

2013 Knowledge-Based Audits™ of Housing and Urban Development Programs

Welcome to **2013 Knowledge-Based Audits™ of Housing and Urban Development Programs**, the latest addition to the ProSystem fx Knowledge-Based Audit Methodology library!

Knowledge-Based Audits of Housing and Urban Development Programs is designed to help the auditor efficiently and effectively perform audits of housing and urban development programs in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), *Government Auditing Standards* (GAGAS), and the *Consolidated Audit Guide to Audits of HUD Programs*, published by the U.S. Department of Housing and Urban Development (*HUD Audit Guide*). The knowledge-based audit is a risk-based methodology that emphasizes using knowledge of the plan to make risk assessments in connection with the financial statement and compliance audit of a HUD program. This allows the auditor to more appropriately focus audit efforts on those areas which in the auditor's judgment are the most significant and pose the most risk to the audit. The administration of HUD programs includes both financial statement and compliance considerations, and requires specialized accounting and auditing knowledge. This module includes up-to-date guidance for audits of programs identified under Chapter 3, *HUD Multifamily Housing Programs*, Chapter 4, *HUD Multifamily Hospital Program*, Chapter 5, *Insured Development Cost Certification*, and Chapter 7, *HUD Approved Title II Nonsupervised Mortgagees*. Conducting audits of HUD programs requires the exercise of the auditor's professional judgment and a knowledge of the requirements of the *HUD Audit Guide*. This document is published for the purpose of communicating, to users of the toolset, updates and enhancements included in the current version. This document is not, and should not be used as an audit program to update the audit documentation of an engagement started in a previous version of this product.

The AICPA's Auditing Standards Board's (ASB) Risk Assessment Standards - The practice aids and tools in the **2013 Knowledge-Based Audits of Housing and Urban Development Programs** are designed around the AICPA's risk assessment and clarified standards to assist auditors of Housing and Urban Development Programs by:

- Facilitating compliance with U.S. GAAS, GAGAS, and the *HUD Audit Guide*;
- Encouraging more effective audits through tailored audit programs and comprehensive practice aids;
- Helping auditors to focus on and respond to identified audit risks; and
- Enhancing audit documentation.

Knowledge-Based Audit (KBA) Methodology - Allows the results of one set of procedures to become the input for the next. The key components of the KBA methodology include:

- An **Overview** that guides auditors through the methodology;
- **Knowledge-Based Audit** documents, integral to the risk assessment and overall audit processes, which contain steps and procedures required by U.S. GAAS, GAGAS, and the *HUD Audit Guide*;
- Customizable **Audit Programs** that take auditors through related steps and procedures;
- **Practice Aids** to help auditors complete steps or processes outlined in the Knowledge-Based Audit documents and Audit Programs;
- **Auditor's Reports** that provide a variety of sample auditor's opinions on audited financial statements and compliance with HUD programs; and
- **Correspondence** documents that provide sample letters to be used to comply with U.S. GAAS, GAGAS, and the *HUD Audit Guide* requirements and in many other common situations.

Links to Accounting Research Manager (ARM) - If you subscribe to an ARM library that includes audit content, you can now link directly to accounting and auditing source material from Resources within Knowledge Coach documents.

Interpretive Guidance is integrated into each of the Knowledge Coach tools through the Tips view of each new task pane. Informational features include Practice Points, Examples, Optional Workpapers, and Resources to help auditors work more effectively and efficiently. We have also added the ability to navigate from Resources within a document or the tip pane directly to CCH's Accounting Research Manager and industry audit guides by simply clicking on the Reference.

IN THIS RELEASE

The **2013 Knowledge-Based Audits™ of Housing and Urban Development Programs** has been updated to help auditors conduct audit engagements in accordance with the new clarified and redrafted auditing standards resulting from the ASB's Clarity Project and related guidance, and is current through SAS-127, *Omnibus Statement on Auditing Standards—2013*. Many new tips and examples have been incorporated. The 2013 tools include links to specific guidance that provides instant access to detailed analysis related to the

steps and processes discussed in the workpapers. Also included are revised financial statement disclosures checklists that provide a centralized resource of the required and recommended U. S. GAAP disclosures and key presentation items currently in effect, using the style referencing under the FASB Accounting Standards Codification™.

The 2013 edition of *Knowledge-Based Audits of Housing and Urban Development Programs* includes the following updates:

Knowledge-Based Audit Documents (KBAs):

- Documents have been updated throughout to include new practice points and examples, and to adopt the new terminology used in the clarified standards.
- Documents have been modified to incorporate changes made to Chapters 1 and 2 of the *HUD Audit Guide* released through May 2013.
- Guidance related to Audits of Ginnie Mae Issuers of Mortgage-Backed Securities (Chapter 6) has been eliminated from this toolset.
- HUD has eliminated audit requirements for HUD Approved Title I Nonsupervised Lenders from the *HUD Audit Guide*. Related guidance (Chapter 8) has been eliminated from this toolset.

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
KBA-301	Modify	Title of workpaper has been changed to Worksheet for Determination of Materiality, Performance Materiality, and Thresholds for Trivial Amounts. Workpaper has been streamlined specifically to perform the various materiality and related calculations.	Title; Table - other than procedures	Best Practice	N/A
KBA-301	Modify	Purpose statement modified: This form has been designed to help the auditor determine and document materiality for the financial statements as a whole (materiality), performance materiality, the thresholds for trivial amounts, and component materiality and component performance materiality when the provisions of AU-C Section 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors), apply.	Table - other than procedures	Best Practice	N/A
KBA-301	Modify	Instructions modified: The auditor should use the "Materiality Calculations" tab of this workpaper only when determining materiality levels for audits that do not include a "component" or "significant component" as defined in AU-C Section 600, and use both the "Materiality Calculations" tab and the "Component Materiality" tab when the provisions of AU-C Section 600 are applicable. In both scenarios, the auditor should complete the following steps in determining materiality levels for the audit: 1. Determination of an appropriate benchmark. 2. Determination of materiality. 3. Determination of performance materiality. 4. Determination of the threshold for "trivial" amounts. 5. Considerations as the audit progresses.	Instructions	Best Practice	N/A
KBA-301	Modify	Added a new "Component Materiality Worksheet" tab	new tab	Best Practice	N/A
KBA-301	Modify	Materiality Calculations tab - Modified: Step 3, Determination of Performance Materiality, item 8, modified: The following is our determination of performance	table - other than procedures; title	Best Practice	N/A

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
		<p>materiality for the financial statements as a whole, and when applicable, individual account balances, classes of transactions, or disclosures and the basis for that determination.</p> <p>Table: added new column & column heading: Item (Financial Statements as a Whole, Account Balance, Class of Transactions, or Disclosure)</p> <p>New Practice Point:</p> <p>Practice Point: Common practice is to determine performance materiality as a percentage from within 50% to 75% of materiality. This is only a rule of thumb and is not a substitute for auditor judgment based on the unique circumstances of the audit engagement.</p>			
KBA-301	Modify	<p>Deleted Step 4, Determination of Tolerable Misstatement for Sampling Applications; Steps 5 and 6 renumbered as Steps 4 and 5; Step 4 Practice Point modified:</p> <p>Practice Point: Common practice is to determine the trivial amount threshold as a percentage from within 1% to 5% of performance materiality for the financial statements as a whole. These are only rules of thumb and are not a substitute for auditor judgment based on the unique circumstances of the audit engagement. The actual trivial amount used is a matter of professional judgment.</p>	table - other than procedures	Best Practice	N/A
KBA-301	Modify	<p>Under Step 6, items 10 & 11 modified:</p> <p>10. Is materiality used for planning purposes the same as materiality used for evaluating audit results? If "No," the following summarizes our determination of an appropriate level of materiality and its impact on the audit.</p> <p>11. In determining whether a lower level of performance materiality, and if applicable, tolerable misstatement used for sampling purposes, than initially determined is appropriate, we reconsidered the appropriateness of the nature, timing, and extent of further audit procedures as follows (summarize the significant changes to audit procedures or provide a reference to other documentation of audit plan modifications):</p>	table - other than procedures	Best Practice	N/A
KBA-304	Modify	Title modified to: "Determining Major HUD Programs"; modified procedures to eliminate references to nonmajor HUD programs	Title; procedures	Based on <i>HUD Audit Guide</i>	<i>HUD Audit Guide</i> , Chapter 1, paragraph 1-3B
KBA-901	Modify	Financial Statement Disclosures Checklist current through June 30, 2013	updated checklist	Based on Standard	FASB ASC

Audit Programs (AUDs):

- Audit programs have been updated throughout to include new practice points and examples, and to adopt the new terminology used in the clarified standards.
- Audit programs have been modified to incorporate changes made to Chapters 1 and 2 of the *HUD Audit Guide* released through May 2013.
- Guidance related to Audits of Ginnie Mae Issuers of Mortgage-Backed Securities has been eliminated from this toolset (Chapter 6).
- HUD has eliminated audit requirements for HUD Approved Title I Nonsupervised Lenders from the *HUD Audit Guide*. Related guidance (Chapter 8) has been eliminated from this toolset.

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
AUD-801	Modify	New Step 3: 3. We considered the need to apply additional procedures in response to significant unexpected differences arising from the testing results noted above.	procedure steps	Best Practice	N/A
AUD-8310	Modify	Instructions updated for clarification regarding group project-based sampling	instructions	Based on <i>HUD Audit Guide</i>	Chapter 3, paragraph 3-1
AUD-8312	Modify	Instructions updated for clarification regarding group project-based sampling	instructions	Based on <i>HUD Audit Guide</i>	Chapter 3, paragraph 3-1
AUD-8313	Modify	Instructions updated for clarification regarding group project-based sampling	instructions	Based on <i>HUD Audit Guide</i>	Chapter 3, paragraph 3-1

Auditor's Reports (RPTs):

- Reports 901 through 915 have been updated to comply with the clarified standards.
- Reports 921 through 924 have been modified to reflect the reporting requirements of GAGAS on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements.
- Reports 9301 through 9709 have been added to reflect the reporting requirements of the updated *HUD Audit Guide* Chapter 2.
- RPTs 9910 through 9914 have been added to reflect the reporting requirements of the updated *HUD Audit Guide* Chapter 2.
- As HUD no longer requires reporting on nonmajor programs, those illustrative examples were deleted.

Correspondence Documents (CORs):

- Correspondence documents have been updated throughout to include new practice points and examples, and to adopt the new terminology used in the clarified standards.
- Correspondence documents have been modified to incorporate changes made to Chapters 1 and 2 of the *HUD Audit Guide* released through May 2013.
- Guidance related to Audits of Ginnie Mae Issuers of Mortgage-Backed Securities (Chapter 6) has been deleted from this toolset.
- HUD has eliminated audit requirements for HUD Approved Title I Nonsupervised Lenders from the *HUD Audit Guide*. Related guidance (Chapter 8) has been eliminated from this toolset.

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
COR-301	Modify	Title modified to: "Letter to Component Auditors Regarding Related Parties"; modified language to the	Title; letter	Based on Standard	AU-C 600

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
		new terminology used in the clarified standards			

Practice Aids (AIDs):

- Practice aids have been updated throughout to include new practice points and examples, and to adopt the new terminology used in the clarified standards.
- Practice aids have been modified to incorporate changes made to Chapters 1 and 2 of the *HUD Audit Guide* released through May 2013.
- Guidance related to Audits of Ginnie Mae Issuers of Mortgage-Backed Securities (Chapter 6) has been deleted from this toolset.
- HUD has eliminated audit requirements for HUD Approved Title I Nonsupervised Lenders from the *HUD Audit Guide*. Related guidance (Chapter 8) has been eliminated from this toolset.

Tool	Type of Change	Description of Change	Location	Best Practice or Based on Standard	Standard Reference
AID-301	Modify	Added column to document the basis for auditor's expectations	Fluctuation Worksheet	Best Practice	N/A
AID-839	NEW	Revenue and Expense Analytical Procedures	New Practice Aid	Best Practice	N/A
AID-840	Renumber	Renumbered from previous AID-839 Analysis of Legal Fees	Renumbered Practice Aid	N/A	N/A
AID-841	NEW	Payroll and Related Liabilities: Analytical Procedures	New Practice Aid	Best Practice	N/A
AID-903	NEW	Report Preparation Checklist	New Practice Aid	Best Practice	N/A

Resource Documents (RESs)

- **RES-001** has been updated with modified text and references and new practice points.
- **RES-002** document numbers and titles have been updated in accordance with changes throughout.

In addition, forms and practice aids throughout have been updated to include new examples and tips, and to take into account, where applicable, new literature, standards, and developments reflected in the following current audit and accounting guidance:

Statements on Auditing Standards (SASs):

- SAS-127, *Omnibus Statement on Auditing Standards—2013*

FASB Accounting Standards Codification as of June 30, 2013, and through Accounting Standards Update No. 2013-07—*Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*.