Setting the COURSE

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13 Keep it Professional
Are you following the requirements of professional standards for tax consulting services? Maybe you need to refresh your memory on the AICPA statements and responsibilities of the requirements applicable to you. Our expert and CalCPA Education Foundation faculty member has you covered.

3 It’s Material: The Varied Career Path
CalCPA’s CEO discusses the wide path a career as a CPA can offer, and how some of these “non-traditional” opportunities need to be shared with an eye toward keeping the CPA pipeline full.
DENISE LEIDFROEMMING, CPA

17 'Quality' Standards Update
This article explains a new series of standards issued by the Auditing Standards Board that will require firms to focus their attention on the handling of their systems of quality management.
PAUL J. PETERSON, CPA

19 NOCLAR Revisions
The AICPA Professional Ethics Executive Committee adopted revisions to its NOCLAR code of professional conduct. Here’s a breakdown of what you need to know to help you continue to act in the public’s best interest.
DOUG DI BOER, CPA

23 A Year of Advocacy
Our columnist reviews the various legislation, issues and resources the CalCPA government relations team worked on to give members a leg up in Sacramento and Washington over the course of this past year.
JASON FOX
It’s
Material

Denise LeDuc Froemming, CPA, CAE, MBA
President & CEO
CalCPA and CalCPA Education Foundation

Oh, the places you’ll go.

You likely recognize that line as the title of a popular Dr. Seuss book—and it’s a good descriptor of the CPA profession.

Outside looking in, it seems career choices for CPAs are pretty cut and dry: Earn a bachelor’s or master’s degree, pass the CPA Exam and start your journey to firm partner. Or maybe hop over to industry at some point. And those are certainly viable and popular career paths.

But those of us on the inside know different and see—or maybe have even taken—“non-traditional” career opportunities that are available. And with an eye toward keeping the CPA pipeline full, it’s especially key that we share those possibilities.

When you think about it, everyone needs accountants—from Fortune 500 companies to startups to the Main Street businesses—so a CPA career can take you almost anywhere you want to go. There aren’t a lot of other career paths that offer such a wide path of unlimited opportunities.

Looking for examples? How about the fact that there are endless ways to develop a niche or expertise in more traditional accounting functions, from entertainment to cannabis to nonprofits to personal financial planning. There’s also consulting work, landing a government position and even the FBI. And let’s not forget academia—helping to teach those future CPAs.

Consider, too, as the skill set of CPAs grows wider and deeper, so do career options. Areas such as IT consulting; artificial intelligence; forensics; cyber security; cryptocurrency; environmental, social and governance reporting; and others are part of the profession’s ecosystem—directly or indirectly. This is a major reason behind CPA Evolution (evolutionofcpa.org) efforts to redesign the CPA Exam and take these changes into account to ensure future CPAs are prepared.

While CPA career paths are varied, there’s an underlying function that—while maybe an oversimplification—holds true: A CPA’s value is in helping companies, individuals and organizations make sense of financial data. And not just “making sense” in terms of numbers bottoming out, debits equaling credits, etc. But coupling that full complement of data with their knowledge to help people, companies and organizations make wise business decisions to help them compete and thrive.

That’s not something often found in CPA career brochures, but it’s key to the profession and needs to be boasted about.

Returning to Dr. Seuss: “You have brains in your head, you have feet on your shoes, you can steer yourself any direction you choose.”
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What’s to **blame**?

When people lose money, they often look for someone to blame. And CPAs can get caught in the cross hairs.

*The following are the types of claims asserted against CPA firms in the AICPA Professional Liability Insurance Program in 2021:*

- **73%:** Tax services
- **9%:** Accounting/bookkeeping services
- **9%:** Consulting services
- **5%:** Auditing and attest services
- **4%:** Fiduciary services

*CNA Accountants Professional Liability Claim Database*

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**Internal audit** leaders ... have used the disruption to drive positive change and help start to shape the internal audit workforce of the future, and are now looking for highly skilled, digitally savvy, data-oriented professionals to take on a range of challenging internal audit roles.”

— Protiviti Managing Director Andrew Struthers-Kennedy

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**1 in 5**
The number of Americans who say buying the new iPhone is worth going into debt.

— WalletHub

**24%**
The number of executives who say they are investing in finance and accounting to drive growth.

— Paro

**$1.3M+**
The amount of penalties the Public Company Accounting Oversight Board has levied against registered accounting firms and individuals.

— AccountingToday

**68%**
The number of workers who retired during the pandemic who said they would consider returning to work.

— CNBC

**6.5%**
The expected average increase in health care costs for employers in 2023, more than double the 3% increase in 2022.

— Aon
CalOSBA’s Website: A Resource for You & Your Small-business Clients

CalOSBA’s website (calosba.ca.gov) connects California’s small-business community with resources available through the state-funded small business technical assistance program and other state resources. More recently CalOSBA launched the Outreach and Engagement website: https://calosba.ca.gov/about/calosba-outreach-and-engagement/. This new website offers a large amount of outreach and marketing materials for technical assistance partners, including access to media toolkits for initiatives such as the Dream Fund, event amplification opportunities.

Rise & Stride: A Look at California’s Business Environment

One thing is always constant when it comes to California’s business environment—change. CalChamber CEO Jennifer Barrera discusses what’s top of mind for business, as well as what issues business should be on the watch for. Check it out at calcpa.org/riseandstride.

Listen, like, comment and share past episodes, as well, or find the podcasts on Spotify or Amazon Music.

CalCPA Education Foundation brainfood bytes

News Videos on Hot Topics
The CalCPA Education Foundation has developed a resource of short videos addressing breaking news and regulatory issues affecting CalCPA members. Stay abreast by visiting calcpa.org/brainfood_bytes and look out for brainfood bytes emails for video clips and supplemental resources released as news arises.

We also want to hear from you. What issues are affecting you? What would you like to have more information on? Reach out at bytes@calcpa.org to request topics of interest for us to cover on upcoming episodes.
CalCPA member Michael Gray, CPA offers a discussion on the difficulties of charging the right price for your services and talking to your clients about fees in his article, “Don’t Be a Pushover.”

“The value has to start in [an accountant’s] own mind and the client has to be educated about the value. The value of professional services is subjective, in the minds of the service provider and the person receiving the services,” says Gray. Read more at calcpa.org/news-and-resources/dont-be-a-pushover.

**Fee Increase**

California Board of Accountancy Increasing Fees

Beginning Oct. 1 the CBA’s Initial License Fee and License Renewal Fee increased from $250 to $280.

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   Aldo Maragoni, Editor; Date: October 1, 2022

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Here are some basic tips on how to get a practice continuation plan started before consulting a more comprehensive resource:

1. Create a checklist of important resources and phone numbers, such as your professional liability insurance carrier, state board of accountancy, and your state and local CPA societies. Other important resources may include your office building manager, computer technical help, telephone service and other utilities.

2. Assemble a set of practice and operating documents. These documents can be divided into sections, such as:
   
   a. A profile of the proprietorship, including types of services offered, names of key employees, location of accounting records, bank account information, and location of contracts and lease agreements.
   
   b. A client list, including key contacts, services provided and important deadlines. (This will need to be much more detailed if you are interested in the option of negotiating a buy/sell agreement as part of a contingency plan.)
   
   c. Procedures used to monitor work in progress. This will enable others to determine the status of uncompleted work.
   
   d. A guide to using the firm’s computers.
   
   e. Location of work papers.
   
   f. Description of filing system.
   
   g. Office procedures for handling the receipt and return of client information.
   
   h. Billing schedules and collection policies.
   
   i. Procedures for identifying and paying accounts payable.
   
   j. Location of personnel files.

3. Decide on a continuation arrangement/agreement. There are three basic types:
   
   a. A one-to-one agreement with a local CPA firm that you have identified as a good fit/culture for your firm. The agreement established between the
firms should cover the critical areas that are necessary to ensure a smooth transition (both short term and long term) if it becomes necessary. The agreement usually has a buy/sell component with a clear formula for calculating the sales price of the firm, along with payment period and terms in the event of the CPA's permanent disability or death.

b. A group agreement, in which several CPAs may act as successors/partners to each other’s firms. CPA firm alliances or associations generally serve this purpose, among other purposes.

c. A CPA society group that will assist the member, spouse or heirs in finding a successor/partner.

4. Identify, approach and partner with a suitable firm(s). Network among sources of referrals. The best organization for such networking is often the local CPA society. Other sources include bankers, attorneys and community groups. Alliances among CPA firms are active in some regions. Some are formal associations, others informal, but one of the benefits is that they can help facilitate practice continuation planning.

5. Implement the plan. Contact your attorney to draft any agreements required by the plan. Discuss the plan with your spouse and successor/partner. Communicate in writing the instructions for all parties, and set up dates for annual reviews of the plan.

The worst time to craft notifications to clients is during a crisis that is bringing about the need for the continuation plan. Prepare template notifications to clients and referral sources ahead of time. There's a chance that the CPA being replaced will not be available for guidance during a crisis, so the CPA who is stepping in should be well apprised of as much information as possible.

Major goals for practice continuation planning include avoiding losses of clients, keeping them happy, and allaying their fears about changes in service and operations. An organized transition that is well communicated to clients is a big step toward attaining those goals.

For more, visit camico.com.

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FINREC SEEKING COMMENTS ON PROPOSED GUIDANCE
The AICPA’s Financial Reporting Executive Committee (FinREC) issued a working draft of the AICPA Accounting and Valuation Guide, Business Combinations, which provides guidance and illustrations regarding the accounting and valuation considerations for business combination transactions. FinREC is seeking comments on the proposed guidance (aicpa.org/resources/download/working-draft-of-business-combinations-accounting-and-valuation-guide), which addresses many accounting and valuation issues that have emerged over time and will help preparers, auditors and valuation specialists understand and comply with the requirements of FASB ASC Topic 805, Business Combinations, and FASB ASC Topic 820, Fair Value Measurement.

Comments can be emailed to Yelena.Mishkevich@aicpa-cima.com. The comment deadline is Jan. 15.

PROPOSED STANDARDS FOR TAX SERVICES CHANGES RELEASED FOR COMMENT
The AICPA has released proposed revisions to the Statements on Standards for Tax Services (SSTSs) for public comment. The proposed changes include revisions to the existing standards and three new standards. Additionally, there is an invitation to comment on the subject of quality management in tax. The combined document is divided into two separate sections: part one, the exposure draft on the three new standards, and part two, the invitation to comment on the subject of quality management in tax. Comments are requested by Dec. 31 and should be submitted via the online form (https://lnkd.in/gEM64sgM) or emailed to: SSTScComments@aicpa-cima.com. Written comments on the exposure draft and the invitation to comment will become part of the AICPA public record and will be available on the AICPA’s website after Dec. 31. The changes outlined in the exposure draft, if adopted, are expected to be included in a revised SSTS document to be approved no later than May 31, 2023, and effective Jan. 1, 2024.

For additional details and resources, visit aicpa.org/resources/landing/proposed-revisions-to-the-aicpa-tax-standards-ssts.

CalCPA BE SEEN
Get out and enjoy CalCPA events! It’s time to catch up with former connections and make new ones. Make sure you’re seen at these fantastic events.

Fresno Golf Clinic
Riverside Golf Course
OCT. 19
This clinic is a great way to learn the basics in a relaxed group environment. A golf pro will be available to share tips, tricks, and course etiquette. No expertise is needed to participate and enjoy this event. You are encouraged to bring your golf clubs, but the facility will have a limited number of clubs available to borrow.
Calcpa.org/FRGolf

San Joaquin Firm Olympics
Blaker Brewing
OCT. 20
Does your firm have what it takes to take home the championship trophy? Can you master lawn games like you do balance sheets? Be sure to put together a team before this event sells out.

Register a team by contacting Rachael.fleming@calcpa.org.
Calcpa.org/SQOlympics

Don’t see the event you want to attend?
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ANNOUNCEMENTS
Andrea Hernandez (Rubens Partners), Michael Meihaus (Meihaus CPA, PC) and Rosey Flaherty (Eide Bailly LLP) were selected to participate in the 2022 AICPA Leadership Academy. Price Paige and Company brought on Pragati Desai, CPA as tax manager.

ACCOMPLISHMENTS
AccountingToday named Windes to its list of 2022 Best Firms to Work For in the country.

MEMBERS IN THE NEWS
AccountingToday quoted Larry Pon Aug. 6 in an article dealing with tax preparers raising fees. Pon also was quoted in the Aug. 12 AARP in an article about buying a home and in an Aug. 16 MarketWatch article about handling an inheritance. Financial Advisor quoted Mary Kay Foss in an Aug. 15 article on retirement savings reform. BloombergTax published an article by David Klasing Aug. 16 on what to do when your California sales tax audit turns criminal. Yahoo Money quoted Rob Seltzer and Larry Pon in an Aug. 16 article on the Inflation Reduction Act. CNN Business quoted Larry Pon in an Aug. 17 article about crypto losses. Barry Dolowich has a recurring column in The Monterey Herald. The Journal of Accountancy featured David Cieslak in an Aug. 23 podcast discussing technology. An Aug. 25 Orange County Register article about what happens when a California city goes bankrupt quoted John Moorlach. An Aug. 26 article in AOL about increased funding for the IRS quoted Larry Pon and mentioned Charles Rettig. FOX LA interviewed Larry Pon in an Aug. 31 segment on the California Inflation Relief Refund. Pon also was featured in an Aug. 31 Rethinking65 article about inheritances and an ABC7 segment on October tax deadlines. The Wall Street Journal quoted John Schultz in a Sept. 13 article on the number of Americans filing for tax extensions. CPA Practice Advisor quoted Annette Nellen in a Sept. 15 article on best practices for firms. Nellen also was quoted in a Sept. 16 CNBC article on student loan forgiveness.

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If you’re performing tax or consulting services for your clients, or as an employee holding yourself out as a CPA, are you following the requirements of professional standards? It turns out that many CPAs are not aware, or have forgotten, that the AICPA has published Statements on Standards for Tax Services and a Statement on Standards for Consulting Services.

This could be dangerous, as paragraph .01 of the Compliance with Standards Rule, 1.310.001 of the AICPA Code of Professional Conduct states, “A member who performs audit, review, compilation, management consulting, tax or other professional services shall comply with standards promulgated by bodies designated by Council.”

There’s a corresponding rule at 2.310 for accountants working in industry.

The information here is not a comprehensive guide to all requirements of the applicable standards. The purpose is to make practitioners aware of responsibilities they may not have previously been familiar with and to serve as a stimulus to the practitioner to obtain the details and incorporate those that are applicable into their practices.

**Statements on Standards for Tax Services (SSTS)**

SSTS consists of seven standards, issued in 2009 and effective as of Jan. 1, 2010. The seven standards are:

1. Tax Return Positions
2. Answers to Questions on Returns
3. Certain Procedural Aspects of Preparing Returns
4. Use of Estimates
5. Departure from a Position Previously Concluded in an Administrative Proceeding or Court Decision
7. Form and Content of Advice to Taxpayers

**Tax Return Positions:** Applies when recommending a tax position to a client or when signing a client’s tax return, provided it does not conflict with written standards of a taxing authority. It requires that recommendations be limited to positions considered reasonably sustainable. The first interpretation cautions that a taxing authority may impose a threshold higher than being “reasonably sustainable,” such as being “more likely than not” or “having substantial authority.”

A position also may be recommended for which there is a reasonable basis provided it is properly disclosed. The second interpretation expands this by indicating that a reasonable basis for the position must exist, that the preparer recommends appropriate disclosure and there is not a higher standard required by a taxing authority.

The standard also requires that the preparer advise the client of relevant potential penalties that may result from taking a position that taxing authorities may not allow.

**Answers to Questions on Returns:** Requires the use of a reasonable effort to obtain the information to answer all questions and requests for information before signing a return as preparer.

**Certain Procedural Aspects of Preparing Returns:** Defines any obligation a preparer may have to verify data supporting information on a return or to consider information related to another taxpayer.

**Use of Estimates:** Allows a preparer to use a taxpayer’s estimates when precise data is not readily available, provided they seem reasonable to the preparer based on information known or obtained, and there is no implication that they are more achievable than actual.

**Departure from a Position Previously Concluded in an Administrative Proceeding or Court Decision:** Allows a preparer to recommend a position that differs from one previously concluded under one of the indicated circumstances in a subsequent tax year. The requirements of the first standard, Tax Return Positions, must be complied with and the taxpayer may not be bound to a specified treatment due to a formal agreement with the taxing authority.

**Knowledge of Error—Return Preparation and Administrative Proceedings:** Requires a preparer to promptly inform the taxpayer upon becoming aware of an error on a previously prepared return, an error on a return under administrative review, or that the taxpayer...
failed to file a return. The preparer may not inform the taxing authority.

If representing a taxpayer in an administrative proceeding related to a tax return containing a known error, the preparer should request the taxpayer’s permission to disclose the error and should consider withdrawing from representing the client if the taxpayer refuses. The preparer also should consider discontinuing a professional relationship or employment with the taxpayer.

Form and Content of Advice to Taxpayers: Encourages the preparer to apply professional judgment in determining when it is appropriate to provide oral advice or if it should be written and the need to document the advice. The preparer’s advice should serve the needs of the taxpayer.

The preparer should assume that advice will affect the reporting or disclosures on the return and should consider if there are relevant reporting and disclosure requirements, and potential consequences of corrective action and inform the taxpayer of potential penalties or other consequences of the error. If corrective action is not taken, the preparer may consider withdrawing from preparing a subsequent return. The preparer should take measures to avoid repeating the error if the preparer does not withdraw.

Although neither the consulting standards nor the tax standards require a written understanding with the client, common sense suggests a written engagement letter as a best practice.

Statement on Standards for Consulting Services (SSCS)

Only one Statement on Standards for Consulting Services has been issued. The effective date is for engagements accepted on or after Jan. 1, 1992, except for those provisions revised in 2015 due to changes to the AICPA Code of Professional Conduct. The statement consists of the following sections:

Introduction: Describes the evolution of consulting services. Consulting services were traditionally limited to matters related to accounting; today they may include technical disciplines, industry expertise, knowledge of finance and economics, and skills in human resources and management, among others.

The standards apply when someone holding themselves out as a CPA provides consulting services. The SSCS replace the previous Statements on Standards for Management Advisory Services (SSMAS).

Unlike an attest engagement, in which the practitioner is attesting to the assertions of others, the practitioner develops findings, conclusions and recommendations in a consulting engagement. The nature and scope of services is a matter determined by agreement with the client benefitting from the work.

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Definitions: Indicate that consulting service practitioners are CPAs performing consulting services. The consulting process involves determining client objectives, fact-finding, defining problems and opportunities, evaluating alternatives, forming proposed actions, communicating results, implementation and follow-up.

Consulting Services: Defined as professional skills requiring the application of the practitioner’s technical skills, education, experience, observations and knowledge of the consulting process.

Consulting services fall into six broad categories:

• Consultations: Short engagements relying upon the practitioner’s existing knowledge and may involve activities like reviewing a client's business plan.
• Advisory services: Call upon the practitioner to develop findings, conclusions and recommendations such as those that would result from operational reviews.
• Implementation services: The practitioner assists the client in putting a plan into effect.
• Transaction services: Relate to a specific transaction such as a merger or acquisition.

• The practitioner may provide staff and other support services such as data processing, bookkeeping or controllership services.
• The practitioner performs product services when providing the client with a product and related professional services.

Standards for consulting services: Divided into general standards and standards specific to consulting services. The general standards are those indicated in the General Standards Rule at 1.300.001 and 2.300.001 of the AICPA Code of Professional Conduct applying to CPAs in public practice and those in business, respectively. The general standards relate to professional competence, due professional care, planning and supervision, and sufficient relevant data.

Standards unique to consulting services require the practitioner to serve the client interest; to establish a written or oral understanding with the client; and to communicate with the client, disclosing conflicts of interest, if any; significant reservations about the engagement; and significant findings or events.

Performing consulting services for attest clients: Does not impair independence. The practitioner must, however, comply with the applicable provisions of the AICPA Code of Professional Conduct.

A Word to the Wise
Although neither the consulting standards nor the tax standards require a written understanding with the client, common sense suggests a written engagement letter as a best practice. Clients often have difficulty implementing the advice of their professional service providers, do not always budget sufficient resources and do not always cooperate fully with the practitioner performing implementation services.

It’s not unusual for clients to hold unreasonable expectations for the results of consulting engagements and a clear indication of limitations in an engagement letter can avoid problems down the road.

If you’re performing tax or consulting services for a client or as an employee, be familiar with the applicable professional standards as required by our Code of Conduct. Not doing so is not only a violation of standards, but also a risky proposition.

Mark Dauberman is the president of Mark Dauberman Seminars and a CalCPA Education Foundation faculty member. You can reach him at mark@markdauberman.com.

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As part of CalCPA’s commitment to raising awareness for DE&I initiatives, the Los Angeles Chapter’s Management of Accounting Practice Committee held a panel discussion designed to raise awareness of biases, help firms attract and retain talent, drive equity in career promotion and increase accountability for progress.

Moderated by Sherrlene Reno, a 25-year veteran of business management and public accounting, the panel included Erika Hill, CPA and business manager at Savitsky Satin Bacon Bucci; Debra Horn, CPA and tax manager at ASL CPAs; Suzie Doran, CPA and audit partner at Singer Lewak; Laura Rutebuka, CPA and director at Life Line Financial Group; and Rosa Kuybus, a member of the CalCPA Diversity, Equity and Inclusion Commission.

Reno opened the discussion sharing her journey into public accounting. Throughout her career in business management, she encountered minorities in high-level management roles, but never at the partner level. “Until five years ago, I was at a firm that was acquired. I found out there was an African American female partner. Not only was I excited, but also I was inspired. All I wanted to do was work beside her and find out how she got to where she was. I was happy to know there was a possibility for somebody like me, and others in the field.”

Horn began her career in a small city in the Midwest. Her background in public accounting was untraditional. While she had a strong working relationship with her team, a part of her was made less visible and she felt like she couldn’t bring her full self to work. Horn is part of the LGBTQIA+ community, and although in her personal life she was the happiest she had ever been, she felt conversations about her sexual orientation were very awkward to discuss among her colleagues. “In the city and state where I worked, you can be fired or even denied housing for your sexual orientation. The threat of me losing my job was real, especially when the reactions came from people with power over me.”

Diversity and inclusion were evident at an early age for Hill, who faced numerous stereotypes growing up in a predominately Caucasian community. “As a person of color, I had to work twice as hard as my classmates to show my worth. And just to make sure I didn’t fit some crazy or ignorant stereotype I had to shrink and not be too loud or too excited or passionate, not challenge anyone around me or ruffle any feathers to blend in and appear as non-threatening as possible, so no one around me felt uncomfortable, even if that was at my own detriment.”

As an African American woman working in an industry dominated by men, Hill mentioned it has been tough for her to navigate through a lot of spaces without shrinking or bypassing a lot of those microaggressions.

Mentorship played a key role for Doran and Kuybus. “It’s really important to find people who have diverse views and different perspectives because those are the people who will elevate you,” said Doran.

Kuybus contributes success to her mentors and spoke about growing up in the foster care system and facing much diversity. “I have faced many challenges. It’s because of those mentors, the people I’ve been surrounding myself with that have helped me succeed, get to where I’m at now and continue to where I want to be.”

Adopting a culture that is open to change can create stability and authenticity within the workplace. Rutebuka suggests employers not be afraid to ask some of the tough questions when it comes to hiring and retention. “If you have staff that is diverse, but your leadership team looks nothing like that, then it’s not representative of your staff,” she said. “Is nobody qualified? Is there a culture or a retention issue? What’s really going on?”.

DE&I has impacted the panelists’ decisions to leave a firm or hindered decisions to accept an offer at some point in their career. To bridge the gap between the claim and the norm, leadership should set the tone and be accountable.

Cynthia Jimenez is CalCPA’s LA Chapter program manager. You can reach her at cynthia.jimenez@calcpa.org.
In June, the Auditing Standards Board (ASB) issued new a series of standards that will have a significant impact on every CPA and accounting firm that has an accounting and auditing practice. The Quality Management (QM) standards are the first major changes to what were previously known as the Quality Control (QC) standards in over a decade.

The change from quality control to quality management is more than just terminology. The new standards require firms to focus their attention on the management of their systems of quality management, including continual monitoring, remediation and improvements to the system.

Background
The development of new quality management standards was driven by concerns about audit quality coming out of the results of peer reviews and other studies by regulators such as the Department of Labor. There was a perception that the existing quality control standards led to over-reliance on third-party quality control materials that were not sufficiently tailored to each firm. There was also a concern that smaller firms struggled with applying the quality control standards.

A New Approach
These standards take a new approach compared to the extant QC standards. The new approach requires a firm to customize the design, implementation and operation of its system of quality management (SQM) based on the nature and circumstances of the firm and the engagements it performs. While this approach will require more of an effort to design and implement its customized SQM, it should result in firms developing SQMs that are customized and more applicable to their practice than the policies most firms currently follow.

The new standard defines eight components of an SQM:

- The firm’s risk assessment process (new)
- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources (including human resources)
- Information and communication (new)
- The monitoring and remediation process

The standard defines two objectives of an effective SQM and aims to provide reasonable assurance that these objectives will be achieved:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements.
- Engagement reports issued by the firm are appropriate in the circumstances.

The standard requires a new risk assessment process:

- Establish quality objectives.
- Identify and assess risks to the achievement of the quality objectives.
- Design and implement responses to address the quality risks.

In addition to the revised components and the new risk assessment process, the new standard has more robust requirements for leadership and governance, enhanced monitoring and remediation processes, and additional requirements for networks of accounting firms and service providers.

Ultimately, the standard requires a firm to design, implement and operate a system of quality management that’s customized for the nature and circumstances of its accounting and auditing practice. It requires the eight components to operate in an iterative and integrated manner, using a risk assessment process aimed at achieving quality objectives. The firm is required to establish quality objectives, assess quality risks, and design and implement responses. Firm leadership is required to annually evaluate and conclude whether the system of quality management is meeting objectives.

Engagement Quality Reviews
The second standard, SQMS No. 2, provides additional guidance for engagement quality reviews (EQRs) as a response to addressing quality risks. Like Engagement Quality Control Reviews in the existing standards, firms are required to determine when EQRs are an appropriate response to quality risks.

SAS No. 146
SAS No. 146 clarifies and strengthens the
elements of quality management at the engagement level, focusing on the role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

Delayed Effective Date
After the International Auditing and Assurance Standards Board (IAASB) issued new QM standards in December 2020, the ASB issued an Exposure Draft of its own QM standards in February 2021. The original proposal was to require implementation by Dec. 15, 2023, only one year later than the international standards. After an extensive period of public comment, the final standards were issued in June 2022, but with an effective date of Dec. 15, 2025.

This effective date may seem to be in the distance, but firms will find that the efforts to implement these standards will be significant and will take time. Practitioners need to begin now to understand the standards and begin to map their current policies to the new standards. This will identify gaps in current policies and help create the roadmap to follow in implementing the new standards.

Large international firms are implementing the similar international standards with an effective date of Dec. 15, 2022. Their experience with the international standards will provide U.S. firms with valuable information to use in implementing the U.S. standards over the next few years.

As that information becomes available, U.S. firms should begin the process of considering lessons from those experiences and begin applying them to their own firms—2025 is closer than you think.

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Want more?
The Quality Management Standards
- Statement on Quality Management Standards (SQMS) No. 1, A Firm’s System of Quality Management
- SQMS No. 2, Engagement Quality Reviews
- Statement on Auditing Standards (SAS) No. 146, Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards
- Statement on Standards for Accounting and Review Services (SSARS) No. 26, Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services

CPA Firm Cybersecurity
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he AICPA Professional Ethics Executive Committee (PEEC) adopted revisions to the AICPA Code of Professional Conduct with regards to members’ responsibilities when they encounter noncompliance with laws and regulations (NOCLAR).

As part of an effort to converge the AICPA’s Code of Professional Conduct with international standards, PEEC adopted two new interpretations of the “Integrity and Objectivity Rule.” Each of the interpretations is titled “Responding to Noncompliance with Laws and Regulations,” with one interpretation applicable to members in public practice (Sec. 1.180.010) and one applicable to members in business (Sec. 2.180.010).

**NOCLAR for Members in Public Practice**

For members in public practice, NOCLAR is defined as “... acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by those charged with governance, by management, or by other individuals working for or under the direction of a client.”

When a member is providing financial statement audit or review services and encounters or is made aware of actual or suspected NOCLAR, the interpretation requires the member to do the following:

1. Gain an understanding of the matter: Note that the interpretation does not require the member to have expertise in legal or regulatory matters, but rather to apply their knowledge and professional judgment to the situation.
2. Discuss the matter with management and, when appropriate, those charged with governance: The discussion should include advising the client to rectify or mitigate the consequences of the noncompliance, stop the commission of the noncompliance if it has not yet occurred, and disclose that matter to authorities where required or considered necessary.
3. Based on the client’s response, determine whether to withdraw from the engagement and the professional relationship: This determination will depend on the nature of the NOCLAR, as well as the member’s evaluation of management’s integrity based on the NOCLAR and the client’s response to it.
4. Document the matter: The documentation should include a description of the matter, results of discussions with the client, the client’s response to the matter, and the judgments and courses of action that the member took.

The responsibilities for members in public practice providing services other than financial statement audits or reviews are substantially similar, with the exception that documentation of the matter is encouraged rather than required. Additionally, there are considerations and requirements if the member’s firm or a network firm provides financial statement audit or review services, even though the NOCLAR was discovered while providing other services.

**NOCLAR for Members in Business**

For members working in business, the definition of NOCLAR is essentially modified to replace “client” with “member’s employing organization.” Consequently, this interpretation deals with members working in business who encounter NOCLAR within the organization they work for.

The interpretation for members in business differentiates between members who are “senior professional accountants”—i.e. directors, officers or senior employees—and members who are not.
Senior professional accountants have a greater expectation to act in the public interest than other professional accountants within the employing organization.

A member who is a senior professional accountant who encounters or is made aware of actual or suspected NOCLAR is required by the interpretation to do the following:

1. **Gain an understanding of the matter:**
   These requirements are similar to those of members in public practice.

2. **Discuss the matter with their immediate superior:** If their immediate superior is involved in the matter, they should discuss it with the next higher level of authority.

3. **Take action:** This includes ensuring the matter is communicated to those charged with governance to obtain their buy-in on necessary actions, complying with laws and regulations regarding disclosure of the NOCLAR to authorities, rectifying or mitigating consequences of the NOCLAR, reducing the risk of reoccurrence, and seeking to deter the NOCLAR if it has not yet occurred.

4. **Disclose the NOCLAR to the external auditor:** If the member determines that disclosure of the NOCLAR is necessary to fulfill their professional obligation to provide all necessary information to the organization’s external auditor, they should do so.

5. **Determine if further action is necessary:** This determination should be made based on the actions taken by the member, their superiors and those charged with governance. Specifically, the member must consider “if further action is necessary in the public interest.” Further action could include resigning from the organization or reporting the NOCLAR to the authorities (unless prohibited by law or regulation). Members should note that the interpretation specifies that resignation is not a substitute for taking other actions in the public interest. In other words, a member cannot resign to turn a blind eye to NOCLAR.

6. **Document the matter:** Documentation is encouraged and includes similar matters as the documentation requirements for members in public practice. The member in business is also encouraged to document how they have satisfied their obligation to act in the public interest.

A member who is not a senior professional accountant has similar, but lesser, responsibilities. The member should gain an understanding of the actual or suspected NOCLAR, discuss the matter with their superior (or a higher level of authority, if necessary), disclose the matter to the external auditor (if considered necessary), report the NOCLAR to authorities unless prohibited by laws or regulations, and is encouraged to document the matter.

The overall objective of the interpretation for all members is to act in the public interest. However, the emphasis on senior professional accountants is cited far more frequently and specifically within the matter to the external auditor (if considered necessary), report the superior (or a higher level of authority, if necessary), disclose the

Accountants performing services under SSARS should keep in mind that AR-C Sec. 60.08 states that ‘the accountant should comply with relevant ethical requirements.’ The interpretations, both for members in public practice and those in business, are effective June 30, 2023, with early implementation permitted.

**Auditing Standards Regarding NOCLAR**

PEEC’s action on NOCLAR occurred almost simultaneously with action taken by the Auditing Standards Board (ASB) concerning NOCLAR. In June 2022, the ASB issued Statement on Auditing Standards (SAS) No. 147, Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations. SAS No. 147 contains new requirements for auditors regarding engagement acceptance. Specifically, upon management’s authorization of the predecessor auditor to respond to the auditor’s inquiries, there are three new requirements:

1. The auditor is required to inquire of the predecessor auditor regarding any identified or suspected fraud or NOCLAR.
2. The predecessor auditor has a responsibility to respond timely and indicate if their response is limited.
3. Upon acceptance of the engagement, the auditor is required to document the inquiries made and the results of those inquiries.

SAS No. 147 is effective for audits of financial statements for periods beginning on or after June 30, 2023.

**Impact of NOCLAR on Compilation and Review Services**

While the AICPA Accounting and Review Services Committee (ARSC) has not issued exposure drafts regarding NOCLAR, the actions taken by both PEEC and the ASB have been discussed at ARSC meetings. Specifically, the ARSC noted that the interpretations adopted by PEEC create requirements for CPAs performing compilation or review services that go beyond the requirements contained in the Statements on Standards for Accounting and Review Services (SSARS).

Accountants performing services under SSARS should keep in mind that AR-C Section 60.08 states that “the accountant should comply with relevant ethical requirements.”

**Some Closing Thoughts on NOCLAR**

Both the new ethics interpretations and SAS No. 147 will be effective in less than a year. Because of the sensitive nature of NOCLAR, accountants need to be aware of the relevant ethical and professional standards regarding NOCLAR before they encounter it. Reading articles in professional publications is a fantastic start, but is no substitute for reading the standards themselves.

The ethics interpretations and SAS No. 147 are available to AICPA members for free at aicpa.org. As accounting and professional standards go, they’re a fairly quick and easy read that will position you to fulfill your responsibilities to your client or employer and to the public, limit your own liability and assist your client or employer in navigating difficult situations.

Doug DeBoer, CPA is a principal at Grimbleby Coleman CPAs, Inc. You can reach him at DDeBoer@gccpas.com.
Cyber Exposures

The Saga Continues

There seems to be a new cybersecurity story in the news every day—from attacks on major infrastructure to small companies being held for ransom. Therefore, it should be no surprise to anyone that CAMICO is also seeing an uptick in the number of cyber-related claims impacting CPA firms—and the severity of these cybercrimes and ransomware attacks have grown in recent years.

As you would expect, first-party cyber exposures (damages experienced by the CPA firm) have become increasingly problematic as cyber criminals are targeting firms and tax professionals with greater frequency because of their abundance of client data. If they're successful in gaining access to the firm’s information, there can be costly measures that need to be taken by the firm, including hiring IT forensic experts to determine the extent of the breach, consulting with attorneys specializing in data breach laws and providing credit monitoring to those impacted by the breach.

What may be surprising to some CPAs, however, is the increase in third-party cyber exposures that are impacting firms. These situations often arise when a client has been hacked and the hacker has penetrated the client’s computer system.

Once inside, they can cause losses for which the CPA firm may be blamed, in part or in whole.

These claims typically include allegations such as failure to detect the red flags associated with communications that were executed by the hacker, falling below the standard of care by initiating wire transfers without “proper” client authorization, failure to “warn and advise” clients of the potential risks/threats of cyberattacks, and the list goes on.

The Human Element

It’s important for CPA firms to understand that cyber threats are not just an “IT problem,” as the No. 1 root cause of cyber breaches continues to be the “human element.” People are considered by many experts to be the weakest security link and according to the 2021 Verizon Data Breach Investigations Report, 85 percent of breaches involved a human element.

Although people may be viewed as the weakest security link, with proper training and strict adherence to firm-wide protocols, firms can and should consider their people as the first line of defense against cyber threats.

For example, firms can help to minimize the potential for innocent mistakes made by people by putting in place cybersecurity awareness education and training to alter employee risk behaviors and create a sense of shared accountability. Employees want to know what to do to assist in data security, but often lack the necessary knowledge and skills. And given the recent shift to a more hybrid workplace model in response to the pandemic, security practices to address the human element become even more critical.

Cyber Claims Trends

Most cyberattacks that take place with CPA firms take advantage of two common risks: social engineering attacks that trick users into inadvertently providing access and security misconfigurations that are often just human error.

Social engineering is one of the most dangerous types of cybersecurity threats to CPA firms given the type of information that firms gather and store. “Phishing” is one of the more widespread social engineering schemes, where the information in an email attempts to convince a user that the email is from a legitimate source and the user needs to respond to the request by clicking on a link.

Consider the following scenarios from the CAMICO claims files, which are becoming all too familiar for CPA firms.

Scenario #1: Client Hacked; CPA Firm Initiated Fraudulent Wire-transfers

A client of the CPA firm was hacked, and the hacker penetrated and commandeered the client’s email account. The hacker emailed several requests to the CPA firm to wire funds to a new account—a classic “man in the middle” attack.

After receipt of each request, the employee of the CPA firm emailed the client to verify the wire transfer instructions. With full control of the client’s email account, the hacker was able to respond back to the CPA firm to “verify” the veracity of the payments to the hacker’s own overseas bank account.

We’re seeing a significant rise in fraudulent email requests to CPA firms and these fraudulent wire transfer requests frequently cause large-dollar losses. When the fraud is discovered after the transfer, the funds are usually not recoverable. Domestic banks are not always helpful in preventing fraudulent transfers, as laws often limit their risk exposures and enable them to deny responsibility.

With the increased number of claims related to fraudulent wire transfers, best practice in the absence of any written protocols to the contrary would be to verbally confirm all wire transfer requests with these clients to minimize risk.

Scenario #2: Ransomware; Cyber Extortion

An employee of a CPA firm opened an unsolicited email attachment that immediately downloaded ransomware onto the firm’s computer system. The employee noticed that file names were rapidly being changed to “Needs Decrypting.” The employee promptly turned off and rebooted the computer, but the virus had already spread to all the firm’s servers, and all files were encrypted. The employee reported the incident to the firm’s managing partner. An attorney was engaged to assist the firm and worked with an IT forensics expert...
under the direction of the attorney so the investigation would be protected by attorney-client privilege. Once it was determined that a breach occurred, the firm complied with applicable state and federal laws and the breach was reported to law enforcement.

Ransomware and cyber extortion represent malicious types of hacker attacks and firms of all sizes have been victimized. They sneak into computer systems, encrypt files and demand ransom before decrypting files. A major problem is that ransomware does not always decrypt files even after ransom is paid.

According to a recent statistic, only 8 percent of businesses that pay a ransom get back all their data. Therefore, being prepared and taking precautions against cyber risk exposures such as ransomware is essential.

Not ‘If’ but ‘When’
Although not meant to be an all-inclusive list, the following additional basic best practice measures are extremely important when addressing the human element of data security:

1. Cybersecurity awareness training:
   Consider sharing real-life examples with the staff of scam emails received by members of your firm to heighten awareness of the nature and types of scams that pose threats to your firm. As part of the firm-wide cybersecurity awareness training, consider reviewing the firm’s existing protocols and infrastructure (refer to the firm’s written security plan) that supports the firm’s commitment to taking appropriate cybersecurity precautions so that all employees are aware and updated if any changes have been made by the firm.

2. Use multi-factor authentication: This can add an extra level of security to prevent an account hack, especially when employees work remotely.

3. Change and strengthen passwords frequently: Systems are only as secure as the passwords used by people to access those systems.

4. Require regular data backups: By encouraging employees to regularly back up their data, you can prevent data loss when disaster strikes. While this may be a hard policy to enforce while employees work remotely, it remains a best practice. In many instances, devices can be set to back up to the cloud automatically. When relying on cloud storage, remember that ransomware can take control of cloud services. Any data stored in the cloud should also be backed up to an external hard drive from time to time. Data backups ensure that a business can continue to operate, even if resources are taken offline by a ransomware attack.

5. Maintain strong cyber hygiene: Reinforce cyber protocols to be followed when employees enjoy the hybrid work model permitting them to work in the office and remotely (e.g., machine use restrictions, WiFi passwords, VPN, firewalls, etc.).

6. Remind employees of the importance of powering down computers when not in use: Computers are not accessible to attacks or intrusions when powered off. [7]

Suzanne M. Holl, CPA, is senior vice president of Loss Prevention Services with CAMICO (camico.com). You can reach her at sholl@CAMICO.com.

For more information about products and services catered to the CPA community, visit calcpa.org/members-exclusive/benefits.
Impact Recap

Leveraging Your Voice in Sacramento

Adoption & Improvements to Pass-through Entity Tax
CalCPA actively engaged with the Legislature and the administration to establish an elective pass-through entity (PTE) tax as a framework for California taxpayers to structure their state income tax compliance in a manner that provides some relief from the current federal limits on individual state and local tax (SALT) deductions.

When the new PTE tax strategy was pieced together in AB 150, CalCPA worked with key decision makers to outline the importance of this policy and was key in helping it get fast-tracked through the Legislature. Subsequent to passage of the initial framework, CalCPA worked to provide comments and recommendations for key expansions and improvements to the framework as outlined in SB 113 earlier this year. Our work has directly translated into significant savings for most partnerships and S corps, including most CPA firms.

Tax Treatment of Pandemic Relief
Early in the legislative session, CalCPA advocacy was key in facilitating state direction and clarity on the tax rules for Paycheck Protection Program (PPP) loans and other federal relief programs. When it became clear state inaction was causing issues for CPAs and their clients, CalCPA worked with key decision makers to advocate for clear guidance and quick action. CalCPA action spurred a number of conformity items, including AB 80 outlining California tax rules for the PPP.

Sales Tax on Services Blockade
CalCPA continues to be an integral participant and one of the public faces of a coalition of professional service providers that have proactively responded to tax on service proposals and have created a blockade by coordinating political, policy and grassroots efforts.

Grassroots Advocacy
Despite the logistical challenges of COVID and capitol construction, CalCPA facilitated opportunities to directly connect CalCPA members with key policy leaders. Whether it was through virtual CPA Day meetings, District Drop-ins during the summer, Congressional Hill Visits or a Legislative Summit, we created platforms for members to engage directly with key players creating and deciding on policy issues.

Financial Literacy Education
CalCPA, with key committee staff, supported and were able to secure funding to advance financial literacy across California.

Are these Efforts of Value to You?
In addition to these issues, CalCPA government relations worked on articles, reports, webinars and a number of member resources to give members a leg up on the policy discussions happening in Sacramento and Washington.

At the heart of all these successful efforts is leveraging the trust and integrity of the CPA profession with public policy leaders and regulators. This brand helps us to have a unique and creditable voice in policy discussions and is intended to positively impact the ability of CalCPA members to provide high-quality services to clients.

Do you want to help amplify CalCPA’s advocacy efforts? If you and your firm are a member, thank you. Please stay engaged and share your policy insights and observation with the CalCPA team. You can reach us at CalCPAGR@CalCPA.org. This helps us stay on top of what matters most to you.

If you, your firm, or a colleague are not members, we ask you to share this with them and ask if they believe CalCPA engagement in Sacramento has benefited them. Tell them that the only way to help build and amplify these efforts is for them to join, renew and get engaged!

Jason Fox is CalCPA’s vice president of government relations. You can reach him at jason.fox@calcpa.org.
Portability Elections

IRS Updates Simplified Method for Extensions


For gift and estate tax purposes, this election allows a decedent’s unused exclusion (deceased spousal unused exclusion or DSUE) to be available for the surviving spouse’s subsequent transfers during life or at death. This simplified method is to be used in lieu of the letter ruling process. No user fee is required for Rev. Proc. 2022-32 submissions.

Rev. Proc. 2022-32’s Scope

The simplified method is available to the executor [either appointed or, if none, a non-appointed executor under Regs. Sec 20.2010-2(a)(6)(ii)] of a decedent’s estate if:
A. The decedent died after 2010, was survived by a spouse and was a U.S. citizen or resident on the date of death;
B. The executor is not required to file an estate tax return, based on the value of the gross estate and adjusted taxable gifts—without regard to the need to file for portability purposes;
C. The executor did not file an estate tax return within nine months after the decedent’s death or by the extended due date; and
D. The executor satisfies Rev. Proc. 2022-32, Sec. 4.01’s requirements.

This simplified method is not available to a decedent’s estate if its executor timely filed, or was required to file, an estate tax return. The executor of an estate, not within Rev. Proc. 2022-32’s scope only because the executor does not satisfy Sec. 4.01’s requirements, may request an extension to elect portability by requesting a letter ruling and paying the user fee.

Rev. Proc. 2022-32, Sec. 4.01 Requirements for Relief
1. A person permitted to make the election on behalf of a decedent’s estate—i.e., an executor described in Regs. Sec. 20.2010-2(a)(6)—must file a complete and properly prepared Form 706, “U.S. Estate [and Generation—Skipping Transfer] Tax Return” by the fifth annual anniversary of the decedent’s death. Note: Under Rev. Proc. 2017-34, this deadline was the second annual anniversary of the decedent’s death. This Form 706 will be considered complete and properly prepared if it is prepared in accordance with Regs. Sec. 20.2010-2(a)(7).
2. The executor filing the Form 706 must state at the top of this form that it is “FILED PURSUANT TO REV. PROC. 2022-32 TO ELECT PORTABILITY UNDER SEC. 2010(c)(5)(A).”

Extent of Relief
Satisfaction of Sec. 401’s relief requirements by an executor for whom relief is available under Rev. Proc. 2022-32’s scope is deemed to satisfy Regs. Sec.301.9100-3’s relief requirements and, therefore, relief is granted under Regs. Sec. 301.9100-3 to extend the time to elect portability under Sec. 2010(c)(5)(A). Accordingly, for electing portability purposes, the decedent’s estate’s Form 706 will be considered to have been filed timely in accordance with Regs. Sec. 20.2010-2(a)(1).

Subsequent Determination That Estate Tax Return Was Required
If, subsequent to the grant of relief pursuant to Rev. Proc. 2022-32, it is determined that, based on the gross estate’s value and taking into account any taxable gifts, the executor was required to file an estate tax return under Sec. 6018(a), Rev. Proc. 2022-32’s grant of an extension is deemed null and void.

Impact of Relief on Surviving Spouse
If the decedent’s estate is granted Rev. Proc. 2022-32 relief, the decedent’s DSUE is available to the surviving spouse or the surviving spouse’s estate for application to the surviving spouse’s transfers made on or after the decedent’s death under Estate Tax Regs. Sec. 20.2010-3 and Gift Tax Regs. Sec. 25.2505-2.

However, if the increase in the surviving spouse’s applicable exclusion attributable to the addition of the decedent’s DSUE results in a gift or estate tax overpayment, no refund claim may be made if the statute of limitations (SOL) has expired. That is, an extension to elect portability under Rev. Proc. 2022-32 does not extend the time for the surviving spouse or the spouse’s estate to file a refund claim.

Protective Refund Claims
Because a surviving spouse has no DSUE from a deceased spouse to apply to the surviving spouse’s transfers until the portability election has been made by the deceased spouse’s executor, a refund claim within the SOL by the surviving spouse or the surviving spouse’s estate in anticipation of Form 706 being filed to elect portability pursuant to Rev. Proc. 2022-32 will be considered a protective refund claim.
Check out the hottest courses and conferences that CalCPA has to offer in the coming months. We cover a diverse array of topics with new developments and updates to help you stay on the cutting edge. Below are some of our most popular events, ranging from accounting and auditing to ethics, fraud, tax and more!

### Accounting and Financial Statements

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<td>GAAP Update</td>
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### Fraud

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<td>Case Studies in Accounting Fraud</td>
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### Auditing

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<td>A&amp;A Level III Beginning In-Charge Staff Training</td>
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### Ethics

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<td>Ethical Responsibilities for CPAs: Ethics</td>
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