

CHECKPOINT LEARNING

Contact us at: cplsupport@cerifi.com
844.245.5970



EXECUTIVE SUMMARY.....	1
EXPERT ANALYSIS AND COMMENTARY.....	3
PART 1. ACCOUNTING	
Did You Know? Making Sense of Recent Standards – SSARS: Evidence	3
SUPPLEMENTAL MATERIALS	
Did You Know? Making Sense of Recent Standards – SSARS: Evidence	10
GROUP STUDY MATERIALS.....	11
A. Discussion Questions.....	11
B. Suggested Answers to Discussion Questions.....	12
PART 2. AUDITING	
Best Practices for Effective & Efficient Auditing: Designing Audit Procedures, Part Two	14
SUPPLEMENTAL MATERIALS	
Best Practices for Effective and Efficient Auditing: Designing Audit Procedures Part Two	21
GROUP STUDY MATERIALS	
A. Discussion Questions	22
B. Suggested Answers to Discussion Questions.....	23
GLOSSARY.....	25
CPE QUIZZER.....	29

Accounting & Auditing Report

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

1. What are the two key attributes of sufficient and appropriate review evidence?
 - A. Completeness and objectivity
 - B. Reliability and accuracy
 - C. Sufficiency (quantitative) and appropriateness (qualitative)
 - D. Timeliness and consistency
2. In a review engagement, what is the primary purpose of inquiry and analytical procedures?
 - A. To obtain sufficient and appropriate evidence
 - B. To replace the need for external confirmations
 - C. To validate the completeness of the accounting records
 - D. To verify the effectiveness of internal controls
3. How does risk assessment influence the nature of review evidence obtained?
 - A. All areas require the same level of review evidence
 - B. Higher-risk areas require more persuasive evidence
 - C. Low-risk areas require more extensive inquiries
 - D. Risk assessment has no impact on review evidence
4. What is an example of a causal ratio used in analytical procedures?
 - A. Accounts receivable turnover
 - B. Current ratio
 - C. Debt-to-equity ratio
 - D. Profit margin
5. How should an accountant handle conflicting review evidence?
 - A. Choose the evidence that aligns with previous years' data
 - B. Discard the less reliable evidence
 - C. Reconcile and resolve differences before forming a conclusion
 - D. Rely on management representations to resolve conflicts

Continued on next page

6. What is a key limitation of management representation letters in a review engagement?
 - A. They are not required under SSARS standards
 - B. They can only be used in audit engagements
 - C. They do not constitute sufficient evidence on their own
 - D. They must be signed by external parties for validity
7. What is the primary reason for performing additional procedures after an initial review of evidence?
 - A. To meet a predefined quota of review procedures
 - B. To ensure that all financial statement accounts are tested
 - C. To confirm that the review engagement meets audit standards
 - D. To address areas where evidence is incomplete or inconsistent
8. Why must auditors assess risk at the assertion level instead of just the financial statement level?
 - A. It allows auditors to ignore control activities
 - B. It eliminates the need for fraud risk assessments
 - C. It ensures auditors address specific risks related to individual accounts and disclosures
 - D. It simplifies the audit process by reducing documentation requirements
9. What is a significant risk as defined in the auditing standards?
 - A. Any account with a large monetary balance
 - B. A routine transaction with little subjectivity
 - C. Any transaction affecting revenue
 - D. An unusual, infrequent, nonstandard, or non-routine transaction
10. What is a key consideration when assessing inherent risk?
 - A. It eliminates the need for substantive testing
 - B. It is a fixed factor that does not change year to year
 - C. It is only relevant for fraud-related risks
 - D. It must be evaluated separately from control risk

Continued on next page

11. How does the existence-completeness relationship impact audit risk?
- A. Completeness risk only applies to expense accounts
 - B. Existence and completeness risks can never be assessed together for the same transaction
 - C. If existence risk is high, completeness risk must also be high
 - D. There is no direct relationship between existence and completeness risks
12. What does SAS 135 emphasize regarding related party transactions?
- A. They are always considered a significant risk
 - B. They do not need to be disclosed if they are immaterial
 - C. They require no additional testing if properly documented
 - D. They should only be examined if management discloses them
13. Why are planning analytics performed later in the audit process?
- A. They are the first procedure conducted
 - B. They focus on individual trial balance accounts
 - C. They help ensure significant risks have not been overlooked
 - D. They replace the need for fraud risk assessments
14. What is the primary benefit of AI in audits?
- A. It assists in detecting anomalies in financial statements and disclosures
 - B. It automatically generates risk assessments
 - C. It eliminates the need for human auditors
 - D. It reduces the need for documentation
15. What is required when an audit identifies a significant change in accounting principles?
- A. No additional procedures are needed if management explains the change
 - B. The auditor can rely on prior year procedures
 - C. The auditor must assess how the change affects financial statements
 - D. The auditor should assume the change is immaterial

EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent Standards – SSARS: Evidence 3

Susan Longo, CPA, explores the fundamental principles of review evidence, emphasizing the need for both sufficiency and appropriateness in gathering and evaluating information, and examines how evidence extends beyond accounting records to include analytics, inquiries, and external confirmations. This session guides you through best practices for corroborating evidence, identifying and addressing inconsistencies, and applying professional judgment in evaluating risk, and discusses the role of analytics and inquiries in developing a well-supported conclusion, helping professionals refine their approach to review engagements, ensuring compliance with evolving SSARS requirements while maintaining high standards of professional skepticism. By the end, participants will have a clear framework for effectively gathering and assessing review evidence, ultimately enhancing the quality and reliability of their engagements. *[Running time: 53:39]*

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

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

PART 2. AUDITING

Best Practices for Effective & Efficient Auditing: Designing Audit Procedures, Part Two 15

Susan Longo, CPA, continues her discussion by picking up where we left off in January 2025 on best practices for effective and efficient auditing, building upon the foundation established in Part One and diving deeper into the risk assessment process and the design of targeted audit procedures that align with evolving professional standards, particularly SAS 145. This session explores identifying, assessing, and responding to risks, emphasizing the critical need for auditors to document and link risk assessments to their audit strategies and procedures. Significant risks, fraud risks, inherent and control risks, and how they shape an auditor's approach will be examined, and we will illustrate how to customize audit procedures, ensuring they're aligned with both client-specific risks and professional standards. Special attention will be given to planning meetings, risk assessment documentation, analytics, and leveraging AI-driven tools to enhance audit efficiency and effectiveness. By the end of this session, participants will be equipped with the knowledge and tools to conduct well-documented, risk-focused audits, ensuring compliance with auditing standards while optimizing efficiency. *[Running time: 58:56]*

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

- Identify and assess risk of misstatement at the relevant assertion level.
- Identify significant risks.
- Link the risk assessment to the preparation of a detailed audit plan.
- Document identified risks, significant risks, and the risk assessment.

ABOUT THE SPEAKERS

Susan Longo, CPA, provides financial reporting services to industry and CPA practices throughout the United States and Canada. Having been recognized as an “Outstanding Instructor” by the AICPA and numerous state CPA societies, she has authored, edited, and instructed courses in accounting, auditing, nonprofits, and governmental entities for leading providers in the continuing professional education field. In addition, she has served as director of development for the AICPA and as accounting department/MBA chair for two universities. Her practice expertise is in compliance auditing for nonprofit organizations, governmental entities, employee benefit plans, HUD, financial institutions, broker-dealers, CIRAs, and contractors. After graduating from the University of Michigan, she joined a national accounting firm, where she received extensive auditing experience with governmental agencies, Fortune 500 companies, and in business consulting.

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

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

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

© 2025 CeriFi, LLC. All rights reserved. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a *Committee of the American Bar Association and Committee of Publishers and Association*

PART 1. ACCOUNTING

Did You Know? Making Sense of Recent Standards – SSARS: Evidence

Welcome, everyone, to our first session on the A&A portion of this month's program.

The landscape of review engagements has evolved significantly with the introduction of new requirements under Statements on Standards for Accounting and Review Services (SSARS). These updates align review engagement evidence requirements more closely with those of an audit, marking a notable shift in expectations for accountants performing reviews.

In this session, we will explore the fundamental principles of review evidence, emphasizing the need for both sufficiency and appropriateness in gathering and evaluating information. We will examine how evidence extends beyond accounting records to include analytics, inquiries, and external confirmations. A key focus will be understanding how risk assessment influences the nature, timing, and extent of evidence obtained during a review.

Review engagements require more than just verifying numbers; they demand a critical assessment of sources, reliability, and the qualitative aspects of financial data. This session will guide you through best practices for corroborating evidence, identifying and addressing inconsistencies, and applying professional judgment in evaluating risk. Additionally, we will discuss the role of analytics and inquiries in developing a well-supported conclusion.

With an emphasis on practical application, this session will help professionals refine their approach to review engagements, ensuring compliance with evolving SSARS requirements while maintaining high standards of professional skepticism. By the end, participants will have a clear framework for effectively gathering and assessing review evidence, ultimately enhancing the quality and reliability of their engagements.

Now let's join Susan Longo, CPA, who will lead us as we delve into SSARS requirements for review evidence.

Ms. Longo

Hello, I'm Susan Longo, and what we're going to discuss is the requirements under SSARS for review evidence. We're going to define it and we're going to illustrate how you vary that evidence in light of the risk assessment that you've done related to the review engagement. We will say at the outset that this was one aspect of a change in the SSARS requirements that created, in effect, the same requirements for review engagement as exists in an audit engagement. So, it was definitely a push down of our audit requirements to the SSARS engagements.

So, let's define it. Let's illustrate it. Let's understand what is required by review evidence. So, first of all, the review evidence is both information in the accounting records and other information. Now one of the things you need to remember about SSARS engagements is that evidence does not reside only in the accounting records. So, it's one of the things that we often find with the SSARS engagement that people feel that as long as they have, in essence, a workpaper with a printout of every single QuickBooks account, that that would constitute sufficient appropriate evidence. And the answer is "No," there still has to be some verification of that. And that would extend outside of the General Ledger accounting system. So, it is, "and other information." The other information, of course, is generally acquired through analytics and inquiry. And one of the things that happens now with the requirements for evidence is the types of analytics and the types of inquiries have to vary in terms of risk, and therefore the quantitative and qualitative evidence that is acquired has to vary based upon risk. The standard defines sufficiency as a quantitative measure and appropriateness as a qualitative measure and both are appropriate. So, the requirement is for a sufficient, for sufficient appropriate review evidence. So, both elements or attributes have to be present.

So, what do we mean by sufficiency and appropriateness? The first thing is to recognize that the appropriateness is based upon relevance, reliability, precision, detailed, accurate, and complete information. The intent of the evidence

is to make sure that the assumption made, that the information is not incorrect, not incomplete, and not otherwise unsatisfactory, is met. So, this is an assumption made, and really the reason for it is a reminder that we have a compilation and then we have a review, two different levels of our service. The compilation requires the same assumption, and then you move to verifying that information by the inquiries and analytics. So, a review is built on top of a compilation, and a compilation making the assumption the information is not incorrect, incomplete, or otherwise unsatisfactory. So, until you have made, until you have the evidence that that is not correct, that that's not a correct assumption, you can't move forward with a review. That's why it makes it so absolutely important that the accountant understands that neither one of those engagements can commence if accounting services have not been completed. The information is not accurate. It's not complete, it's not precise, it's not reliable, if there's still 100 adjusting journal entries that have to be made. So, it's important that you recognize the relationship such that the accounting services precedes both the compilation and the review. And there are a lot of accountants that try desperately to do both together, and then not only do you violate the evidence, but you don't wind up with analytics and inquiries that make a whole lot of sense because then it's, well, we still haven't made, we haven't made the adjustments yet for the receivables and payables and the accruals, and so then, why are we asking questions.

So, let's talk a little bit more about these attributes. What does it mean to be relevant and reliable? The first is, you have to evaluate the source. So, one thing to remember is that the standard, the SSARS standards, do place a responsibility on the accountant to evaluate any external evidence. And this is not ticky-tying numbers. This is not saying, "Well, I got a Broker-Dealer Statement, and I can tick that number off to that number over here." It is not doing that. It is not that straightforward. It's fine to start with the fact that you're being given some numeric values that you want to make sure are complete and accurate, but you do have to start with an understanding of who generated that information. How do you know that it is complete? What tests have been done to make sure that it is complete? So, do you know the source in terms of whether or not that source used, for instance, another source? So, using a Broker-Dealer Statement, you need to recognize that the Broker-Dealer didn't generate those prices. The prices were generated by an external pricing service. So, to the extent that there are sources of information that look like that, we need to address that. The same thing would be true if you were given payroll information from a payroll service. That's external information and you do need to understand the source of it, and you need to know whether it is relevant and reliable. We have to make sure that the period for the information is the appropriate period for the financial statements. And sometimes we have cut-off problems with evidence in a review just the way we do in any other engagement, like an audit. The authenticity of it again goes back to the basic source of knowing who has generated, what entity has generated, that information. I don't think enough is documented. I think it's thought about but not documented in terms of management bias. We see it practically when you recognize that your client is much more tax focused than they are GAAP focused, and they're very definitely bottom-line-income-statement focused as opposed to the balance sheet. So, when asking particular questions or trying to generate particular information, you can really see how management responds, depending upon what kind of a year it has been and what they want for a bottom line. So, sometimes we get reticent about providing certain types of information until things are moving along and they have a better idea how many adjustments you're going to make until they still get the bottom line they want, especially if the bottom line is going to affect some year-end bonuses. But, you know, on the other hand, if it's been a really, really good year, but they don't know what's going to happen next year, there is a bias to sort of hold things back, and you need to recognize that and where they would be manipulating the financial statements. Now the other thing that is, you know, a definite push down from the audit world is the need to corroborate review evidence. So, whether it is a source or it is a procedure, it doesn't matter. If one source contradicts another source, and if one procedure contradicts another procedure, two analytics and they don't say the same thing, two inquiries and they're not saying the same thing. An outside source and an inside source not saying the same thing, review evidence requires that you reconcile those differences. You resolve the conflict between them. You cannot use that little "IM" and move on. You have to identify what the difference is and why that difference exists and reconcile it.

Now the sufficiency is quantitative, but it is based on your risk assessment, which essentially means that if you are used to using some sort of formula, you have to realize that the endpoint of that formula would look different for a high-risk area and a low-risk area. So, what you would consider to be sufficient evidence in prepaid insurance is going to look a lot different than inventory. What you're going to need for review evidence in revenue is going to look very different than a year-end payroll accrual. It requires that you use that sufficiency evaluation as you perform every one of your procedures. So, the sufficiency applies to inquiries. The nature of those inquiries, the amount of those inquiries, observation, inspection, recalculation, analytics, they are all a function of risk.

The qualitative evaluation is, “What inquiries do I have to make?” “Do those inquiries vary depending upon whether I’m talking about significant related party transactions and known related parties?” The simple things related to a lease between the entity and the related party versus the more complex that deals with certain revenue contracts and looks at, in particular, when we’re looking at, for instance, in a construction contractor and trying to determine the WIP schedule and the contents of that WIP schedule, the inquiries there are much, much, much more specific. The qualitative assessment also applies to the analytics, and I think that that doesn’t always happen. We tend to have a standard toolbox of, “Well, I’m just going to run all these.” And especially when you’re having some software package provide all the analytics, there isn’t a whole lot of thought to, “Well, which analytics do I really need, and can I think more strategically about disaggregating certain information and getting a different look?” Just a comparative trial balance rarely satisfies the evidence requirements. You need to focus on change. And when you do, you’re going to focus on the changes that should show up and didn’t, and changes that showed up that were not anticipated. Then you need to remember that all of these inquiries and analytics need to be cumulative, and it’s a shame that you don’t utilize what you already know about your client to make that happen. Too often a trial balance in the workpapers is only a two-year comparison when you have had that client for eons, and where 3-, 4-, and 5-year comparisons would give you a whole different story, if you do things on a cumulative basis.

The sources of evidence will help you understand the industry and the accounting practices in the industry. And again, if we were to evaluate the workpapers, the only nod to industry is the client information form where you might make a little phrase that says that, you know, construction or technology or manufacturing or retail, and that’s about as far as it goes. But what you’re supposed to document is an understanding of the industry requirements. So, do you understand the differences in lease accounting depending upon the industry, and we’re just not seeing a profile. Do you realize that every time there’s a new major GAAP standard that there’s industry publications that talk about those GAAP rules, that there are formats for financial statements that are industry practice, but what we see is a gap in the workpapers. We may see an appropriate format, but how do we document the fact that that’s the format opted to be utilized? So, you know, a basic, basic question, for a standard set of GAAP financial statements for a contractor, is a risk schedule required? And I don’t know that there are workpapers that document that fact. And so, we need to make sure that our documentation provides evidence of a knowledge of the industry, not just being able to say, “Well, it’s, you know, a manufacturer.”

The sources of information need to vary as well. You can move forward your knowledge from a previous engagement. You certainly have, if done properly, a lot of evidence that gets started in terms of sources, on the client information form. Client information form, however, doesn’t always give you what is necessary, what is necessary in the way of evidence just because of how the information form is, is filled out. So, there are lots of pieces of information that we gather, but remember that the issue, again, is have we got the evidence rules attached to it? So, for instance, once again, let’s talk about the Broker-Dealer Statement. And so, we have that Broker-Dealer Statement, but where is the sourcing for that? So, do we have in the perm file the contract that identifies what that Broker-Dealer arrangement might be? Is it discretionary or non-discretionary? When you look at that Broker-Dealer Statement as a source of information, you see a whole bunch of, of investments listed. How do you know whether those investments are qualified to be held by the entity? Well, that would require a knowledge of the investment policy, and do we have the knowledge of that, and that’s a part of the information, so, therefore, we would need some sort of sourcing for that. You write a footnote, Level 1, Level 2, Level 3. Workpapers don’t talk about it. And that the amounts of investments are categorized, but where is the definition of Level 1, Level 2, Level 3, and where is the inquiry and analytic that puts them in the right categories? And the answer is probably nowhere. “It’s just what we did, what we’ve always done, what I copied from some sample financial statements,” and that’s not a source of information that constitutes sufficient appropriate review evidence.

So, again, everything is focused on risk. Where’s the risk of misstatements of amounts, classification, presentation, and disclosure? Where is information incomplete, incorrect, or otherwise unsatisfactory? And you focus all the inquiries and analytics on areas where there are increased risks. So, as part of the journey from client information to financial statements, we focus on risk, and it is the risk evaluation that determines the nature, timing, and the extent of the procedures, which is then the source and application of the evidence rules.

So, just a reminder that there’s a lot of inquiries directed toward management, and we tend to sort of give these to the client in some sort of a format. Generally, you know, I’ve seen most people just literally hand them the form with the

inquiries and say, you know, sort of, “Fill in the blanks.” Not exactly what the committee determined was really what was supposed to happen. There's supposed to be a conversation. It's really, really difficult. It's a client management problem, and it's a staff management problem who really don't want to sit down and have a face-to-face conversation with someone. But the only way you get the information that you need is to do that. So, a lot of things of that are happening here can be best done when you sit down with the client and you take last year's review report and then start talking about, “Well, what happened this year?” If you know the client well enough, you can ask some pretty pointed questions. So did they have some set of transactions that changed because they were either servicing a different set of clients or the profitability on those particular jobs didn't turn out to be what was anticipated, that there were some changes in personnel. You need to find out what's happening, and when you do, then some of these other questions can be asked. But what accountants tend to do is, “Well, the first question on the form is this. So, this is what I'm going to ask the client.” Or what they'll do is they'll hand the questions to the client and say, “Here, fill this out.” But that never gets to the story. And the client really doesn't want to fill that out that way. And, you know, everybody else just kind of goes through the motions of doing it, and then you go and start doing some basic analytics, but you never really get beyond that. So, what you really need to do is make sure that you understand what's happened for the year, and as you ask those questions, you can fill in the blanks of all the inquiries that are there. They just don't have to be in the order of the form.

So, find a place in this storyline, which is a way to get the client to talk. Sometimes it's because you read something in the news that you know affects the client. Sometimes it's because you know something happened right at year-end. So, you want to start with that question and get them to talk about, “Well, why did that happen and how does it affect what else happened during the course of the year?” “Was there sort of a build up to that event?” “Were the things that happened at year-end a function of something within the company or a response because something happened in the local economy or in the national economy or why did it happen?” Before you start looking at debits and credits and banging on numbers, you have got to know the story.

So, most are familiar with the questions. What I want you to do is start to be able to figure out exactly what really happened. So, when it comes to receivables, you need to remember that in accordance with our world today, we focus on revenue, and receivables is actual residual. So, to what extent have they adjusted their books and understand the five-step model? And you've got to get away from, you know, the accounting needs of it, but making sure they understand how to look at a contract and how to record it in accordance with what our rules are. And once you get to understand that, then all the rest of the things can be discussed. You also need to be very sure you understand whether or not you're working with a controller that has a whole bunch of Excel spreadsheets and works those on the outside and then books some sort of journal entry. Those are the kinds of things that, the straightforward, “do you have one of these reconciled” is not going to get an answer to that.

Please look the same way at payables and accruals and unrecorded liabilities. Let's just make sure everybody understands that definition. When we're talking about unrecorded liabilities, we are not talking about subsequent disbursements. They are recorded. They just happen to be in the wrong period. The unrecorded liabilities are those things that are not in the books at all. So, that is a very different question. I didn't ask for cut-off, I asked for the existence. So, be sure. And then, you know, major suppliers, etcetera.

The inquiries then lead to the analytics. Now, you have to do your inquiries first. It's not one person doing all the inquiries and another person running the software for the analytics, because the inquiries will inform the analytics. What will also happen is once you have done the analytics, they may provide a basis for additional inquiries that may have to be made. So, it is an iterative process that what you do is inquiry, analytics, and you may work your way back to more inquiries. With analytics you have to understand that you are looking for relationships with both financial and non-financial information, and that in most cases there's a lot of disaggregated information that ought to be happening, and clearly we don't get as much of that as we should. Now, just in case you're not, you know, familiar with the terminology, “financial information” is the stuff that you know clearly is visible because we have accounting records that are tied to our General Ledger. The non-financial information are the statistics things. So, I can give you the payroll dollars. When I start talking about the numbers of employees and the FTE hours, then I'm in non-financial information.

The analytics have to be suitable. They have to be based upon reliable data. So, let's take the second one first, and that is, I think, very often the case that the assumption is, "I'm just going to use what's in the trial balance and then I'm going to start running the analytics without recognizing." Again, if you haven't done the accounting services, there's no point in doing that. If you haven't tested for the completeness of the data, there's no sense in doing that at all. So, the reliability of data, which is part of our evidence rules, is something that has to be tested. And then the suitability of particular analytics. There's a difference between a causal analytic, which is supposed to help you understand why something happened, versus an effect. So, an effect ratio would be something like a current ratio or a debt-to-equity ratio. But if I want to know why the current ratio changed up or down, the current ratio isn't going to tell you that. But if I look at accounts receivable turn and inventory turn and payable turn, now I get to understand why the current ratio changed. So, when it looks like this, you really have to understand again, "What is the risk?" And until I can define the risk, I really haven't got the suitability. I haven't got an understanding of the suitability of the ratios. What's happening is you're just doing all of them, and it's a scattergun approach and you hope that something sticks, but doesn't necessarily mean you actually did the right ones.

So, there's trends reasonableness tests, and ratio analysis. Again, what we're not having happen is looking at multiple years, and it should, that should happen, and the multiple years should be against the benchmark, and we're not getting that, either. And we can see how important that is when you get a year where something dramatically happens. So, for instance, the year we had COVID, everything shut down in March. And what we saw at the end of that year was that people tried to do comparisons of that year with the prior year and when nothing matched, the words were always, "The effect of COVID, effect of COVID, effect of COVID." It didn't mean anything because that year was dramatically different. We had three months that should have looked just like the prior year, and in the final fourth quarter things were starting to open up again. So, you really had a first quarter, a fourth quarter and the second and third quarters, and they were different, and your analytics should have been different, but we didn't see that happening. The reasonableness tests are based upon an understanding of what's happening in the industry and the economy. You can't look at investments without understanding what's happened to the market. So, you need to rethink that.

Now, there's a lot of ratios that you can do and there's lots of software packages that happen, but again, it is not a requirement. Don't do all of them. You only want to do the ones that in fact give you the information that you need to know. Based upon the story we know what happened to the client for the year. Give me the two or three ratios that confirm that so that I have sufficient appropriate evidence, but I don't need to do them all.

We have inventory, we have property, we have investments, we have payables, all those things. Again, please distinguish between the causal ratios and the effect ratios. The causal ratios are the ones that are going to tell you why something happened. With the causal ratios, you then proceed to an understanding of the rest of the information available to you. But, you know, we just, we don't tend to see it. So, causal ratios again, I said things like the accounts payable turn, that's a causal ratio and the inventory turn is another one that we have and the accounts receivable turn. Those are the kinds of things that we call "causal ratios."

We need to, you know, recognize, too, that there, when it comes to income and expense accounts, that this really has to be by industry. The ratios that you use in construction are going to look very different than in manufacturing. The ratios are going to look very different if you're in the non-profit world, if you're in the retail world. So, what you do need to do is customize these by industry. There are usually a trade association, and the trade association publishes some pretty standard statistics. The good ones actually create those statistics and put them in segments. Sometimes the segments are going to help you with the size factor. You obviously don't want to look at a trade association instead of statistics when that industry is dominated some with some Fortune 500 companies that are clearly structured differently than your small business clients are. There are some comparative industry statistics done by two or three different companies that specialize just in small businesses. And so, if you are not, you know, subscribing to those kinds of things, that would be helpful to get an understanding, again, of a benchmark of, you know, how does your client stack up.

And so, we have profitability ratios again as well.

The issue is that we have in SSARS to address all material items in the financial statements and everywhere there's an increased risk of material misstatement. All material items means numbers and disclosures. This is done at the financial statement level and at a detailed account level. So, generally we start out with some preliminaries to get a

feel for what's happened, and then at the detailed account level. The nature, timing, and extent of that is all based upon risk and the required evidence. So, there's professional judgement, but it has definitely got boundaries.

So, the one thing about analytics is that you clearly have to identify the existence or absence of an expected relationship or the presence of an unexpected. So, unfortunately when accountants like basic structured rules, that doesn't always show up. So, when you say, "Let's get an explanation of everything that increased by some percentage or some dollar amount," that's not addressing this evidence requirement. So, the issue for you is, maybe it didn't increase to that threshold, but it should have. So, the existence of a particular direction is great. The absence of it is what we also have to think about and the change that was unexpected in one way or another. The idea is that you should, based upon your understanding of the client, know what drives their operations, and based upon that look for significant changes. We're always going to focus on change. So, if we're doing that, I might ask you a very interesting question, and that is, for those of you who do reviews on interim financial statements, or for those of you who have clients that internally generate interim financial statements, whether it be monthly or quarterly, do you get a copy of them? And do you take the time to look at them on a monthly or quarterly basis if you yourself are not preparing those things? Because if you did, if you took all of those monthly and all of those quarterly financial statements with your comments, you're well on your way to providing the basic evidence requirements, plus the advantage to your client is they can give you answers to the questions on a month-by-month basis, and, you know, 15 months after it happened, it's pretty hard for them to remember. So, they live through the year, you're not there until three months after year-end and you're asking them something that happened in January or February; not always going to get good answers. But so, all you need to do is have them actually provide that internal financial statements. You go through some quick analytics, not a whole lot, just what you know are the drivers of what made change happen, and some quick inquiries, and you document those, and you are well on your way for generating what you need for evidence.

Now the biggest problem we have is expectations, and here I would request that you think about creating some standard workpapers in this arena. You basically know where you need the standard analytics. You are going to need them for receivables. You're going to need them for investments. You're going to need them for inventory. You're going to need them for property. You know where those are, and you should know what drives an expectation. So, for instance, you can create that standard investment workpaper with a preprinted expectation that says, you know, the value, the fair value will move in the same direction as the market has moved unless, and the unless is there's been a change in the portfolio composition. And then what you're doing is documenting on that, "Well, here's what happened to the market. Here's the market indices that we used," and you can see that they're moving in light of that. Or you can say, "Well, because of a change in what they we're doing, they needed some cash, and to do that they liquidated some investments, and then they rebalanced the portfolio, and therefore..." Or you could say that because of the economy, they moved some equity to high-yield bonds or they did the opposite or they changed everything to mutual funds or whatever, but you need to create standard expectations for the major financial statement areas. And then what you're going to do is that standard expectation is going to be supported by the evidence you have from the inquiries that says that standard still applies, or the inquiries are telling us we had to make this adjustment to the expectations and therefore the analytics would show us something different. By creating the standard, what you then link to is the inquiries and then you recognize from there we may make some changes to the standard. But what you don't need is everybody struggling to come up with an expectation, some of which will be, you know, be fairly detailed and some of which will be, you know, not as adequate an explanation of an expectation. So, create the standard expectations for most of the year.

Now, the appropriate review evidence is based upon the objective of what you're trying to do. So, do you want existence, or do you want completeness, because they are totally different, and the analytics would be totally different depending upon whether your risk was an understatement or an overstatement. We need to make sure that if there were adjustments in the prior year, what's the probability that's going to happen again this year. Income statement accounts, ratios of the reasonableness tests, plus all those GAAP rules, have to be documented. You do have to apply it throughout the whole period and to disaggregated data, as we said before.

It is important to recognize that analytics have to change over time, and one of the things that we can see is a direct, you know, pretty dramatic violation of that where we'll see a number and we'll see, you know, two years or three years, even, and it'll say, "Well, the allowance for doubtful accounts, which is now called 'an allowance for credit losses,' \$30,000 in each of the last three years, consistent with prior years." Well, why would it be consistent with prior years, and why would the same number be appropriate? Well, are the receivables exactly the same in all three

years, was revenue exactly the same in the last three years? And if the answer to both of those questions is no, then the fact that the number is the same, doesn't mean you've done any effective analytic procedures. So, it is important that your desire for a quick answer, "Well, it looks like last year," may tell you that in fact the analytic is not very effective at all.

The analytic procedures do require that you identify the appropriate financial statement drivers, generally revenue, and for some entities certain, clearly certain expenses, a general expectation for each of those drivers, and an understanding of the appropriate ratios that should be there.

Again, as we said, when you have external evidence, the rules are clearly now that you have to evaluate that. So, what's the nature and the authority of the source? Could management influence that? What's the reputation and competence? What's your prior experience? What's the market acceptance? Is it actually suitable for the use that you want? Is there alternative evidence that might contradict it? Are there any disclaimers? What method was used in preparing the information, and are the assumptions appropriate? We would require that this be balanced with a memo. So, it does require documentation. It does require that all of those questions be answered for each of the types of external evidence being used. There are some practice aids to help you do that, but these are the questions that need to be answered, and so therefore you can design your own memo as well.

So, the rule is sufficient and appropriate review evidence. Now, if it's not, then you have to perform other procedures, and if you can't obtain enough evidence to form a conclusion, then you withdraw. So, in the audit world we have scope limitations and a qualified or disclaimer. In a review, we have a qualified conclusion and a withdrawal. There is no, so we have an adverse, but we don't have a disclaimer in the review world.

So, remember, the evidence is obtained through the inquiry and analytic procedures.

Now evaluating, if you've not obtained, then you extend the work performed. If not, there's an effect on the [unintelligible].

If you are aware that the information is incorrect, incomplete, or otherwise unsatisfactory, management should be asked to adjust, and if not, then there would be, again, a review report, modification.

Review documentation also follows the same rules that we have in our audit world, which is to document the nature, timing, and extent of the procedures and any conclusions that we have formed on the basis of that review evidence. Any significant matters, and if there were inconsistencies, how those were addressed. So, again, not an ability to say, you know, "immaterial," a requirement to document what you did.

Now written representations are responses to inquiries. Please remember that inquiry alone is not evidence. Now, you might not think about that, but a review engagement requires an inquiry and an analytical. And the evidence, the documentation is the conclusion and the basis of the conclusion. What's the support for the answer the client gave you? You have to recognize that the representations support other review evidence. So, a rep letter, per se, is not stand-alone evidence.

So, one of the things we often hear people say is, "Well, I'm not worried about it because I'll just stick it in the rep letter." And the question is, "Do rep letters stand alone?" No, rep letters support other evidence. So, the rep letter is not the evidence itself.

So, it is important to recognize that management has acknowledged certain things in the rep letter, but it has got, it has got to be tied to the evidence that you have generated.

And now I thank you. I hope you enjoyed the presentation.

SUPPLEMENTAL MATERIALS

Did You Know? Making Sense of Recent Standards – SSARS: Evidence by Susan Longo, CPA

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

GROUP STUDY MATERIALS

A. Discussion Questions

1. What is the primary purpose of the recent SSARS updates regarding review engagements?
 - A. Align review engagement evidence requirements more closely with those of an audit
 - B. Eliminate the need for external confirmations in review engagements
 - C. Reduce the documentation requirements for review engagements
 - D. Require that review engagements always include testing of internal controls
2. What is a key consideration when evaluating the reliability of external evidence in a review engagement?
 - A. Whether the evidence aligns with management's expectations
 - B. Whether management has provided a written confirmation of its accuracy
 - C. The number of documents supporting the same assertion
 - D. The source and authority of the external evidence
3. When should a CPA withdraw from a review engagement?
 - A. When financial statements do not conform to industry benchmarks
 - B. When management requests to exclude key disclosures
 - C. When sufficient and appropriate review evidence cannot be obtained
 - D. When the client has minor inconsistencies in financial reporting
4. Why is it important to document an understanding of the client's industry in a review engagement?
 - A. It eliminates the need for analytical procedures
 - B. It ensures financial statements are formatted correctly
 - C. It helps identify industry-specific risks and benchmarks
 - D. It simplifies the review process by reducing documentation
5. What is a best practice when conducting inquiries with management in a review engagement?
 - A. Accept all management responses without further investigation
 - B. Conduct structured conversations rather than relying solely on written responses
 - C. Have different team members perform inquiries and analytics separately
 - D. Use a standardized checklist without deviations

B. Suggested Answers to Discussion Questions

1. The correct answer is A, Align review engagement evidence requirements more closely with those of an audit.

Discussion: The primary purpose of the recent SSARS updates regarding review engagements is to align review engagement evidence requirements more closely with those of an audit. These updates introduce a more rigorous approach to gathering and assessing review evidence, emphasizing the necessity of both sufficiency (a quantitative measure) and appropriateness (a qualitative measure). The changes require accountants to move beyond merely compiling accounting records and ensure that review evidence is evaluated through analytics, inquiries, and corroboration. Additionally, accountants must assess the relevance, reliability, and completeness of the evidence obtained, rather than relying solely on management representations. The updates also stress the importance of professional skepticism, requiring practitioners to reconcile conflicting evidence and assess management bias. Furthermore, documentation expectations have been heightened, ensuring that accountants clearly record their risk assessment, sources of evidence, and conclusions. This shift enhances the credibility and reliability of review engagements, ultimately improving the quality of financial reporting.

2. The correct answer is D, The source and authority of the external evidence.

A key consideration when evaluating the reliability of external evidence in a review engagement is the source and authority of the external evidence. The credibility of external evidence depends on factors such as who generated it, whether the source is independent of the client, and the reliability of the methods used to produce the information. For example, a broker-dealer statement may contain investment valuations, but those valuations are often sourced from an external pricing service, which must be evaluated for competence and objectivity. Similarly, payroll reports from an external payroll provider should be assessed for accuracy and completeness, considering whether the provider relies on independent data or client-inputted figures. CPAs must also consider whether management could influence the source of the evidence, whether alternative evidence exists that contradicts it, and whether any disclaimers or limitations affect its usefulness. Merely collecting multiple supporting documents does not enhance reliability if the underlying source is weak. Proper evaluation of external evidence ensures that the CPA can confidently assess financial statement assertions, reducing the risk of material misstatements.

3. The correct answer is C, When sufficient and appropriate review evidence cannot be obtained.

A CPA should withdraw from a review engagement when sufficient and appropriate review evidence cannot be obtained, as this prevents the accountant from forming a conclusion. SSARS requires that review engagements provide limited assurance that no material modifications are necessary for the financial statements to conform with the applicable financial reporting framework. If a CPA is unable to obtain enough evidence through inquiries, analytical procedures, and other corroborating sources, they cannot responsibly issue a conclusion. Before withdrawing, the CPA should attempt to extend their procedures or request additional information from management. If management refuses to provide the necessary evidence or if inconsistencies remain unresolved, withdrawal becomes the only ethical and professional option. Unlike audits, where scope limitations might lead to a modified opinion, in a review engagement, the inability to gather adequate evidence fundamentally undermines the CPA's ability to complete the engagement. Thus, withdrawal is required to maintain the integrity of the review process and ensure compliance with professional standards.

4. The correct answer is C, It helps identify industry-specific risks and benchmarks.

Documenting an understanding of the client's industry in a review engagement is crucial because it helps identify industry-specific risks and benchmarks, which in turn informs the CPA's risk assessment and analytical procedures. Different industries have unique financial reporting norms, regulatory requirements, revenue recognition methods, and risk factors that can significantly impact the evaluation of financial statements. For example, a construction company may require specialized analytics related to work-in-progress schedules, while a retail business might involve a deeper focus on inventory turnover. Understanding industry benchmarks allows the CPA to determine whether financial trends and ratios are reasonable and to identify potential red flags that

may indicate errors or misstatements. Additionally, industry knowledge supports effective inquiries, helping the CPA ask relevant questions that align with the operational realities of the business. Proper documentation of industry understanding ensures that the review engagement is conducted with professional skepticism and enhances the quality and credibility of the engagement, ultimately strengthening the CPA's ability to provide limited assurance.

5. The correct answer is B, Conduct structured conversations rather than relying solely on written responses.

A best practice when conducting inquiries with management in a review engagement is to conduct structured conversations rather than relying solely on written responses. While standardized checklists can provide a framework, meaningful inquiries require interactive discussions that allow the CPA to probe deeper into financial trends, operational changes, and risk factors. Face-to-face or virtual conversations provide opportunities to assess management's tone, level of confidence, and potential biases, which may not be evident in written responses. Additionally, structured discussions enable the CPA to ask follow-up questions in real time, ensuring that responses align with other review evidence, such as analytical procedures and external confirmations. This interactive approach enhances professional skepticism, allowing the CPA to identify inconsistencies or gaps in information. Effective inquiries should also be tailored to the client's industry, financial position, and risk areas, ensuring they contribute meaningfully to the overall assessment of the financial statements.

PART 2. AUDITING

Best Practices for Effective & Efficient Auditing: Designing Audit Procedures, Part Two

Welcome to the second and final program session on the A and A portion of this month's program. In this session, we'll continue our discussion by picking up where we left off in January 2025 on best practices for effective and efficient auditing. We'll build upon the foundation established in Part One, diving deeper into the risk assessment process and the design of targeted audit procedures that align with evolving professional standards, particularly SAS 145.

A well-structured audit relies on a robust understanding of risks at the assertion level, not just at the financial statement level. This session explores identifying, assessing, and responding to risks, emphasizing the critical need for auditors to document and link risk assessments to their audit strategies and procedures. We'll examine significant risks, fraud risks, inherent and control risks, and how they shape an auditor's approach.

Through practical insights, case studies, and best practices, we'll illustrate how to customize audit procedures, ensuring they're aligned with both client-specific risks and professional standards. Special attention will be given to planning meetings, risk assessment documentation, analytics, and leveraging AI-driven tools to enhance audit efficiency and effectiveness.

By the end of this session, participants will be equipped with the knowledge and tools to conduct well-documented, risk-focused audits, ensuring compliance with auditing standards while optimizing efficiency.

Now let's resume our discussion with Susan Longo, CPA, and continue our exploration of risk-driven audit procedures and refine our approach to delivering high-quality audit engagements.

Ms. Longo

Now, as I mentioned, the auditing standards, now it's very specific that what we have to do is address all the risks at the assertion level, not at the overall financial statement level. Whether we're talking about inherent risk or control risk, it is done at the assertion level.

So, a practice aid to sort of help that along. We have the audit areas outlined. We identify whether it's a significant class of transactions. That can be done with a check mark. It can be done with a yes or no. It can be done with "I'll answer the questions if it is and I'll leave it blank if it's not." But understand that what we're doing is asking, is it a significant class of transactions which is going to lead us to that internal control evaluation. A significant account balance, please remember that is defined quantitatively and qualitatively, and significant or fraud risk. And here is where most auditors go off the track because everybody gets to this point and says, well, that's an allocation process. Cash, is there a fraud risk? No. Then then therefore it has to be significant. It just asks "if." It asks if there is a significant or fraud risk. If it's just the plain ordinary vanilla stuff, then the answer is it's not significant and it's not a fraud risk. Significant risk is an unusual, infrequent, nonstandard, non-routine transaction. Could well be. There is absolutely nothing in cash that would make it significant. Absolutely nothing. It is not an allocation. It is not an either or. It is not that there has to be an S or an F. It is "if," in which case what happens here is this is where the "what could go wrong" better be sitting. If it's a significant risk or a fraud risk, you better tell people what that is. Now, is it a risk for which substantive procedures alone are sufficient? In which case that is that list that auditing standards outlines. Is it a disclosure? Is it a type of control activity for which we really do need further understanding? Now again, one of the adjustments to our audit approach that's sitting in SAS 145 is that auditors said, well, I'm going to do my risk assessment at the financial statement level. I'm just going to tell you what RMM is, and everything is upper level, entity level controls. And the auditing standards have said no, you must have an inherent risk and you must have a control risk, separate inherent risk and control risk assessment. It must be done at the assertion level and you must look at control activities. So do you have to look at every cycle? No. The conversion cycle may not be applicable to your client because their business is not driven by an inventory cycle. They're a service related business. On the other hand, for most of your smaller clients, personnel costs are a significant expenditure. In which case, not

looking at the control activities related to payroll is probably not appropriate. Doesn't mean you're going to test of controls, but it does mean you can't ignore the control activities. So where am I going to look at the control activities, and at that point, am I going to do test of controls? Now the comment over here, the last column, is actually to outline the overall audit strategy. So you cannot leave the column "comments" blank. It's two or three sentences that say we're going to test the following. It's not that we're going to take a sample of and do this, this, this, and this, but it is letting us know. Now as I read through this, I really need to understand when I get to that to this strategy, the linkage, if I have defined the "what could go wrong" properly, I can then look and I'm seeing the linkage right on the practice aid.

So, best practices for risk assessment for the first. For the opening comment, it is that the team has to determine the risk assessment. But as we did with analytic procedures and estimates, so the team has to do it. And that is, each member walks into the planning meeting with a practice aid complete. You can't agree or disagree with any of the discussion if you don't have your own opinion. A staff member cannot walk into a planning meeting without their own opinion. So every single staff member going into a planning meeting has completed whatever practice aid you're using for the risk assessment summary. In that meeting, you will refine the details of the risks and document then an agreement as to the risk assessment. But you must start with each member of the team having determined the risk assessment. Otherwise there's no point in the meeting. Otherwise it's just pointing to Jim and say, fill out the form, stick it in the binder and let's go on and do the audit. The risk assessment is to drive what you're going to do with the audit. Now if you have done this and if you attack the risk assessment this way, what's going to happen is your planning meeting discussion is going to suddenly be very different. Because what's going to happen is we're going to spend a lot of time with the details to make sure that the risk assessment is very specific. And then we're going to translate that to the adjustment to our audit programs, but we're going to get to the workpaper level. A planning meeting that does not discuss individual workpapers isn't worth having. We could just e-mail a summary to everybody and move on. The whole point of a planning meeting is to adjust what we do, when we do it, and how we do it, and how much we do. And that can only be done if we look at various workpapers and go, all right, based upon this year's risk assessment, is that what I need to do? Where do I have to adjust it? What was the change that happened in the client? What were the changes in standards? Staff members will not do that in the field. They are in a production mode at that point, which is give me last year's workpapers, I slice in this year's numbers, then I move it on to review. And I think I'm fine because I did what everybody did last year. Well, in fact, you can't do last year's audits because the client changed, standards changed, the environment changed, lots of things changed. And somehow the staff has to be able to translate those trend changes to what they're going to do differently in the workpaper. And it won't happen if it's not discussed in the planning meeting.

All right. So, I want to, I want to take a minute to remind everybody about the risk assessment model because sometimes I think people forget the importance of the model. So we want to make sure that the overall audit risk is low. That's our requirement. The assessment of inherent risk and control risk is now a separate assessment, and that risk of material misstatement is offset by detection risk, and our two choices there are our analytic procedures and our test of details. The model we've lived with forever.

However, the patterns of risk are something that people don't pay attention to. So a reminder that existence and valuation are a married couple. I got to put a number to my problem. That's what's happening. But the other piece that's even more important is the relationship between existence and completeness. If existence is high, completeness has to be low. If completeness is high, existence has to be low. It is not possible for the same transaction not to be recorded and to be recorded. Existence means it's recorded, but completeness says it's not recorded. The same transaction cannot have both directions. Now again, you're not in the accounting services arena, so this is not a bookkeeping problem. Oh, she screws it up both ways, or he doesn't know what he's doing with this and this. No, this is an audit issue. If it's recorded, I'm going to look at the pattern of risk. If it's a potential for not being recorded, I'm going to look at that pattern, but it is not the same. Which is why when we look at, you know, a procedure and we say, alright, the issue is completeness, then I understand that it is a subsequent period that I'm going to look at and pull it back. But if it's in existence, I'm going to have the current period and I may want to pull it forward. But taking five transactions before year-end and five transactions after year-end, no, you have not defined the pattern of risk.

So, I've got the risk of material misstatement chart that the standards are saying it is in fact inherent risk. It is inherent risk that drives the process. If inherent risk is high and control risk is high, risk of material misstatement is high. If

inherent risk is low and control risk is high, the risk of material misstatement is low. So high times high equals high, and low times high is low, not moderate, not moderate.

Now, the inherent risk assessment is something that not everybody was doing before, but now is, it is a requirement. And the one thing about this particular requirement is that the attributes of inherent risk have changed. So SAS 145 has changed the attributes. So therefore complexity, subjectivity, change, uncertainty, management bias or fraud, those are the things that can't constitute inherent risk anymore. It is done at the assertion level. So the various assertions should be identified. Now there is a recognition here that if you look at this easily, things will break pretty much into highs and lows, very little moderate. So for instance, if we have a revenue standard and the transaction, the revenue transaction, is fairly complex, there is generally quite a bit of subjectivity to it. There is some uncertainty to it, and there is always the issue of management bias or fraud. You've got three out of five, that's going to get you to high. So there is an interrelationship between the inherent risk attributes. They are not evaluated independently. They are interdependent. And you will find that having checked off one, you will undoubtedly check off two, three, or four more, in which case you know you're at high. And if you don't, if you are able to say there aren't any changes, there isn't any uncertainty, and that sort of thing, then you get to that, you know, there's one or none, in which case it's low. So doing this for cash looks quite different. Don't have a complex calculation. It's not subject, there's not a lot of subjectivity in this management, doesn't have any change in the year in terms of the number of bank accounts, the kind of transactions going through the bank account, etcetera, etcetera, etcetera. There's no uncertainty about the measurement outcomes, and the management bias or fraud is not in the cash account, it's in the other side of the journal entry, in which case it's all blank, in which case we know cash is low. We don't want it like it is, but it really is when you do an assessment, then it's low.

Now the one thing to remember about the inherent risk assessment is that we have to do a separate risk assessment on the account audit area and related estimates. So for instance, receivables, revenue, and inventory all have the general risk assessment and then they have a risk assessment in terms of estimates. There are multiple estimates that get to be evaluated. It is not just let's look at all the estimates. So when we look at inventory, we may have a valuation estimate, but that valuation estimate comes down to something different when we have a standard cost system. It looks different if what we have is some complex allocations that have gone on. It looks different if I have to look at the assessment of obsolescence. So there are multiple estimates, each of which would have to be evaluated.

Now again, we want to take just a minute to talk about significant risks because this is the one area where auditors do not spend the appropriate amount of time really defining what we mean by significant risk.

So significant risks are a unique category of risk. They are a unique category of risk. They are unusual, infrequent, nonstandard, non-routine transactions. So what we're looking for is the unusual, infrequent, nonstandard transactions. Now in addition, we have standards, and the standards have carved out certain items that they consider to always be significant risks. Related party transactions is one of them. That is a standard significant risk. Accounting estimates in all the various permutations, estimates where there's uncertainty, estimates where there's complex accounting measurements, estimates where there's a lot of management judgment, estimates where there's a possibility of management intervention, all of those things become significant. We'll also tell you that when we look at significant risks, we can add one for any time that there is a change in accounting principle. That is always a significant risk. We implemented the revenue standard, we implemented the lease standard, significant risks in those years. Also, when there's a significant change in the economic or business climate, significant risk, COVID-19. So if you look at it, significant risks are related parties, anything in the fraud world, anything that deals with change in accounting principles, anything that deals with the business model and such, anything that deals with significant accounting estimates, that's where our significant risk is.

And standards will say there's at least one in every audit. Now generally we capture that by saying that anything related to the revenue cycle creates a significant risk. I'm not sure I always agree with that because there are some clients where the revenue cycle is highly predictive, and so I and there's nothing unusual, infrequent nonstandard, non-routine about it and not even a substantial amount of volume or velocity going on with it. So I'm not sure I always define that. But the way they get to it is by saying we always have fraud risk related to revenue and that was why revenue becomes a significant risk. That I can give you.

Now, significant risks require special audit consideration which means probably not in the audit program. It is what you're going to have to do to customize the audit program. How you define the client's significant risks means that's the specific area in the audit program that gets customized, and that's what we don't see. The assumption is that the audit program right out of the shrink wrap is going to do me just fine. And if you have significant risks, that is not the case. If you go back to the practice aid, we showed about coming up with this linkage between significant risk in our audit strategy, that's what we're basically saying. That we filled in the last column with comments about how we were going to approach the audit procedures necessary to offset that significant risk, not in the audit program, not in the audit program. Now another thing is that audit programs, they always have the last step that says additional procedures in response to risk, can never answer that N/A, never answered N/A, because you've always got a significant risk. So what you can say is that based upon a review of this, this, this, this, and this, the significant risks have been addressed in the audit program above. Now I can do that, but answering that question N/A is never appropriate. So again, significant risks are unusual, infrequent, nonstandard, non-routine transactions, and a whole host of them.

Now what you do with the evaluation is then develop a particular strategy. The first is our internal controls and our knowledge of them are the most effective way to test how the client addresses significant risks. That may be the case or it may not be. We will tell you that if you have significant risks, that substantive procedures alone are not sufficient. So substantive analytic procedures alone or not, that means you're going to have to do more than an analytic, some sort of testing. So when we look at that, if we have significant risk, we can go to one strategy, which is we're going to test controls, and then we're going to decrease our test of details. The other strategy is that we're going to just do test of details, and what we're going to tell you is that the analytic procedure is going to affect how I design my test of details, but it is not a substitute for those test of details.

So again, the response depending upon the risk assessment is the level of testing. If we have the pervasive risks, the response tends to be a look at the cycle controls that we have, and that tends to be where our focus is. If we have management override, that's the fraud issue, and we tend to look at journal entries, estimates, unusual transactions, and then when we get more specific, we address the risks and specific procedures.

Just a couple of comments about some of the new standards. When we look at SAS 135, which came out in 2021, the focus was on accounting estimates. Since that point we have had an additional standard on estimates which is pretty much the controlling standard for that. Related parties now defined as significant risk and we must consider the fraud risk related to it. In terms of the related parties, we are now required to do a search. So it's not a conversation with Karen that fills in the name and the transaction. It is actually searched because the issue is unreported related parties and related party transactions, and we have to do a test to prove the threat, the transaction was arm's length and at market. Whenever there are changes in accounting principle, there is additional testing for which we are we are responsible.

Disclosures, we have to look for any significant new or revised disclosures, and we actually have to audit those disclosures. Now before people thought auditing of disclosures meant if I ticky tied the statement of functional expenses to the statement of activities, that was fine. Or if I copied the footnote and ticky tied it to the trial balance, that was fine. But now the answer is no, you're going to actually dig into the disclosures. Now disclosures, however, is both dollars and narrative. So it's both the numbers and the words, and auditors need to look at that. We will tell you that auditors that are smart enough to have started to use AI applications will find that this test of disclosures is much easier because those anomalies and even the wording, appropriate wording, of footnotes gets done much easier if you have an AI application to help you do that.

So a risk assessment summary form is what we have, where we have to be to actually understand how to pull all of this together. So, this is as a carry-on from the previous practice aid. So we start by looking at the type of risk, and we identify the type of risk. The identified risk is going to come from that understanding the entity. We have to be able to identify the "what could go wrong." This is the "what could go wrong" analysis. We have to relate it to the various assertions, and you know, sometimes people go down the page, some people go across the page. Doesn't really matter what makes sort of sense to you. Are there controls that mitigate the risk? Are we going to test those controls? Do we understand what our inherent risk was, which we pull over from the other form, what our control risk evaluation is, and that is a function of what happened in terms of the test of controls. If you don't test controls,

the answer is it's high. The risk of material misstatement is the multiplication of inherent control risk. And the audit approach is actually a listing of what you're going to see in the audit program.

This is just the same thing, recognizing that having done the receivable itself, I now have to look at all the various estimates. So the identified risks are related to the credit quality evaluation that I'm going to be doing.

That's revenue the same way.

So here's a case of understanding so how to put that all together, and it's an exercise that you should think about before you move forward in the rest of what's happening in the program. The nature of operations, if you have a new product introduced, what could go wrong? Well, we can think of a number of things. One is that the product was not properly priced and therefore revenue would be affected. That the costs were not properly accumulated for all aspects of the product development in which case the costing of inventory is wrong. That in fact the marketing and if there was a marketing support that was not accounted for using the appropriate GAAP requirements. That the product introduction is on the wrong date and in the wrong period. And we can, you know, we can continue that. So the answer here is a recognition that when I say what could go wrong, it doesn't mean that that is one answer. There's a whole series of answers. And we have the source of information, the kind of information that we have, and an understanding of when we identify what could go wrong, we then can design the audit procedure. If you cannot in detail tell me what could absolutely happen, then you can't design a test. So here we had the CFO leaving, and you should be able to fill that in by virtue of the fact that we talked our way through that already. When it comes to a debt covenant, remember the debt covenant itself is a fact, and the requirements of that debt covenant that say earnings have to increase over the life term of the loan is also a fact. It's not a what could go wrong. The what could go wrong is, if the earnings had not increased and there was a violation of the debt covenant, what would management do? You know what could go wrong? Another way of expressing it is, your client has a business problem; they're going to solve it. Their solution is buried in the financial statements. Do you know where it is buried? And if you get done with the audit and can't answer that question, you probably need to go back and do it again.

All right. So, the next thing is to tell you that not everybody, not everybody wants to do a series of practice aids. Sometimes it's because the practice aids and their responses people feel are kind of confining. I don't like to fill in the blanks. Other cases, it is that we have a small client, operations are not very complex, and they really don't change much. So if I can write the planning memo in the first year, then the ability to use track changes and modify the few things that might happen from year to year is a whole lot more efficient than filling out a lot of practice aids year after year. So consequently, we need to be very much aware of what would be in a planning memo. And so I have outlined that background information, something about the current year, what criteria we use to continue the client, is there anything unique in the engagement letter when we looked at prior audit files, what can we leverage this year? Do we have other firms and consultants, service organizations? What unique laws and regulations do I have to address? And have I looked at abstracts of minutes and contracts and agreements and other documents?

The risk assessment, I would look at the understanding of the entity, the control memos, the definition of significant audit area, the walkthroughs, the analytics, the review of estimates, and the determination of materiality. Now I like to do that, you know, in each of those cases with one or two sentences as opposed to a practice aid that may go on for three or four pages.

The risk assessment, if you're going to do it by memo, you need to make sure all the elements of a risk assessment are included. The financial statement level lists, risk, and the overall strategy. The fraud risk assessment and our audit response. The internal control deficiencies in our audit response, the low-risk audit areas, and the high-risk audit areas, and the significant risks. Again, an Excel spreadsheet, you can move through that very quickly.

And then the budget, the staffing, the arrangements with the client, the client partner approval, the team meeting, the communications with those charged. All of those things can be done in memo form. And then I leave space to document if anything changed during the course of the audit. So easy to write a memo if you don't want to use a whole lot of practices. I mean, I can lay that out on an Excel spreadsheet that takes up about four printed pages, which is a whole lot different from doing two dozen practice aids, each of which may be six or seven pages. So again, standards do not require that you use a practice aid, but the contents I've outlined of what is required by standard to be included in the planning memo should you go in that direction.

The team meeting, a reminder that we don't have a choice here. This is not optional. A planning meeting is an audit standards requirement, just like a planning meeting with the client is a standards requirement. And the planning meeting with the client is not with the bookkeeper; it's with those charged. So the timing of this is critical. You do need your initial communication with those charged before the team gets together. It is a discussion, a debate, and a negotiation over risks. It is partner-led. So one of the things we need to remember is that this is a partner-level responsibility. As I said before, don't walk in the meeting if you don't have your own opinion about risks. The idea is, once you have developed an agreement on the risks, then you're ready to determine how you're going to respond to those risks. It is not that you do the same thing you did last year. Risks change. The client's tolerance for certain things change. Your tolerance for things change. The users change. Standards change. The business environment changes, GAAP rules change, tax rules change, and if nothing else look in the mirror and recognize you're a year older. The client is not the same from year to year, so what you do cannot be the same. And if you argue that they are the same, then that is proof that you need to change because the risk looks different if there really are no changes. So it really is a discussion, a debate, and a negotiation.

There is by standard a whole series of topics that have to be included in the team discussion. So we will want to talk about significant audit risk. We will want to talk about the unusual accounting practices, disclosures, reporting requirements, changes in their environment, changes in the GAAP rules. We do have to determine materiality. We do have to look at our control systems. We have to look at IT, and please remember QuickBooks is IT, related parties and their transactions, past experience, changes in the organization, ownership, and personnel.

The areas we do need to spend a little more time than we have been on noncompliance. Noncompliance with laws, regulations, contracts, and agreements. This does not mean that your client is in a compliance world, and you are conducting a compliance audit. But every business has licensing laws, OSHA laws, EPA laws, compensation laws, zoning laws, all of those things. So first of all, we actually need to know what those might be. We need an open discussion about fraud, how and where there might be a material misstatement. And we need to get specific enough that we can identify the schemes and the scams. And again, if you have done the appropriate risk assessment, you are ready for that team discussion. We do want to create an element of unpredictability in what we do.

So areas where there is some required documentation, please remember that inquiries alone are not audit evidence and never will be. So if you do inquiries in addition to documenting the topic, the person, the date, and the response, you must have corroborating evidence. So lots of things that we can discuss with the client, we just view those discussions, if you will, as the starting point. They lead us to additional audit procedures.

So here we are, there's this whole concept of linkage, identified risk, assessed risk, responding to it, and then documenting what you've done in response. And the linkage is so that we can go from the identified risk to the workpaper and from the workpaper back to the identified risk. If you cannot do that, if the reviewer cannot do that, then you have a substandard audit. It is all about linkage. It is all about linkage.

So to help with that, I have created a little case study so that you can see how this works. And admittedly, by virtue of the type of screen limitations that I have, we don't have all the basic details that we might want. But the case analysis is to take a look at an understanding that we've had some inquiries about contract terms, which are fairly complex, which means that I might have some overstatement of revenue and receivables, a problem with existence or occurrence, leading me to a change in how I designed the confirmation, which is not of the receivable notice, the confirmation as of the contract. It also means that in this particular case, I would like to take the opportunity to look at internal controls before I look at my substantive procedures. On the other hand, there might be a change in the product return policy, again an issue of revenues and receivables. But here I might look at analytics. However, only if I have some assurance that there are completeness controls over the transactions. So what we have is an opportunity to look to see that linkage relevant to almost everything that we do in an audit. And I just gave you several opportunities to look at how that would work its way through your documentation.

So a final couple of comments about planning analytics. The first thing is that planning analytics are not the first procedure performed. I cannot tell you how many auditors, as soon as they get the trial balance from the client, hand it off to some staff member to do the planning analytics. Well first of all, if the books and records haven't been cleaned up, then that's useless information. Secondly, why are you doing a planning analytic? Well, the answer is, I want to

make sure we haven't missed any significant risks. Well, I certainly wouldn't be able to come up with that until I have done what? Understanding the entity, including internal controls, and I've done my fraud risk assessment. So the timing of preliminary analytics is not the very first audit step. It's after you've completed all your planning procedures, because all I want to do with my planning analytic is answer the question, did I miss anything? Well, what is "missing anything?" That is doing what you're doing is no different than saying to a staff member, "scan the general ledger looking for unusual transactions." What the heck is the staff member looking for? He doesn't know. She doesn't know. Nobody knows. What's an unusual transaction that would pop up? Generally, the default is some large number, and that doesn't necessarily make it a significant risk. So after you understand the entity, its environment, its internal controls, its fraud risk, now we're ready to do the analytics. The second thing is, it's a financial statement-level risk, not a general ledger listing. So I do not do a preliminary analytic on every single trial balance account balance. I do it at the aggregated financial statement level. Makes it look a lot different.

A reminder that most of the structures of audit programs are designed to get us an understanding of low risk and high risk. If in fact you have low risk, then preliminary and final analytics are sufficient, and my general procedures audit program is sufficient.

If, on the other hand, I have something other than that, then I'm going to take a different approach to it, which is to look at detail. So the detailed audit approach is taking my knowledge.

Now, a substantive analytic audit approach is understanding that I basically also have low risk. I don't have significant audit risks. I'm only going to do test of details that would be required by auditing standards like confirmations and inventory. But what I'm going to be doing is substantive analytics. Areas like cash, property, plant, and equipment, our accruals, our equity numbers, these are areas where substantive analytics work just like that, and I don't have to do the detailed tests.

So, significant audit areas without fraud risk or significant risk, a basic audit approach. If you have significant audit risk or fraud risk, then we have to make sure we understand whether or not we're going to test controls, and testing controls allows us to quite significantly reduce what we do.

So, what we have, once again, as the final group of slides, is, by virtue of an example, looking at a linkage example for revenues and receivables by assertion. So existence can be overstated, and the reasons are why, and a fraud risk, risk of material misstatement, high audit procedures listed. Remember, the direction can never be the same for existence and completeness. So one is overstated, the other is understated.

Rights and obligations. Valuation is a collection problem anymore under SAS, excuse me, under Topic 606. We audit revenue, receivables is a residual.

So, an opportunity to again look at linkage and how one would document linkage.

And the final is to remind you that AI, artificial intelligence, is now being used by most auditors in one form or another. An audit data analytic that's illustrated in SAS 142 is an example of using an AI device. This one is done manually, but generally what we have there would be done electronically.

So, it's looking at the fact that when we get to our revenue test, it's a test of contracts with customers, and that's what I'm testing. So to do that, I have to stratify, and to stratify, I need to have the characteristics of the contracts of the customers. And that is what I've identified—the overall characteristics of either volume or timing and a risk assessment. And, therefore, my testing model links to the risk. And so the AI model does exactly the same thing.

So that's an overview of how to dig into the details of a risk assessment and how to let that drive the customization of your audit procedures.

Thank you for attending.

I hope you enjoyed the presentation.

SUPPLEMENTAL MATERIALS

Best Practices for Effective and Efficient Auditing: Designing Audit Procedures Part Two

by Susan Longo, CPA

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

GROUP STUDY MATERIALS

A. Discussion Questions

1. What is the primary focus of SAS 145 regarding risk assessment?
 - A. Eliminating the need for significant risk identification
 - B. Performing risk assessments at the financial statement level
 - C. Requiring substantive procedures for all accounts
 - D. Separating inherent risk and control risk assessments
2. What is the primary purpose of a planning meeting in an audit engagement?
 - A. To assess and refine the risk assessment and determine appropriate audit procedures
 - B. To confirm last year's audit procedures are sufficient for the current year
 - C. To distribute work assignments without discussing risk
 - D. To ensure all team members agree on the exact procedures to follow
3. What is a required audit response to a significant risk?
 - A. Use the same procedures as a standard audit area
 - B. Rely solely on analytical procedures
 - C. Perform a combination of substantive procedures and tests of controls
 - D. Ignore controls and focus only on substantive tests
4. What is the purpose of linkage in audit documentation?
 - A. To document prior year audit findings
 - B. To eliminate the need for audit planning meetings
 - C. To ensure consistency between audit workpapers and risk assessments
 - D. To reduce the need for detailed audit procedures
5. How should auditors approach noncompliance with laws and regulations?
 - A. Assume management has disclosed all relevant noncompliance issues
 - B. Identify applicable laws and assess potential risks of noncompliance
 - C. Only consider tax laws in the audit process
 - D. Only investigate if the client operates in a regulated industry

B. Suggested Answers to Discussion Questions

1. The correct answer is B, Performing risk assessments at the financial statement level.

The primary focus of SAS 145 regarding risk assessment is to separate inherent risk and control risk assessments, ensuring a more precise and structured evaluation of risk at the assertion level rather than just at the financial statement level. Under SAS 145, auditors must individually assess inherent risk and control risk, recognizing that inherent risk relates to the nature of the financial statement element, while control risk depends on the effectiveness of internal controls in mitigating that risk. This approach enhances risk identification and audit planning, requiring auditors to thoroughly document and justify their risk assessments.

Additionally, SAS 145 emphasizes that risk assessments should be specific and not overly generalized, meaning auditors must clearly define significant risks, fraud risks, and assertion-level risks. It also mandates a more detailed approach to understanding and evaluating control activities, ensuring that auditors do not simply assess risks at the entity level but examine the effectiveness of internal controls at the process and transaction level.

This standard also reinforces the importance of tailoring audit procedures based on risk assessment outcomes. If inherent risk is high and control risk is high, the risk of material misstatement (RMM) is high, necessitating more extensive substantive procedures. Conversely, if control risk is assessed as low due to strong internal controls, auditors may rely more on control testing and less on substantive testing.

By requiring a more structured and documented approach to risk assessment, SAS 145 helps auditors create more effective and efficient audit strategies, ensuring that their procedures are directly linked to the risks identified. This ultimately enhances audit quality, risk responsiveness, and compliance with professional standards.

2. The correct answer is A, To assess and refine the risk assessment and determine appropriate audit procedures.

The primary purpose of a planning meeting in an audit engagement is to assess and refine the risk assessment and determine appropriate audit procedures. Planning meetings ensure that auditors do not simply repeat prior-year procedures but instead tailor their approach based on the unique risks and circumstances of the current engagement. Every audit requires a fresh evaluation of inherent and control risks, changes in the client's business environment, updates to accounting standards, and any other factors that could impact financial reporting.

During the meeting, audit team members should come prepared with their individual risk assessments, which are then discussed, debated, and refined to reach a consensus on the most significant risks. This process helps ensure that audit procedures are aligned with areas of heightened risk, leading to a more effective and efficient audit. The planning meeting also provides an opportunity to discuss audit strategy, including whether reliance on internal controls is appropriate, where substantive testing should be focused, and how analytics will be used.

Additionally, planning meetings play a critical role in establishing clear expectations for documentation, communication, and coordination among team members. While work assignments are part of the discussion, the focus remains on ensuring that identified risks are linked to audit procedures. By properly structuring the planning meeting around risk assessment and procedural strategy, auditors strengthen the overall quality and reliability of the engagement.

3. The correct answer is C, Perform a combination of substantive procedures and tests of controls.

A required audit response to a significant risk is to perform a combination of substantive procedures and tests of controls. Significant risks are those that involve unusual, infrequent, nonstandard, or non-routine transactions, as well as areas with high estimation uncertainty, fraud risk, or complex accounting judgments. Because these risks have a greater likelihood of resulting in material misstatements, auditors must design procedures that directly address their nature and impact.

Substantive procedures, such as detailed testing of transactions, confirmations, and recalculations, help verify the accuracy and completeness of financial data. However, substantive procedures alone may not always be

sufficient, particularly if internal controls are relevant to mitigating the risk. In such cases, auditors should evaluate and, where appropriate, test the effectiveness of controls designed to prevent or detect misstatements. This dual approach helps auditors obtain a more comprehensive understanding of the risk and tailor their audit response accordingly.

Significant risks also require special audit considerations beyond those used in standard audit areas. Audit programs must be customized rather than relying on generic procedures. Additionally, auditors must document their risk assessments, the rationale for selected procedures, and the results of their testing to demonstrate compliance with professional standards. By integrating substantive procedures with control testing where necessary, auditors enhance the reliability of their conclusions and ensure that significant risks are adequately addressed.

4. The correct answer is C, To ensure consistency between audit workpapers and risk assessments.

The purpose of linkage in audit documentation is to ensure consistency between audit workpapers and risk assessments. Linkage creates a clear connection between the **identified risks, the audit procedures performed, and the conclusions drawn**, ensuring that every audit step is aligned with the assessed risks. Without proper linkage, an audit may lack a logical flow, making it difficult to demonstrate how risks were addressed and whether audit evidence supports the final conclusions.

Effective linkage begins with the risk assessment process, where auditors identify **significant risks, fraud risks, and assertion-level risks**. The audit procedures selected must directly correspond to these risks, ensuring that **higher-risk areas receive more rigorous testing**, such as substantive procedures or control testing. Documentation should clearly show this connection, allowing a reviewer to trace an issue from its initial identification in the risk assessment to the corresponding workpapers and audit findings.

Additionally, linkage plays a critical role in audit efficiency and quality control. It enables auditors to **justify their approach**, ensuring compliance with professional standards and reducing the risk of oversight. A well-linked audit file allows for **better team coordination, facilitates peer review**, and ensures that audit evidence adequately supports the conclusions in the audit report. Ultimately, linkage strengthens the integrity and credibility of the audit by providing a structured and well-documented trail of risk-based decision-making.

5. The correct answer is B, Identify applicable laws and assess potential risks of noncompliance.

Auditors should approach noncompliance with laws and regulations by identifying applicable laws and assessing potential risks of noncompliance. Regardless of industry, every business is subject to various legal and regulatory requirements, including tax laws, labor laws, licensing, environmental regulations, and contractual obligations. Auditors must gain an understanding of the legal environment relevant to the client and evaluate whether noncompliance could have a material impact on the financial statements. This involves reviewing agreements, board minutes, regulatory filings, and legal correspondence, as well as making targeted inquiries of management and those charged with governance.

SAS guidance emphasizes that auditors cannot simply rely on management to disclose all relevant noncompliance issues. Instead, they must maintain professional skepticism and design procedures to detect signs of possible violations. If indications of noncompliance arise, auditors should investigate further, considering whether the issue affects financial reporting, requires disclosure, or suggests weaknesses in internal controls.

While auditors are not responsible for enforcing laws or acting as legal experts, they must assess how noncompliance risks impact the financial statements and determine if modifications to the audit report or further actions, such as reporting to regulatory authorities, are necessary. By proactively addressing noncompliance risks, auditors help ensure that financial statements present a fair and accurate picture of the entity's compliance obligations.

GLOSSARY

Analytical Procedures—Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Audit Documentation—An auditor's primary record of the audit procedures applied, evidence obtained, and conclusions reached in an audit engagement. Examples of audit documentation include audit programs, analyses, memoranda, letters of confirmation and representation, abstracts or copies of entity documents, and schedules or commentaries prepared or obtained by the auditor. Audit documentation may be in paper form, electronic form, or other media. Audit documentation is also referred to as workpapers.

Audit Strategy—Audit strategy is the auditor's operational approach to achieving the objectives of the audit. It is a high-level description of the audit scope. It includes matters such as identifying material locations and account balances, identifying audit areas with a higher risk of material misstatement, the overall responses to those higher risks, and the planned audit approach by area (for example, substantive procedures or a combined approach of substantive procedures and tests of controls).

Control Risk—The risk that a misstatement due to error or fraud that could occur in an assertion and that could be material, individually or in combination with other misstatements, will not be prevented or detected on a timely basis by the company's internal control.

Corroborating Evidence—Corroborating evidence is evidence other than the books of original entry (i.e., the accounting records) that allows the auditor to reach conclusions. It includes both internally and externally generated documents (e.g., checks, invoices, contracts, confirmations, and other written representation by knowledgeable persons). It is all information obtained by the auditor through inquiry, observation, inspection, and physical examination and any other information developed by or available to the auditor (AU 326.17).

Evidence—Matter that should be considered in the operational review and includes the following types: physical observations, photos, slides, etc.; testimonial interviews, personal statements, etc.; documentary letters, contracts, grants, records, etc.; and analytical (i.e., analysis of information).

External Confirmation—Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (e.g., through the auditor's direct access to information held by a third party).

Fraud Risk—Related to risk assessment; it is the consideration by the organization of the potential for fraud in assessing risks to the achievement of its objectives.

Inherent Risk—The risk posed by an error or omission in a financial statement due to a factor other than a failure of internal control.

Inquiry—Inquiry is one of the five basic methods of obtaining audit evidence. An inquiry is the seeking of appropriate information from knowledgeable persons inside (both management and staff) or outside the entity (e.g., bankers, attorneys, vendors, customers, predecessor auditor) with the approval of management. Inquiries are generally achieved by asking questions and receiving responses. Inquiries of management are used extensively in investigating unusual fluctuations or items, fraud, errors, and contingent liabilities. The confirmation process consists of obtaining a written response from independent parties to specific inquiry to corroborate information contained in the accounting records.

Management Representation Letter—Among other things, confirms oral representations about specific matters given to the auditor during the audit. The letter is part of the evidential matter the auditor obtains;

however it is not a substitute for other necessary audit procedures to corroborate information about matters for which written representations are obtained.

Review—Service provided by an accountant where limited assurance is provided that no material modifications need to be made to an entity's financial statements for them to be in conformity with the purported financial reporting framework.

Review Evidence—Information used by the accountant to provide a reasonable basis for the obtaining of limited assurance.

Risk Assessment—The auditor's assessment of the risks of material misstatement, whether due to error or fraud, at the financial statement and relevant assertion levels, which aids in designing further audit procedures. The term also applies to the auditee's assessment of the risk of error or fraud related to the auditee's system of internal control.

Risk of Material Misstatement—The risk of material misstatement is the likelihood of a misstatement of the financial statements of a material amount. The auditor should assess this risk at both the financial statement level and at the relevant assertion level. At the financial statement level, it is an overall assessment. At the relevant assertion level, it is the combination of the auditor's assessment of inherent risk and control risk. The auditor can make a combined assessment of inherent and control risk or assess the component risks separately and then combine them.

SSARS—Statements on Standards for Accounting and Review Services

Substantive Procedures(s)—Substantive procedures consist of:

- a) tests of details of classes of transactions, account balances, and disclosures, and
- b) substantive analytical procedures.

Written Representation—A written statement by management provided to the accountant to confirm certain matters or to support other review evidence. Written representations in this context do not include financial statements or supporting books and records.

Subscriber Survey

Evaluation Form

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

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

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Accounting Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Auditing Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Small Business Session	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

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

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

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

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

	Overall	Knowledge of Topic	Presentation Skills
Accounting Speaker	_____	_____	_____
Auditing Speaker	_____	_____	_____
Small Business Speaker	_____	_____	_____

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

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

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

Were program materials accurate? Yes ☐ No ☐ _____

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

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

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

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

Specific Comments:

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!