank You...**

**Your Input Can Have a Direct Influence on Future Issues!**





# CHECKPOINT LEARNING NETWORK

# CPE NETWORK<sup>®</sup>

# USER GUIDE

REVISED March 11, 2022

## Welcome to CPE Network!

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

This User Guide has the following sections:

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

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

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

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

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

### **Copyrighted Materials**

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

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance

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

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they

attended should be documented on the sign-in sheet and will be reflected on the participant's CPE certificate.

### **Real Time Instructor During Program Presentation**

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

### **Elements of Engagement**

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

### **Make-Up Sessions**

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

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

## **Awarding CPE Certificates**

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

## **Subscriber Survey Evaluation Forms**

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

## **Retention of Records**

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

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

## Finding the Transcript

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

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

## Requesting Participant CPE Certificates

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

**Mail:** Thomson Reuters  
PO Box 115008  
Carrollton, TX 75011-5008

**Email:** [CPLgrading@tr.com](mailto:CPLgrading@tr.com)

**Fax:** 888.286.9070

**When sending your package to Thomson Reuters, 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 Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

**Incomplete submissions will be returned to you.**

# “Group Internet Based” Format

## CPE Credit

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

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance in a Webinar

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

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

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 ask 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.

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

### **Awarding CPE Certificates**

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

### **Subscriber Survey Evaluation Forms**

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

## Retention of Records

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

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

## Finding the Transcript

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

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

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

## Requesting Participant CPE Certificates

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

**Mail:** Thomson Reuters  
PO Box 115008  
Carrollton, TX 75011-5008

**Email:** [CPLgrading@tr.com](mailto:CPLgrading@tr.com)

**Fax:** 888.286.9070

**When sending your package to Thomson Reuters, you must include ALL the following items:**

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

**Incomplete submissions will be returned to you.**

# “Self-Study” Format

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

## Self-Study—Print

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

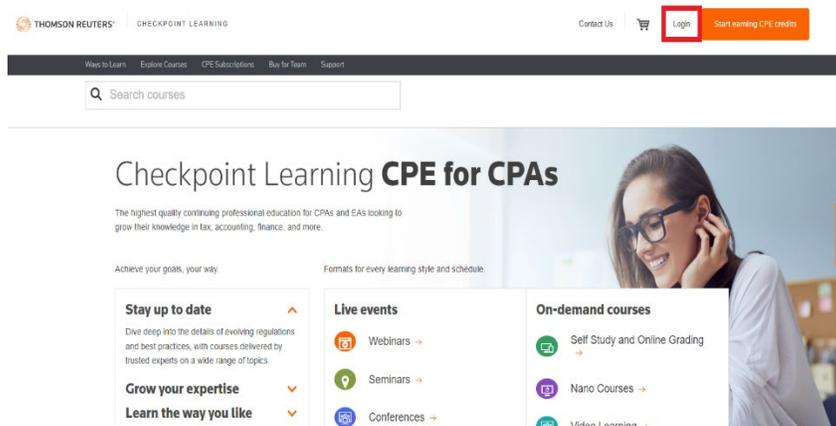
- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
-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

**Thomson Reuters**  
**PO Box 115008**  
**Carrollton, TX 75011-5008**

## Self-Study—Online

Follow these simple steps to use the online program:

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



The screenshot shows the Checkpoint Learning website interface. At the top, there is a navigation bar with the Thomson Reuters logo, "CHECKPOINT LEARNING", and links for "Contact Us", "Login", and "Start earning CPE credits". Below the navigation bar is a search bar with the text "Search courses". The main content area features a large banner with the text "Checkpoint Learning CPE for CPAs" and a sub-headline "The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more." Below the banner, there are three columns of content: "Stay up to date" with a sub-headline "Dive deep into the details of evolving regulations and best practices, with courses delivered by trusted experts on a wide range of topics.", "Live events" with sub-headline "Formats for every learning style and schedule" and icons for "Webinars", "Seminars", and "Conferences", and "On-demand courses" with sub-headline "Learn the way you like" and icons for "Self Study and Online Grading", "Nano Courses", and "Video Learning". A woman wearing glasses and a white shirt is visible on the right side of the banner.

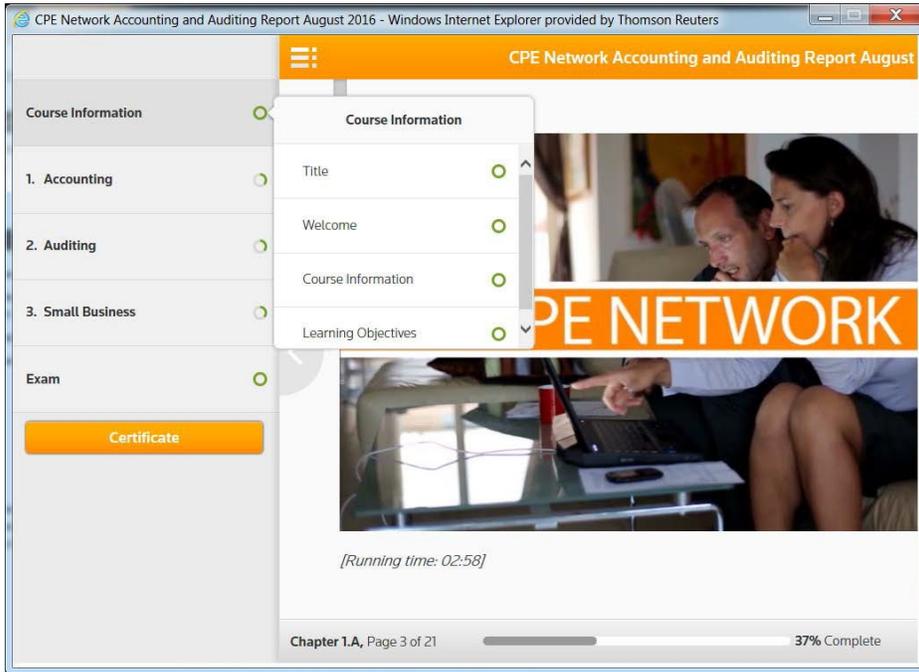
- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.

CPE Network	Subscription Expiration Date	Latest Issue Available
<a href="#">NETWORK TAX REPORT</a>	11/5/2118	February 2022
<a href="#">NETWORK ACCOUNTING AND AUDITING REPORT</a>	11/5/2118	March 2022

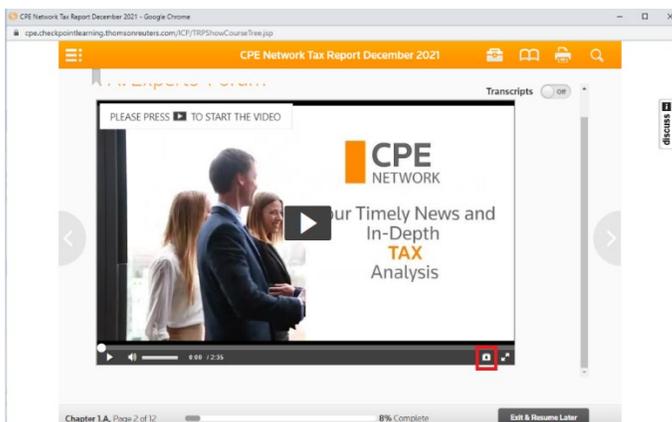
The Chapter Menu is in the gray bar at the left of your screen:

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

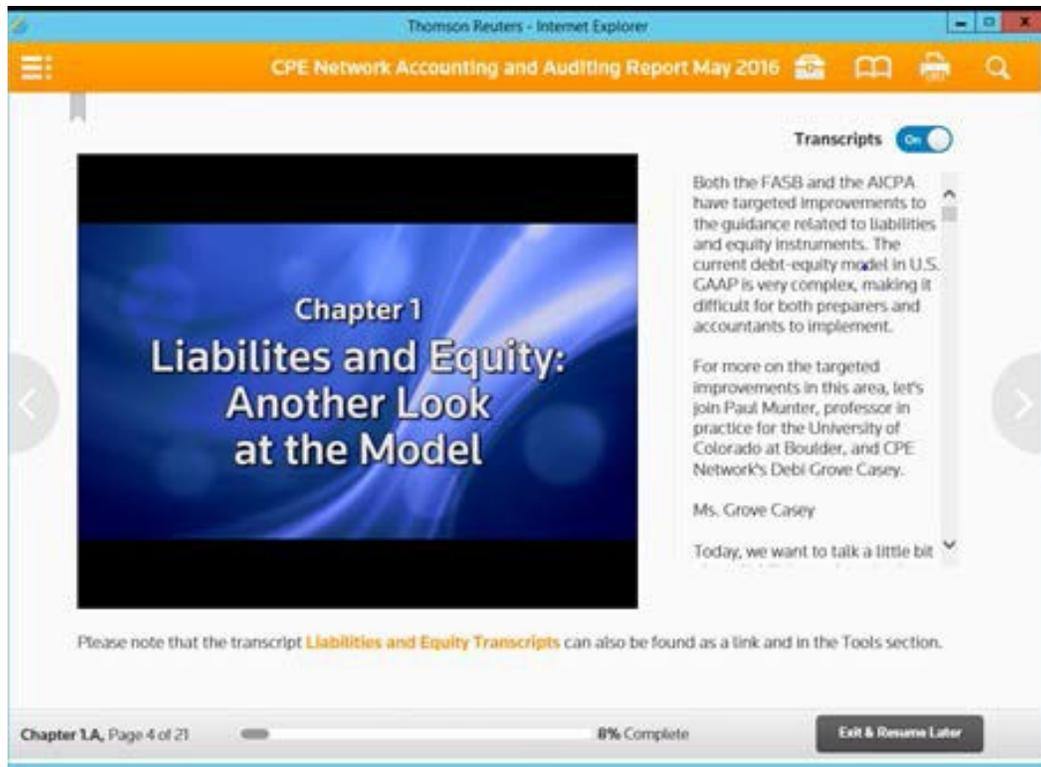
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



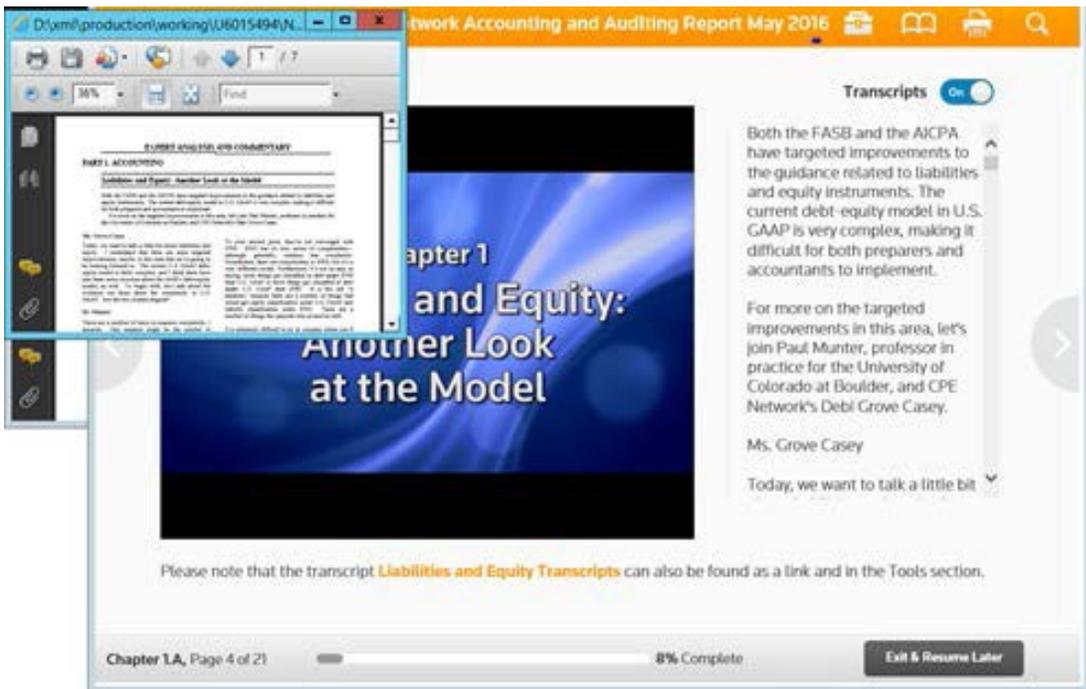
- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.



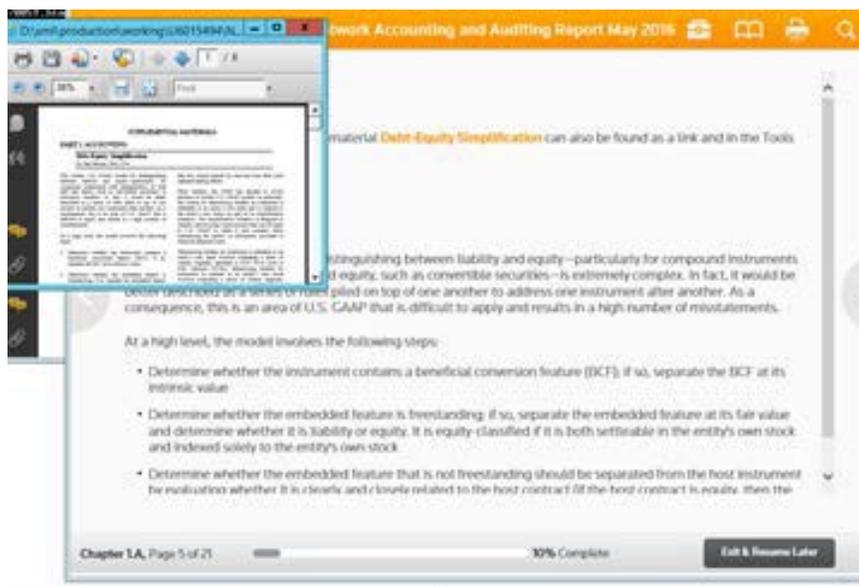
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



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



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



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

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

The screenshot displays a web interface for a CPE course. At the top, the header reads "CPE Network Accounting and Auditing Report July 2016" with icons for a menu, printer, and search. The main content area is titled "Suggested Answers to Discussion Problems". It contains three numbered items:

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

An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
- The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
- Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

At the bottom of the page, a progress bar shows "Chapter 3.A, Page 20 of 20" and "100% Complete". A button labeled "Exit & Resume Later" is visible in the bottom right corner.

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.

The screenshot displays a web interface for a CPE course. At the top, the header reads "CPE Network Accounting and Auditing Report June 2016" with icons for a menu, printer, and search. The main content area is titled "Course Exams Completed".

You have completed the exam for this course.

Please choose your next course of action by selecting on one of the buttons below.

"Review My Answers" will take you back through exam, giving you the opportunity to make changes.

[Review My Answers](#)

"Grade My Answers" will result in providing you with a final score for this course.

[Grade My Answers](#)

At the bottom of the page, a progress bar shows "Course, Completed" and "100% Complete". A button labeled "Exit & Resume Later" is visible in the bottom right corner.

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

### **Additional Features Search**

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

**Search Results** are displayed with the number of hits.

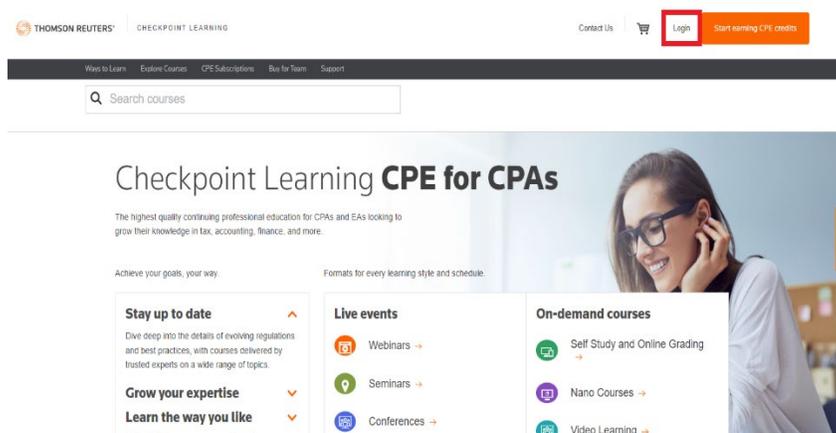
### **Print**

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

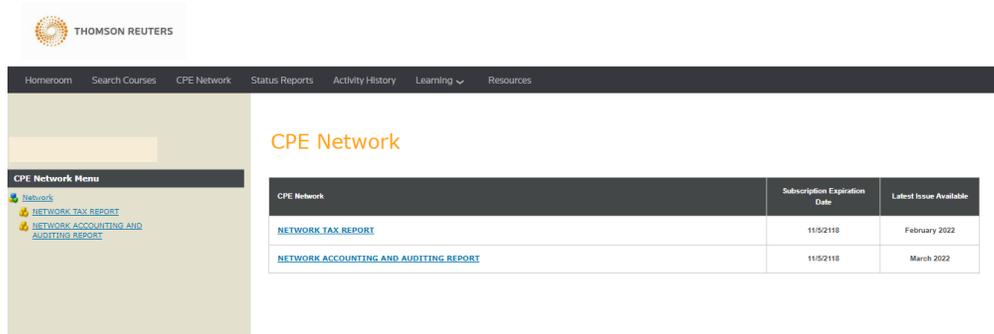
# Transitioning From DVDs

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

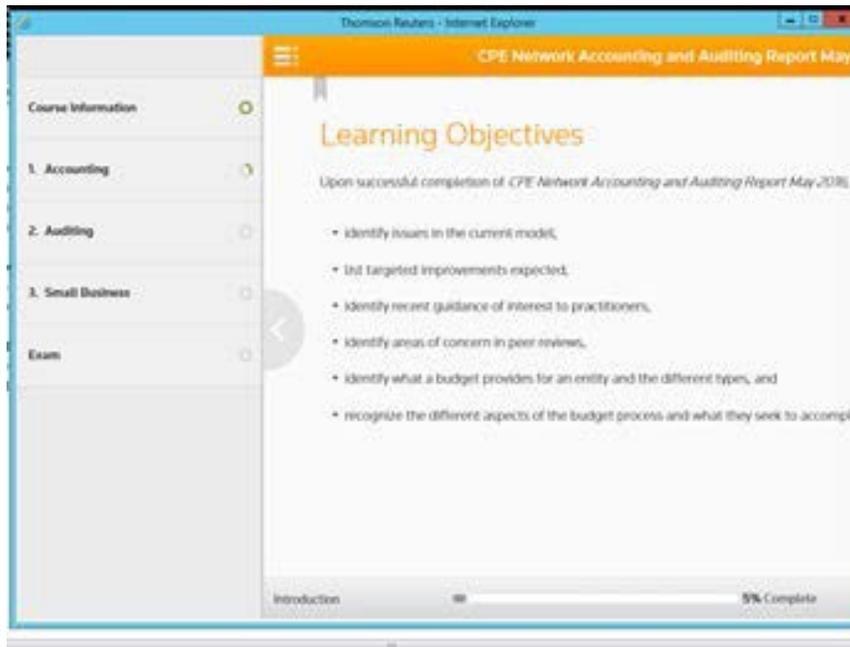
- Go to [www.checkpointlearning.thomsonreuters.com](http://www.checkpointlearning.thomsonreuters.com) .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

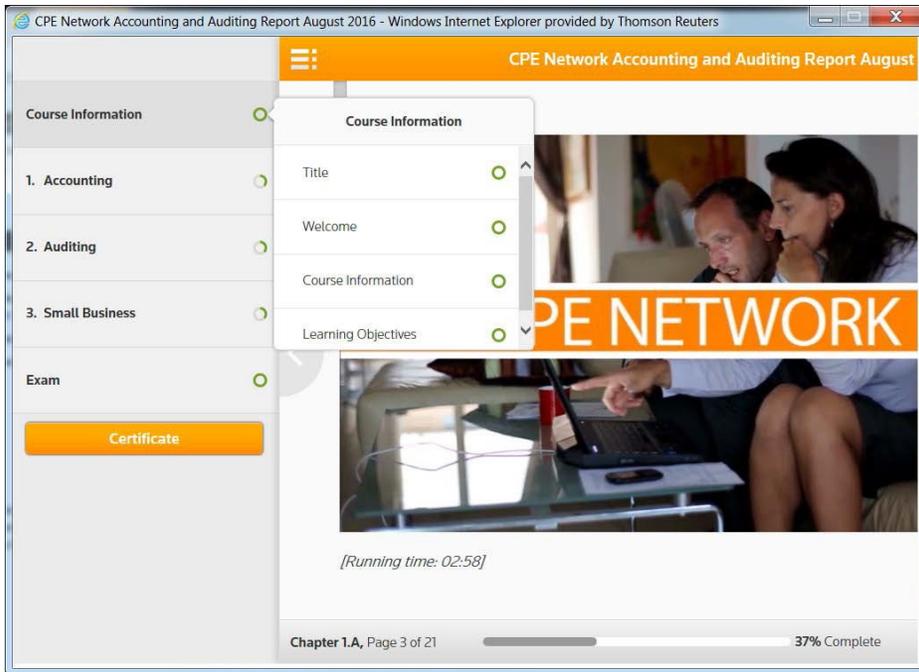


The Chapter Menu is in the gray bar at the left of your screen:



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

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



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



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

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent by Checkpoint Learning CPE Customer Service.



# 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. Attached is a sample *Certificate of Attendance* you may use for your convenience.

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.
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.

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

# Getting Help

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

<b>Support Group</b>	<b>Phone Number</b>	<b>Email Address</b>	<b>Typical Issues/Questions</b>
Technical Support	800.431.9025 (follow option prompts)	checkpointlearning.techsupport@thomsonreuters.com	<ul style="list-style-type: none"><li>• Browser-based</li><li>• Certificate discrepancies</li><li>• Accessing courses</li><li>• Migration questions</li><li>• Feed issues</li></ul>
Product Support	800.431.9025 (follow option prompts)	checkpointlearning.productsupport@thomsonreuters.com	<ul style="list-style-type: none"><li>• Functionality (how to use, where to find)</li><li>• Content questions</li><li>• Login Assistance</li></ul>
Customer Support	800.431.9025 (follow option prompts)	checkpointlearning.cpecustomerservice@thomsonreuters.com	<ul style="list-style-type: none"><li>• Billing</li><li>• Existing orders</li><li>• Cancellations</li><li>• Webinars</li><li>• Certificates</li></ul>