

# 2013 GOVERNMENTAL ENTITIES OVERVIEW FOR KNOWLEDGE COACH USERS

## PURPOSE

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

## WORKPAPER UPDATES AND ROLL FORWARD NOTES

### General Roll Forward Note:

You must be the current editor of all Knowledge Coach workpapers to update to the latest content, and you must be the current editor upon opening the updated workpaper for the first time to ensure you see the updated workpaper.

The 2012 edition of *Knowledge-Based Audits of Governmental Entities* is current through SAS-126 and GASB-64 and includes the following updates:

### Knowledge-Based Audit Documents (KBAs)

- Instructions have been modified to:
  - Reflect the requirements of the clarified auditing standards;
  - Provide additional guidance on the KBA methodology to enhance usability; and
  - Better describe the use of each document.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
<b>KBA-104 Summary and Evaluation of Misstatements and Omitted, Inaccurate, or Incomplete Disclosures</b>					
Modify	This workpaper has been modified to include the auditor's consideration of and conclusion on whether disclosures meet the auditor's expectations.	Procedure Steps	N	N/A	
<b>KBA-201 Client/Engagement Acceptance and Continuance Form</b>					
New	New inquiry of predecessor auditor: c. Have any of these matters resulted in filed litigation against your firm?	Procedure Steps	N	N/A	
<b>KBA-301 Worksheet for Determination of Opinion Unit Materiality, Performance Materiality, and Thresholds for Trivial Amounts</b>					
Modify	Materiality form modified, including: Tolerable Misstatement moved to sampling form with other sampling determinations. Instructions and table column headers modified to better	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	document determination of performance materiality for the financial statements as a whole.				
New	Tab added for determining component materiality	New Tab	N	N/A	
<b>KBA-302 Understanding the Entity and Its Environment: Complex Entities</b>					
New	Considerations added, including: i. Potential governmental combinations including mergers, spin-offs, transfers or shut downs of operations caused by legislation, litigation, or economic conditions. j. Signs of fiscal distress of any kind. k. Significant unfunded actuarial accrued liabilities for defined benefit pensions or other post-employment benefits other than pensions (less than 60% funded ratio).			N/A	
<b>KBA-400 Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures</b>					
Modify	Disclosure expectations conclusion moved to KBA-104.	Procedure Steps	N	N/A	Data in the 3 <sup>rd</sup> and 4 <sup>th</sup> columns will not be retained, to ensure you keep any of the comments or answers in these columns, publish this workpaper prior to update.
<b>KBA-409 Understanding Controls Maintained by a Service Organization</b>					
New	6. We evaluated the Type 1 report to determine that it was as of a date that is appropriate for our purposes.	Procedure Steps	N	N/A	
<b>KBA-502 Summary of Risk Assessments</b>					
Modify	Instructions modified to better define audit approaches.	Instructions	N	N/A	
<b>KBA-901 Financial Statement Presentation and Disclosures Checklist</b>					
Modify	Updated for new accounting pronouncements.	Procedure Steps	Y	GASB-65 through GASB-69	
<b>KBA-902 Audit Review and Approval Checklist</b>					
New	18. If the audit firm has had a recent peer review and germane matters for comment (MFCs) or findings for comment (FFCs) are applicable to the entity, those issues related to either the MFCs or FFCs have been cleared prior to issuance.	Procedure Steps	N	N/A	
New	19. The date of the auditor's report is dated as of the day of	Procedure	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	all audit work has been completed, or receipt of the representation letter, whichever is later.	Steps			
New	20. The auditor's report is released in a timely manner to the client (usually defined less than 10 days after the date of the audit report.)	Procedure Steps	N	N/A	

### Audit Programs (AUDs)

- Where applicable, relevant assertions and audit objectives have been updated.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
<b>AUD-101 Overall Audit Program</b>					
Modify	Moved much of the detailed information from substeps to practice points so that experienced users familiar with this program have the option to save the time spent reading the detail.	Procedure Steps	N	N/A	
Modify	Combined steps to eliminate duplication—new step reads as follows: 4. Evaluate, conclude on, and document whether auditor has the ability to adhere to the fundamental principles and requirements of professional and ethics standards including: a. Integrity; b. Objectivity; c. Independence, d. Professional competence and due care; e. Compliance with firm policies; f. Confidentiality; and g. Professional behavior.	Procedure Steps	N	N/A	
Modify	Combined steps to eliminate duplication. New step reads as follows: 6. Perform client acceptance or continuance procedures in accordance with firm policy.	Procedure Steps	N	N/A	
Modify	Changed step to include directive to perform opening balance procedures. New step reads as follows:	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	8. Perform the preliminary engagement activities necessary to establish an appropriate audit strategy and audit plan, including the audit procedures necessary to obtain sufficient appropriate audit evidence regarding the opening balances.				
Delete	Moved project management step to practice point, deleting the following step:  16. Consider preparing a detailed list of information that is needed to perform the audit, for the client to prepare.	Procedure Steps	N	N/A	
Delete	Moved project management step to practice point, deleting the following step:  17. Consider preparing a budget for completion of the audit engagement.	Procedure Steps	N	N/A	
Modify	Modified materiality step to include AU-C 600 considerations. Modified step reads as follows:  19. Determine major funds and other opinion units and determine materiality and performance materiality levels for each opinion unit, the materiality level or levels for particular classes of transactions, account balances, or disclosures, if applicable, and performance materiality for each for purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures. This determination should include component materiality and component performance materiality when those provisions of AU-C Section 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i> apply.	Procedure Steps	N	N/A	
Delete	Deleted the following step:  23. For government entities with multiple funds or opinion units, determine tolerable misstatement at an amount that reduces to an appropriately low level the probability that the total of uncorrected and undetected misstatements would result in material misstatement of the financial statements.	Procedure Steps	N	N/A	
New	New step added:  20. Inquire of management as to previous audits, attestation engagements, or other studies that directly relate to the	Procedure Steps	Y	2011 Yellow Book	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	objectives of the audit, and: a. Request that management identify such audits, attestation engagements, or other studies. b. Evaluate whether the entity has taken appropriate corrective action(s) to address findings and implement recommendations from such previous engagements. c. Determine the extent to which testing the implementation of corrective action plans is applicable to the current engagement objectives. d. Consider the information obtained when assessing risk and determining the nature, extent, and timing of procedures in the current engagement.				
Modify	Combined steps. New step reads as follows: 34. Identify and document the following: a. Potential litigation and claims; b. Commitments and contingencies; c. Concentrations of risk; d. Related-party transactions; e. Significant management estimates and judgments; f. New or significant accounting issues; and g. Other areas requiring special audit consideration.	Procedure Steps	N	N/A	
Delete	Deleted the following step: Identify financial and nonfinancial information that may be useful for performing substantive analytical procedures.	Procedure Steps	N	N/A	
Delete	Added documentation to understanding step above and deleted this duplicate step: Document the understanding obtained of internal controls relevant to the audit and of each of the internal control components, the sources of information from which the understanding was obtained, and the risk assessment procedures performed.	Procedure Steps	N	N/A	
Delete	Added documentation to step above and deleted this duplicate step: Document the controls related to the identified risks about which the auditor has obtained an understanding.	Procedure Steps	N	N/A	
Modify	Combined steps on response. Modified step reads as follows:	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	52. Design, document, and implement the auditor's overall responses to the assessed risks of material misstatement at the financial statement level.				
Delete	Deleted step: 51. Design, document, and implement overall responses to address the assessed risks of material misstatement at the financial statement level.	Procedure Steps	N	N/A	
Delete	Deleted step: 52. Determine whether it is necessary to make pervasive changes to the nature, timing, and extent of audit procedures to adequately address the assessed risks of material misstatement; such as: • Increasing substantive testing of the valuation of numerous significant accounts at year-end because of significantly deteriorating market conditions; and • Obtaining more persuasive audit evidence from substantive procedures due to the identification of pervasive weaknesses in the entity's control environment.	Procedure Steps	N	N/A	
Modify	Combined steps. New step reads as follows: Determine whether to test the operating effectiveness of internal controls over financial reporting. If testing the operating effectiveness of internal controls for significant audit areas, document the planned approach to testing, results of testing, and conclusions.	Procedure Steps	N	N/A	
Delete	Deleted the following duplicate step from the perform procedures section as it appears in the concluding section: Perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.	Procedure Steps	N	N/A	
New	72. For each finding, perform procedures necessary to develop the elements that are necessary and relevant to achieving the objective(s) of the engagement, including: a. Criteria that identify the required or desired state or expectation and provide a context for evaluating evidence and understanding the finding. b. The condition or situation that exists.	Procedure Steps	Y	2011 Yellow Book	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>c. The cause that identifies the reason or explanation for the condition or the factor(s) responsible for the difference between the condition and the criteria.</p> <p>d. The effect or potential effect of the difference between the condition and the criteria that identifies the outcomes or consequences of the difference between the condition and the criteria.</p>				
Delete	<p>Deleted the following duplicate step:</p> <p>79. Evaluate whether the effect of uncorrected misstatements are material, individually or in combination with other misstatements, including the evaluation of:</p> <p>a. The quantitative and qualitative effects of individual misstatements.</p> <p>b. The quantitative and qualitative effects of the aggregated misstatements.</p> <p>c. The effect in the current period of prior-period misstatements.</p>	Procedure Steps	N	N/A	
New	<p>New step added:</p> <p>94. If reporting deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse:</p> <p>a. Obtain and report the views of responsible officials of the entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.</p> <p>b. Include in the report our evaluation of the comments made by responsible officials, including any disagreement with those comments.</p>	Procedure Steps	Y	2011 Yellow Book	
<b>AUD-701 Audit Program: Designing Tests of Controls</b>					
Delete	<p>Deleted the following steps:</p> <p>7. For controls for which we plan to use audit evidence about their operating effectiveness obtained in prior periods:</p> <p>a. We determined such controls were not being relied on to mitigate a risk identified as a significant risk.</p> <p>b. We performed and documented audit procedures to identify significant changes in internal control, including changes in the information system, processes, and</p>	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>personnel that occurred subsequent to the period last tested.</p> <p>c. We evaluated whether the length of time from the last time the control activity was tested for operating effectiveness was appropriate and in no case exceeded being tested at least once every third audit. Our consideration included:</p> <p>(1) The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process;</p> <p>(2) The risks arising from the characteristics of the control, including whether controls are manual or automated;</p> <p>(3) The effectiveness of IT general controls;</p> <p>(4) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in prior audits, and whether there have been personnel changes that significantly affect the application of the control;</p> <p>(5) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and</p> <p>(6) The risk of material misstatement and the extent of reliance on the control.</p> <p>d. We have determined it is appropriate to use audit evidence obtained in prior audits for a number of controls and, as such, have ensured that we have tested the operating effectiveness of some controls each year.</p>				
<b>AUD-800's Audit Programs</b>					
Modify	<p>Combined disclosures substep in all audit programs. Modified substep reads as follows:</p> <p>c. Financial information is appropriately presented and described and disclosures are clearly expressed at appropriate amounts.</p>	Procedure Steps	N	N/A	
<b>AUD-801 Audit Program: Cash</b>					
New	<p>Substep added to petty cash procedures:</p> <p>e. We evaluated the petty cash turnover rate (times replenished) for propriety and reasonableness.</p>	Procedure Steps	N	N/A	
<b>AUD-802 Audit Program: Investments and Investment-Related Activities</b>					Tailoring added and modified to reflect changes noted below.
New	4. We reviewed the entity's reconciliations of statements or	Procedure	N	N/A	



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	data feeds from custodians to the accounting records and determined that: a. Reconciling items were resolved properly. b. Journal entries related to the reconciliations were appropriate and made by authorized persons.	Steps			
New	5. We reviewed any master netting arrangements and determined that all related financial instruments were recorded.	Procedure Steps	N	N/A	
New	Substep added to valuation procedures: b. We determined that the method used to determine the fair value of the securities and derivatives was consistently applied across periods and evaluated any change in such method for propriety and management bias.	Procedure Steps	N	N/A	
New	Added substeps to impairment procedures: c. When the entity has recognized an impairment loss, we gathered evidence supporting the amount of the impairment adjustment recorded and (1) Determined that the write-down of the investment to a new cost basis was accounted for as a realized loss. (2) Tested the calculation of the loss recorded. (3) Determined that the new cost basis of investments previously written down is not changed for subsequent recoveries in fair value. (4) Reviewed a summary of investments written down for completeness and unusual items. (5) When applicable, evaluated management's assessment of the credit rating of the counterparty. (6) Determined whether the entity has appropriately complied with the requirements of the applicable financial reporting framework.	Procedure Steps	N	N/A	
<b>AUD-803 Audit Program: Exchange Revenues and Receivables</b>					
New	If improper revenue recognition was not identified as a risk of a material misstatement due to fraud, we documented the reasons regarding how that presumption was overcome.	Procedure Steps	N	N/A	
<b>AUD-804 Audit Program: Nonexchange Revenues and Receivables</b>					
New	If improper revenue recognition was not identified as a risk	Procedure	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	of a material misstatement due to fraud, we documented the reasons regarding how that presumption was overcome.	Steps			
<b>AUD-806 Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets or Deferred Outflows of Resources</b>					
New	2. We evaluated the consistency of the application of accounting method from period to period (e.g., considered whether any items were treated as assets in one period and expense in the next, or vice versa).	Procedure Steps	N	N/A	
New	6. We determined whether balances are properly classified in the financial statements and that adequate disclosures are made with respect to amortization method and period and accumulated amortization when applicable.	Procedure Steps	N	N/A	
<b>AUD-807 Audit Program: Capital Assets and Depreciation Including Service Concession Arrangements</b>					Tailoring added and modified to reflect changes noted below.
New	Considerations added for capital assets from service concession arrangements.	Procedure Steps	Y	GASB-60	
Modify	Moved considerations for PPE summary into main step—eliminating 12 sign offs.	Procedure Steps	N	N/A	
Delete	Deleted duplicate step: d. We scanned the detailed asset listing to determine whether the useful lives are reasonable and depreciation methods are in accordance with the applicable financial reporting framework.	Procedure Steps	N	N/A	
Delete	Deleted duplicate step: b. We reviewed the useful lives of the long-lived fixed assets to determine their reasonableness in the current operating environment.	Procedure Steps	N	N/A	
Delete	Deleted duplicate step: (8) Evidence is available of obsolescence or physical damage of an asset.	Procedure Steps	N	N/A	
New	8. We prepared (or obtained from the entity) a summary of all service concession arrangements (SCAs) in force (either as the government or the government as an operator) and performed the following procedures to determine whether the SCAs are properly accounted for and reported based on guidance provided in the applicable financial reporting	Procedure Steps	Y	GASB-60	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>framework:</p> <p>a. We examined new agreements and amendments to existing agreements and determined whether they are properly accounted for in accordance with the applicable financial reporting framework contained in GASB Statement 60, <i>Accounting and Financial Reporting for Service Concession Arrangements</i>, giving adequate consideration to the following:</p> <p>(1) We concentrated on the substance of the transaction rather than the form of the contract and determined whether an arrangement is indeed an SCA as it has all of the following characteristics:</p> <p>(a) The transferring government conveys a right and obligation to provide a service in exchange for significant consideration.</p> <p>(b) Infrastructure or other capital assets, existing or to be constructed are involved in the arrangement.</p> <p>(c) The operator is compensated by third parties including citizens (other than the parties to the arrangement).</p> <p>(d) The transferor government has the right or ability to modify or approve the services the operator can provide, to whom the operator can provide services and the rates that can be charged.</p> <p>(e) The transferor government retains a residual interest in the capital asset after the arrangement (the capital asset is returned to the transferor government).</p> <p>(2) We evaluated whether the entity properly considered if contractual obligations related to the SCA exist and are disclosed at the present value of the obligation, if significant. We also reviewed the discount rate used to calculate the liability for reasonableness.</p> <p>(3) We reviewed the reasonableness of the method and period for amortization of SCA.</p> <p>(4) We tested related payments received and apportionment of the payments (if a revenue sharing arrangement is in place with the SCA).</p> <p>(5) If the operator is a government, we reviewed documentation including whether or not an up-front payment was made and if an asset is being constructed. We also reviewed the presentation of an intangible asset and</p>				

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	<p>related amortization of the intangible in accordance with the SCA.</p> <p>(6) We ensured that SCAs including both land and building elements were assessed separately as to each element.</p> <p>(7) We ensured that SCAs that contain provisions where the asset is to be returned to the transferor government at the end of the arrangement in “as good or better” condition are reported similarly to land and other non-depreciable assets, even if depreciated previously, if material.</p> <p>b. We ensured that the amount originally recorded in the SCA was equal to the fair value of the asset when placed in operation (if constructed), a liability was declared for the present value of related contractual operations, and a deferred inflow of resources was declared for the difference.</p> <p>c. We considered obtaining confirmations from the transferor government of pertinent details of significant SCA terms and conditions, including compliance with restrictive covenants (see the sample confirmation request at <i>COR-815 Request for Confirmation of Lease Agreement</i> which may also be used for an SCA).</p> <p>d. We reviewed changes to SCA provisions for indications of changes in classification and verified that any such changes were regarded as new agreements over the SCA term.</p> <p>e. We traced up-front and / or installment payments related to the SCA to the ledger and reviewed the presentation of the up-front payment is at present value. We assured that a deferred inflow of resources was declared and that revenue is to be declared systematically and rationally over the life of the arrangement. (Any contractual obligations are declared as liabilities.)</p>				
New	<p>Impairment substep:</p> <p>(1) We reviewed management’s analysis of the recoverability of the carrying values for reasonableness.</p>	Procedure Steps	N	N/A	
<b>AUD-810 Audit Program: Long-Term Debt and Debt Service</b>					
New	<p>Bonds Payable substep:</p> <p>k. We confirmed capital appreciation bonds, notes, and other similar forms of debt, and recalculated the amount of</p>	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	accreted interest to the date of the statement of net of net position				
<b>AUD-813 Audit Program: Journal Entries and Financial Statement Review</b>					Tailoring added and modified to reflect changes noted below.
Modify	Moved consideration for selecting journal entries to test into main step— eliminating 5 sign offs.	Procedure Steps	N	N/A	
New	f. Whether items selected for testing should include journal entries made throughout the audit period.	Procedure Steps	N	N/A	
Modify	Moved consideration for selecting journal entries at components to test into main step—eliminating 5 sign offs.	Procedure Steps	N	N/A	
Modify	Modified step for JE to test at period end. Modified step reads as follows: Items selected for testing included journal entries and other adjustments made in the course of preparing the financial statements and those made at the end of a reporting period.	Procedure Steps	N	N/A	
Delete	Deleted the following step as it duplicates step in another program: We inquired of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, including: a. Accounting and data entry personnel about whether they were requested to make unusual entries during the audit period. b. Certain programmers and IT staff about the existence of any unusual and/or unsupported entries and whether they were initiated directly by top management outside the normal accounting process.	Procedure Steps	N	N/A	
Delete	Deleted the following step as it duplicates a step in another program: We examined material journal entries and other adjustments made in the course of preparing the financial statements and performed the following procedures: a. We agreed any material journal entries or other adjustments to the underlying support for such entries.	Procedure Steps	N	N/A	
Modify	Combined steps on financial statement review to read as	Procedure	N	N/A	

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	<p>follows:</p> <p>9. We performed an overall review of the financial statements, including performing analytical procedures to evaluate our conclusions regarding significant accounts and disclosures and to assist in forming an opinion on whether the financial statements as a whole are free of material misstatement.</p>	Steps			
New	a. The financial information and related disclosures are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.	Procedure Steps	N	N/A	
Modify	<p>Modified RSI step to read as follows:</p> <p>29. We determined that all required supplemental information, as required by the applicable financial reporting framework, accompanied the basic financial statements and that the contents of such required supplemental information met the requirements of the applicable financial reporting framework.</p>	Procedure Steps	N	N/A	
<b>AUD-814 Audit Program: Related-Party Transactions, Commitments and Contingencies, Estimates, and Concentrations</b>					Tailoring added and modified to reflect changes noted below.
Modify	<p>Modified related-party step to read as follows:</p> <p>1. We performed the following risk assessment procedures to obtain an understanding of the entity's related-party relationships and transactions:</p> <p>a. We inquired of management about the entity's related parties, including changes from the prior period.</p> <p>b. We inquired of management about and evaluated the entity's procedures for identifying, authorizing, accounting for, and disclosing related-party transactions, including those outside the normal course of operations.</p> <p>c. We inquired of management whether the entity entered into any transactions with these related parties during the period and, if so, the nature, type and purpose of the transactions.</p> <p>d. We reviewed confirmations from financial and legal institutions for reference to related parties, transactions, and obligations.</p>	Procedure Steps	N	N/A	
Modify	Modified substeps for significant transaction outside the	Procedure	N	N/A	

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	<p>normal scope of operations to read as follows:</p> <p>a. We inquired of management about:</p> <p>(1) The nature of these transactions; and</p> <p>(2) Whether related parties could be involved.</p> <p>b. We inspected the underlying documents and evaluated whether:</p> <p>(1) The rationale of the transaction suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p> <p>(2) The terms of the transactions are consistent with management's explanations.</p> <p>(3) The transactions have been appropriately accounted for and disclosed.</p>	Steps			
New	3. We obtained audit evidence that the significant transactions outside the entity's normal course of operations have been appropriately authorized and approved based on our understanding of management's process.	Procedure Steps	N	N/A	
Modify	<p>Modified related-party step to read as follows:</p> <p>5. When we identified arrangements or information that suggests the existence of related-party relationships or transactions that management has not previously identified or disclosed to us, we promptly communicated the relevant information to other members of the engagement team and:</p> <p>a. We requested management identify all transactions with the newly identified related parties for further evaluation.</p> <p>b. We inquired why the entity's controls over related-party relationships and transactions failed to enable the identification or disclosure of the related-party relationships or transactions.</p> <p>c. We performed appropriate substantive audit procedures relating to such newly identified related parties or related-party transactions.</p> <p>d. We reconsidered the risk that other related parties or significant related -party transactions may exist that management has not previously identified or disclosed to us and performed additional audit procedures as necessary.</p> <p>e. We evaluated the implications for the audit if the nondisclosure by management appears intentional or appears to be indicative of a risk of misstatement due to</p>	Procedure Steps	N	N/A	

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	fraud.				
Modify	<p>Modified related-party step to read as follows:</p> <p>13. In forming an opinion on the financial statements, we evaluated:</p> <p>a. Whether the identified related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and</p> <p>b. Whether the effects of the related-party relationships and transactions:</p> <p>(1) Prevent the financial statements from achieving fair presentation (for fair presentation frameworks); or</p> <p>(2) Cause the financial statements to be misleading (for compliance frameworks).</p>	Procedure Steps	N	N/A	
<b>AUD-818 Audit Program: Derivative Instruments</b>					
New	<p>11. We reviewed the entity's reconciliations of statements or data feeds from custodians to the accounting records and determined that:</p> <p>a. Reconciling items were resolved properly.</p> <p>b. Journal entries related to the reconciliations were appropriate and made by authorized persons.</p>	Procedure Steps	N	N/A	
New	12. We reviewed any master netting arrangements and determined that all related financial instruments were recorded.	Procedure Steps	N	N/A	
New	<p>New valuation substep added:</p> <p>b. We determined that the method used to determine the fair value of the securities and derivatives was consistently applied across periods and evaluated any change in such method for propriety and management bias.</p>	Procedure Steps	N	N/A	
<b>AUD-820 Audit Program: Municipal Solid Waste Landfill</b>					Tailoring added and modified to reflect changes noted below.
New	6. If a "financial assurance letter" is to be provided in connection with this MSWLF, we engaged the entity for an agreed upon procedures engagement and determined that the government has satisfied the EPA financial assurance requirements by performing the following agreed upon procedures in accordance with the most up to date guidance	Procedure Steps	N	N/A	



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	<p>available from the United States Environmental Protection Agency, "Solid Waste Disposal Facility Criteria" (40 Code of Federal Regulations [C.F.R.] Parts 257 and 258, as amended), and / or in accordance with regulations applicable to a particular state:</p> <p>a. We determined that the auditor's report on the basic financial statements of the government as a whole does not contain an adverse opinion or a disclaimer of opinion. If adverse opinion or disclaimer of opinion, the financial test cannot be used; go to substep h.</p> <p>b. If the auditor's report on the basic financial statements of the government as a whole contains a qualified opinion and it is considered insufficient to warrant disallowing use of the financial test, we determined that the state within which the government is located directed that the financial test be allowed and we obtained documentation of such approval. If not, the financial test cannot be used; go to substep h.</p> <p>c. We determined that the government did not have an operating deficit that exceeded five (5) percent of total revenues for each of the past two years. (An operating deficit is total annual expenditures greater than total annual revenues. Revenues should not include borrowing proceeds. Expenditures should exclude capital outlay and debt service.) If not, the financial test cannot be used; go to substep h.</p> <p>d. We determined that the financial statements:</p> <p>(1) Are prepared in accordance with GAAP (GASB Statement No. 18).</p> <p>(2) Include disclosure of the estimated costs of its closure, post-closure and corrective obligations, including the years when such costs are expected to be incurred.</p> <p>(3) Include disclosure of outstanding rated bonds related to the facility.</p> <p>(4) Include disclosure of any bonds that are insured or collateralized by a letter of credit or similar collateral.</p> <p>If the conditions in (1), (2), (3), and (4), are not met, the government does not meet the financial test; go to substep h.</p> <p>e. If the government has current investment grade bond ratings (generally AAA, AA, A, BBB as issued by Standard</p>				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>and Poor's or Aaa, Aa, A, or Baa as issued by Moody's) on all of its outstanding general obligation bonds, we determined that the government qualifies to use the bond rating method by performing the following:</p> <p>(1) We determined that none of the general obligation bonds were rated lower than Baa as issued by Moody's or BBB as issued by Standard and Poor's.</p> <p>(2) We determined that the government was not in default on any rated outstanding general obligation bonds during the year.</p> <p>(3) We determined that none of the bonds are secured by insurance, a letter of credit, or other collateral or guarantee.</p> <p>(4) We obtained documentation of the bond ratings on all bonds.</p> <p>f. If the government does not have any outstanding general obligation bonds, only has unrated general obligation bonds, or hasn't satisfied the conditions in e(1), e(2), and e(3) above, we determined if it satisfies a liquidity ratio and a debt service ratio by performing the following procedures:</p> <p>(1) We determined that the government's liquidity ratio (cash, cash equivalents and marketable securities to total expenditures) is greater than .05. If not, the financial ratios threshold test is not met; go to substep h.</p> <p>(2) We determined that the debt service ratio (annual debt service to total expenditures) is less than or equal to .2. If not, the financial ratios threshold test is not met; go to substep h.</p> <p>(3) We determined that the borrowed funds ratio (long term debt issued to capital expenditures) is less than or equal to 2. If not, the financial ratios threshold test is not met; go to substep h.</p> <p>g. We determined that the financial test has been met by performing the following procedures:</p> <p>(1) We computed the financial assurance requirement as the sum of:</p> <p>(i) Estimated costs of closure;</p> <p>(ii) Estimated costs of post closure;</p> <p>(iii) Estimated costs of corrective action plans; and</p> <p>(iv) Other guarantees or obligations related to the environmental obligations.</p> <p>(2) We computed the financial test coverage by multiplying</p>				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>total revenues by 43%.</p> <p>(3) We prepared a trend workpaper and carryforward analysis for at least 3 years.</p> <p>(4) We compared the financial assurance requirement (from g(1) above) and the financial test coverage (from g(2) above). We determined whether the financial test coverage is equal to or greater than the financial assurance requirement. If so, the financial test has been met and no further testing is necessary. If the financial assurance requirement exceeds the financial test coverage, the financial test has not been met.</p> <p>h. If the government does not qualify to use the financial test method or has not met the financial test, we determined that the financial assurance requirement has been met by an alternate method.</p> <p>i. If the financial assurance requirement has not been met by an alternate method, we considered this a violation of the law and:</p> <p>(1) Prepared correspondence noting the violation.</p> <p>(2) Documented management's corrective action plan.</p>				
<b>AUD-901 Audit Program: Subsequent Events</b>					
New	9. If we identified subsequent events that require adjustment of, or disclosure in, the financial statements, we evaluated whether management has appropriately reflected such events in the financial statements in accordance with the applicable financial reporting framework.	Procedure Steps	N	N/A	
<b>AUD-902 Audit Program: Going Concern</b>					
New	<p>New indicator substep:</p> <p>(5) Significant deterioration in the value of assets used to generate cash flows.</p>	Procedure Steps	N	N/A	
Delete	<p>Deleted duplicate step:</p> <p>We evaluated the adequacy of related financial statement disclosures and considered the effects on the audit report.</p>	Procedure Steps	N	N/A	
Modify	<p>Modified documentation step to read as follows:</p> <p>10. We documented the following matters in the audit documentation:</p> <p>a. The conditions or events that led us to believe that there</p>	Procedure Steps	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.</p> <p>b. Government officials' evaluation of the significance of those conditions or events and any mitigating factors.</p> <p>c. The elements of management's plans that we considered to be significant to overcoming the adverse effects of the conditions or events.</p> <p>d. The auditing procedures that we performed and the evidence obtained in connection with our evaluation of management's plans.</p> <p>e. Our conclusion about whether substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains or is alleviated. In connection with this item:</p> <p>(1) If substantial doubt remains, documentation includes the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures.</p> <p>(2) If substantial doubt is alleviated, documentation includes our conclusion regarding the need for, and adequacy of, disclosure of the principal conditions and events that initially caused us to believe there was substantial doubt.</p> <p>f. Our conclusion regarding whether an emphasis-of-matter paragraph should be included in the audit report to reflect our conclusion that there is substantial doubt.</p> <p>g. If the related going-concern disclosures are inadequate, our documentation also includes the conclusion as to whether to express a qualified or an adverse opinion for the departure from the applicable financial reporting framework</p>				
<b>AUD-903 Audit Program: Consideration of Fraud</b>					
Modify	Modified the instructions to include Sections and additional guidance.	Procedure Steps	N	N/A	
Delete	Deleted the duplicative substeps regarding brainstorming meeting and added reference to KBA-303 where the work is completed.	Procedure Steps	N	N/A	
Modify	Reorganized the order of the audit procedures.	Procedure Steps	N	N/A	
Delete	Deleted the duplicative substeps regarding identified risks	Procedure	N	N/A	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	of material misstatement and added reference to KBA-501 and KBA-502 where the work is completed.	Steps			
Delete	Deleted the duplicative substeps regarding revenue transactions and added reference to AUD-803 where the work is completed.	Procedure Steps	N	N/A	
Delete	Deleted substeps related to unpredictability, retained top-level step.	Procedure Steps	N	N/A	
Delete	Deleted the duplicative substeps regarding accounting estimates and added reference to AUD-820 where the work is completed.	Procedure Steps	N	N/A	
Delete	Deleted the duplicative substeps regarding obtaining written representation and added reference to AUD-101 where this step is performed.	Procedure Steps	N	N/A	
New	Added a Results section to capture findings as a result of work performed on this audit program.	Procedure Steps	N	N/A	
<b>AUD-904 Audit Program: Compliance with Laws and Regulations</b>					
Delete	Removed duplicative steps.	Procedure Steps	N	N/A	
New	7. If we were not able to obtain sufficient information regarding the suspected noncompliance, we evaluated the impact of the lack of sufficient appropriate audit evidence on our audit opinion.	Procedure Steps	N	N/A	

### Auditor's Reports (RPTs)

- *2013 Knowledge-Based Audits of Governmental Entities* includes 27 illustrative example auditor's reports using the new clarified reporting format.

### Correspondence Documents (CORs)

- *2013 Knowledge-Based Audits of Governmental Entities* illustrative example correspondence documents have been updated throughout.

### Practice Aids (AIDs)

- *2013 Knowledge-Based Audits of Governmental Entities* practice aids have been updated throughout to include new considerations and examples.
- **AID-301 Preliminary Analytical Procedures: Fluctuation and Ratio Analysis** has been updated to include a column to document the basis for auditor expectation.
- **AID-601 Considering Reliance on the Work of Internal Auditors** has had an appendix added containing information on Government Auditing Standards and Internal Auditor Independence.

- **AID-701 Audit Sampling Worksheet for Tests of Controls** Suggested sample size for large populations and low assessed risk with no expected deviations changed to better align with the AICPA's *Audit Sampling Guide*.
- **AID-801 Audit Sampling Worksheet for Substantive Tests of Details** Determination of tolerable misstatement moved from the materiality worksheet to this sampling tool.
- **AID-822 Capital Assets Summary Analysis** Determination of tolerable misstatement moved from the materiality worksheet to this sampling tool.

## Resource Documents (RESs)

- **RES-001 Knowledge-Based Audit Methodology Overview** has been updated to reflect the updated workpapers and related requirements.

**In addition, forms and practice aids throughout have been updated, where applicable, to take into account:**

Information related to new literature, standards, and developments applicable to state and local governments that are reflected in the following current audit and accounting guidance:

Statements on Auditing Standards (SASs):

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

AICPA Audit and Accounting Guides:

*State and Local Governments, with conforming changes as of March 1, 2013, and Illustrative Auditor's Reports updated for Clarity*

*Government Auditing Standards and Circular A-133 Audits, with conforming changes as of February 1, 2013 and Illustrative Auditor's Reports updated for Clarity*  
*Audit Sampling—2012 Edition*

AICPA Audit Risk Alerts:

*State and Local Governmental Developments—2012*

*Government Auditing Standards and Circular A-133 Developments—2012*

AICPA Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control (Redrafted)*

Governmental Accounting Standards Board Statements (GASBs):

*GASB 65 Items Previously Reported as Assets and Liabilities*

*GASB 66 Technical Corrections 2012—An Amendment of GASB Statements No. 10 and No. 62*

*GASB 67 Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25*

*GASB 68 Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*

*GASB 69 Government Combinations and Disposals of Government Operations*

Government Accountability Office:

*Government Auditing Standards—December 2011 Revision*

Also incorporated are changes made to OMB Circular A-133 through August 1, 2012.

## RELATED, FOUNDATIONS AND ASSOCIATION WORKPAPERS FOR THIS TITLE

Related workpapers are Knowledge Coach Word workpapers where information flows in or out of tables within the workpaper. Some of these related workpapers are Foundation workpapers or associated workpapers.

Foundation Workpapers include most of the Communication Hub workpapers, which are central to the Knowledge-Based Audit Methodology used by the Knowledge Coach titles. Associated workpapers require you to associate them with custom values, such as audit areas, specialists, service organizations, and other items. Workpapers require an association when you need to have more than one instance of a particular Knowledge Coach workpaper in your binder for each type of item to which the workpaper is related. Making this association allows Knowledge Coach information to flow properly between workpapers.

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
<b>KBA</b> s	<b>KNOWLEDGE-BASED AUDIT DOCUMENTS</b>		
KBA-101	Overall Audit Strategy	X	
KBA-102	Engagement Completion Document	X	
KBA-103	Evaluating and Communicating Internal Control Deficiencies and Noncompliance	X	
KBA-105	Review of Significant Accounting Estimates	X	
KBA-201	Client/Engagement Acceptance and Continuance Form		
KBA-302	Understanding the Entity and Its Environment: Complex Entities		
KBA-302N	Understanding the Entity and Its Environment: Noncomplex Entities		
KBA-303	Inquiries of Management and Others within the Entity about the Risks of Fraud		
KBA-400	Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures	X	
KBA-401	Understanding Entity-Level Controls: Complex Entities		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
KBA-401N	Understanding Entity-Level Controls: Noncomplex Entities		
KBA-402	Understanding General Controls for Information Technology		
KBA-403	Understanding Activity-Level Controls: Revenue, Receivables, and Cash Receipts		
KBA-404	Understanding Activity-Level Controls: Purchases, Inventory, and Capital Assets		
KBA-405	Understanding Activity-Level Controls: Accounts Payable and Disbursements		
KBA-406	Understanding Activity-Level Controls: Payroll		
KBA-407	Understanding Activity-Level Controls: Treasury		
KBA-408	Understanding Activity-Level Controls: Financial Reporting and Closing Process		
KBA-409	Understanding Controls Maintained by a Service Organization		X
KBA-502	Summary of Risk Assessments	X	
KBA-503	Basis for Inherent Risk Assessment		
KBA-902	Audit Review and Approval Checklist		
KBA-903	Audit Documentation Checklist		
<b>AUDs</b>	<b>AUDIT PROGRAMS</b>		
AUD-100	Overall Tailoring Questions	X	



<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-101	Overall Audit Program	X	
AUD-201	Audit Program: Opening Balances and Additional Audit Procedures for an Initial Audit Engagement		
AUD-602	Audit Program: Involvement of a Component Auditor		X
AUD-603	Audit Program: Using the Work of an Auditor's Specialist		X
AUD-604	Audit Program: Using the Work of a Management's Specialist		X
AUD-701	Audit Program: Designing Tests of Controls		
AUD-800	Audit Program: Custom		X
AUD-801	Audit Program: Cash		
AUD-802	Audit Program: Investments and Investment-Related Activities		
AUD-803	Audit Program: Exchange Revenues and Receivables		
AUD-804	Audit Program: Nonexchange Revenues and Receivables		
AUD-805	Audit Program: Inventories and Cost of Goods Sold		
AUD-806	Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets or Deferred Outflows of Resources		
AUD-807	Audit Program: Capital Assets and Depreciation Including Service Concession Arrangements		
AUD-808	Audit Program: Accounts Payable and Purchases		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-809	Audit Program: Payrolls and Other Liabilities		
AUD-810	Audit Program: Long-Term Debt and Debt Service		
AUD-811	Audit Program: Net Position and Fund Balance		
AUD-812	Audit Program: Other Income and Expenditures/Expenses		
AUD-813	Audit Program: Journal Entries and Financial Statement Review		
AUD-814	Audit Program: Related-Party Transactions, Commitments and Contingencies, Estimates, and Concentrations		
AUD-815	Audit Program: Fair Value Measurements and Disclosures		
AUD-816	Audit Program: Interfund Transactions		
AUD-817	Audit Program: Budgets		
AUD-818	Audit Program: Derivative Instruments		
AUD-819	Audit Program: Self-Insurance		
AUD-820	Audit Program: Municipal Solid Waste Landfill		
AUD-901	Audit Program: Subsequent Events		
AUD-902	Audit Program: Going Concern		
AUD-903	Audit Program: Consideration of Fraud		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-904	Audit Program: Compliance with Laws and Regulations, Contract Provisions and Grant Agreements, and Abuse		
<b>AIDs</b>	<b>PRACTICE AIDs</b>		
AID-201	Nonaudit Services Independence Checklist		
AID-304	Understanding the Entity's Revenue Streams and Revenue Recognition Policies		
AID-601	Considering Reliance on the Work of Internal Auditors		
AID-702	Results of Tests of Controls		
AID-901	Differences of Professional Opinion		

### Additional Information for Associated Workpapers

The following tables list the workpapers that require association in this title, along with the information that must be completed before you can insert each workpaper.

Workpaper Requiring Association	What is it associated with?		
	Workpaper	Table/Question	Association Item (Custom Value)
KBA-409 Understanding Ctrls: Service Org (Custom)	AUD-100 Tailoring Question Workpaper	Does the client use service organizations? Shows the "Document the service organizations used by the entity." table in KBA-101 Overall Audit Strategy.	
	KBA-101 Overall Audit Strategy	Document the service organizations used by the entity.	Service Organization
AUD-602 Audit Program: Component Auditor Involvement (Custom)	AUD-100 Tailoring Question Workpaper	Are any component units, funds, departments, sites, or segments expected to be audited by other independent (component) auditors? is "Yes" Shows the "Document the multiple component units, funds, departments, sites, or segments expected to be audited by other independent (component) auditors." table in KBA- 101 Overall Audit Strategy.	
	KBA-101 Overall Audit Strategy	Document the multiple components, multiple locations, or segments expected to be audited by other independent (component) auditors.	Audit Firm Name
AUD-603 Audit Program: Auditor's Specialist (Custom)	AUD-100 Tailoring Question Workpaper	Do we expect to use a specialist on our audit? is "Yes" Shows the "Document the expected use of a specialist(s) on our audit." table in KBA-101 Overall Audit Strategy.	
	KBA-101 Overall Audit Strategy	Document the expected use of a specialist(s) on our audit. Then select Auditor's Specialist from the Type of Specialist Column	Specialist Firm Name
AUD-604 Audit Program: Management's Specialist (Custom)	AUD-100 Tailoring Question Workpaper	Do we expect to use a specialist on our audit? is "Yes" Shows the "Document the expected use of a specialist(s) on our audit." table in KBA-101 Overall Audit Strategy.	
	KBA-101 Overall Audit Strategy	Document the expected use of a specialist(s) on our audit. Then select Management's Specialist from the Type of Specialist Column.	Specialist Firm Name
AUD-800 Audit Program: (Custom)	AUD-100 Tailoring Question Workpaper	What financial statement audit areas are applicable to this engagement? "Customize Audit Area" link within the answer selection box.	Custom Audit Area