

2014 CONSTRUCTION CONTRACTORS AND RELATED 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 2014 *Knowledge-Based Audits of Construction Contractors and Related Entities* has been updated to help auditors conduct efficient and effective audit engagements in accordance with the U.S. GAAS and is current through the most recent auditing standard, SAS 128, *Using the Work of Internal Auditors*. Our authors are always looking to improve the flow of the audit engagement through the addition of new tailoring questions, new tips, and new examples. Additionally, the 2014 edition of *Knowledge-Based Audits of Construction Contractors and Related Entities* has been updated to incorporate the 2013 *Internal Control—Integrated Framework* (Framework) established by the Committee of Sponsoring Organizations of the Treadway Commission. The 2014 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 is a revised financial statement disclosures checklist that provides a centralized resource of the current required and recommended U.S. GAAP disclosures and key presentation items, using the style referencing under the FASB Accounting Standards Codification™.

The 2014 edition of *Knowledge-Based Audits of Construction Contractors and Related Entities* includes the following updates:

Knowledge-Based Audit Documents (KBAs)

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
KBA-101 Overall Audit Strategy					
Modify	Section I, Reporting Requirements table				Responses to questions will now flow in from KBA-200, data previously entered in this workpaper will be captured and retained on rollforward in KBA-200
Modify	Section I, Audit Coverage, Subsidiary Table				Responses to questions will now flow in from KBA-200, data previously entered in this workpaper will be captured and retained on rollforward in KBA-200. This table will be combined with the table that was in KBA-201, please review for potential duplicates in KBA-200 and KBA-101.
Modify	Section I, Reliance on Others, Key Engagement Contacts Table				Responses to questions will now flow in from KBA-200, but you can still add data as well. The table in KBA-200 will be combined with the table that was in KBA-302 and KBA-302N,

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
					please review KBA-101 for potential duplicates. You can also add additional contacts if necessary.
Modify	Section III, Significant Change from Previous Year				Data in the Expected Effect on the Overall Audit Strategy Column and the Workpaper Reference Column will not retain on update, due to the data is now flowing in from KBA-200. Publish this workpaper prior to update to ensure the ability to reference your existing data.
New	Added a new Factor to Consider to Section I, Reporting Requirements, regarding users of the financial statements.	Table other than procedures	N		Data flows in from KBA-200
KBA-103 Evaluating and Communicating Internal Control Deficiencies					The flow of findings identified in the KBA-400 series of workpapers has changed due to the COSO Framework changes. Therefore, findings from will not flow into KBA-103. Publish KBA-103 prior to roll forward to ensure you maintain your data..
Modify	Modified instructions to include guidance on potential effects of deficiencies noted by the auditor.	Purpose and Instructions	Y	AU-C 265	
New	Added a new column for Description of Potential Effect.	Table other than procedures	Y	AU-C 265	
Modify	Content updated for 2013 COSO Framework.	Instructions Table other than procedures	Y	COSO	
KBA-200 Entity Information and Background					
New	On this new form for Background and Basic Information that was moved from KBA-201, new information is to be provided for bonding and related-party and joint-venture relationships	Table other than procedures	N		This is a new foundation workpaper that will capture, combine, and retain data entered into KBA-101, KBA-201, KBA-302 and KBA-302N. Due to the combination of data from multiple sources please review for duplicates and accuracy.
KBA-201 Client/Engagement Acceptance and Continuance Form: Complex Entities					
Delete	Removed Part 1, Section I - Background and Basic Information, moved to KBA-200.	Table other than procedures	N		Data previously entered in this workpaper will be captured and retained on rollforward in KBA-200
Modify	Modified for audits of complex entities.	Instructions	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
KBA-201N Client/Engagement Acceptance and Continuance Form: Noncomplex Entities					
New	New workpaper developed to allow the auditor the option of documenting his or her client/engagement acceptance decisions in a memorandum format, based on the circumstances of the engagement.	Table other than procedures	N		
KBA-301 Worksheet for Determination of Materiality, Performance Materiality, and Thresholds for Trivial Amounts					
Modify	Modified instructions to emphasize auditor judgment regarding Rule-of-Thumb percentages	Instructions	Y	AU-C 320 AAG Sampling	
Modify	Updated Rule of Thumb percentages to better reflect current industry practices: The benchmarks and related percentages are based on the judgment of our expert authors. Our expert authors base them on issues encountered in practice, research studies, AICPA audit risk and sampling guides, AICPA interpretive guidance (including AICPA CPE courses), and Big Firm practices and policies. Based on this information, with regard to this toolset, the commonly used rule of thumb amounts were revised to 1/2-2% for total assets and 1/2-2% for total revenues earned.	Instructions	N		
New	This workpaper has been moved to a word document to better facilitate flow and rollforward retention in Knowledge Coach.	Table - other than procedures	N		
KBA-302 Understanding the Entity and Its Environment: Complex Entities					
Modify	Section I: Entity Information	Table other than procedures	N		Responses to questions will now flow in from KBA-200, data previously entered in this workpaper will be captured and retained on rollforward in KBA-200. This table will be combined with tables that are in KBA-101, KBA-201 and KBA-302N, please review for potential duplicates.
New	Added a new Factor to Consider to Section I, regarding users of the financial statements.	Table other than procedures	N		Data flows in from KBA-200
Modify	Section II - added customer relationships as a new factor to Industry Conditions:	Table other than procedures	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
Modify	Section III - added a new factor to Financing: Methods of financing working capital (e.g., term loans, chattel loans, line of credit, working capital loans, government sponsored programs)	Table other than procedures	N		
KBA-302N Understanding the Entity and Its Environment: Noncomplex Entities					
Modify	Section I: Entity Information	Table other than procedures	N		Responses to questions will now flow in from KBA-200, data previously entered in this workpaper will be captured and retained on rollforward in KBA-200. This table will be combined with tables that are in KBA-101, KBA-201 and KBA-302N, please review for potential duplicates.
New	Added a new Factor to Consider to Section I, regarding users of the financial statements.	Table other than procedures	N		Data flows in from KBA-200
KBA-400 Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures					
Modify	Content update for 2013 Framework.	Instructions Table other than procedures	Y	COSO	Most of the data in the Reconciliation Table and the Risk Table will retain, but some of the columns have been combined. Publish KBA-400 prior to roll forward to ensure you maintain your data. There is new functionality in this workpaper to include changes in the way data flows, default answers, and dynamic diagnostics.
KBA-401 Understanding Entity-Level Controls: Complex Entities					
Modify	Content update for 2013 Framework, to include new columns for “Are Controls Present?” and “Are Controls Functioning?”	Instructions Table other than procedures	Y	COSO	Data in this workpaper needs to be reassessed and reevaluated and will not roll forward due to the changes for the COSO framework. You will need to publish KBA-401 prior to roll forward to ensure you maintain your data.
New	New conclusion table added.	Table other than procedures	Y	COSO	
KBA-401N Understanding Entity-Level Controls: Noncomplex Entities					
Modify	Content update for 2013 Framework, to include new columns for “Are Controls Present?” and “Are Controls Functioning?”	Instructions Table other than	Y	COSO	Data in this workpaper needs to be reassessed and reevaluated and will not roll forward due to the changes for the COSO framework. You will need to publish KBA-401N prior to roll

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		procedures			foward to ensure you maintain your data.
New	New conclusion table added.	Table other than procedures	Y	COSO	
KBA-402 Understanding General Controls for Information Technology					
Modify	Content updated to maintain consistency in functionality for the 400 series of workpapers, to include new columns for “Are Controls Present?” and “Are Controls Functioning?”	Instructions Table other than procedures	N		There is new functionality in this workpaper to include changes in the way data flows, default answers, and dynamic diagnostics.
KBA-403 Understanding Activity-Level Controls: Revenue; Contracts, Retentions, and Accounts Receivable; and Cash Receipts through KBA-412 Understanding Activity-Level Controls: Financial Reporting and Closing Process					
Modify	Content update for 2013 Framework, to include new columns for “Are Controls Present?” and “Are Controls Functioning?”	Instructions Table other than procedures	Y	COSO	There is new functionality in this workpaper to include changes in the way data flows, default answers, and dynamic diagnostics.
KBA-413 Understanding Controls Maintained by a Service Organization					Tailoring questions have been added to help facilitate a more efficient workflow.
New	Added step: We evaluated the Type 1 report to determine that it was as of a date that is appropriate for our purposes.	Table other than procedures	N		

Audit Programs (AUDs)

- Audit program steps, as applicable, have been enhanced to emphasize that the auditor evaluates or obtains information from management.
- Updated program step assertions as needed.
- Audit programs have been reorganized and reordered for better workflow. Additionally, duplicative steps have been removed throughout the audit program series.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
AUD-100 Tailoring Question Workpaper					
New	New tailoring questions have been added.	Tailoring	N	N/A	Review and answer. All of these new tailoring questions will impact other workpapers. Be sure to add additional audit areas (AUD 819-821) when applicable.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
AUD-601 Audit Program: Testing and Evaluating Internal Auditors' Work					
Added	<p>Added the following steps to Section I:</p> <ul style="list-style-type: none"> We discussed the planned use of the work of the internal audit function with the internal auditors as a basis for coordinating respective duties. Our communication with those charged with governance of the planned scope and timing of the audit included how we plan to use the work of the internal audit function in obtaining audit evidence. We read the reports of the internal audit function which relate to the work of the function that we plan to use to obtain an understanding of the nature and extent of audit procedures the internal audit function performed and the related findings. We made all significant judgments in the audit engagement, including those related to assessing the risks of material misstatement and evaluating various matters such as the sufficiency of tests performed, significant accounting estimates, and the adequacy of disclosures in the financial statements. We determined that using the work of the internal audit function did not preclude us from being sufficiently involved in the audit to fulfill our responsibility for the audit opinion expressed. We documented our evaluation of the internal audit function performed above, the nature and extent of the internal audit work used and the basis for that decision, and the audit procedures we performed to evaluate the adequacy of the work of internal auditors used. 	Procedures steps	Y	SAS-128 – AU-C 610	
Added	<p>Added the following substeps to Section I:</p> <p>We evaluated the internal audit function, including the following:</p> <ul style="list-style-type: none"> The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors. 	Procedures steps	Y	SAS-128 – AU-C 610	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<ul style="list-style-type: none"> • The level of competence of the internal audit function. • Whether the internal audit function applies a systematic and disciplined approach, including quality control. • Whether the nature, timing, and extent of the internal audit functions' work was appropriate to meet our objectives and relevant to the overall audit strategy and audit plan. • Whether workpapers adequately documented the work performed, including evidence of supervision and review. • Whether any exceptions or unusual matters were properly resolved. • 				
Added	<p>Added or modified the following substeps to Section I:</p> <p>We tested some of the work performed by internal auditors by:</p> <ul style="list-style-type: none"> • Examining some of the controls, transactions, or balances that the internal auditors examined, and reperforming some of the work; <p>We evaluated whether:</p> <ul style="list-style-type: none"> • The work of the internal audit function had been properly planned, performed, supervised, reviewed, and documented; • Audit programs used were adequate and the evidence obtained by the internal audit function was sufficient and appropriate to draw reasonable conclusions; • Conclusions reached are appropriate in the circumstances and the reports prepared by the internal audit function are consistent with the results of the work performed; and • Management has responded to the findings and recommendations of the internal audit function regarding deficiencies in internal control relevant to the audit, whether and how such responses have been implemented, and whether they have been 	Procedures steps	Y	SAS-128 – AU-C 610	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	subsequently evaluated by the internal audit function.				
Added	<p>Added the following steps to Section II:</p> <ul style="list-style-type: none"> We have evaluated the existence and significance of threats to the internal auditors' objectivity, any safeguards applied to reduce or eliminate the threats, and the level of competence of the internal auditors who will be providing such assistance. In determining the nature and extent of work that can be assigned to internal auditors providing direct assistance, we have considered: <ul style="list-style-type: none"> The amount of judgement involved in: <ul style="list-style-type: none"> Planning and performing relevant audit procedures; and Evaluating the audit evidenced gathered. The assessed risk of material misstatement; and The existence and significance of threats to the objectivity and level of competence of the internal auditors' objectivity, the effectiveness of the safeguards applied to reduce or eliminate the threats, and level of competence of the internal auditors who provided direct assistance. Our communication with those charged with governance of the planned scope and timing of the audit included how we plan to use internal auditors to provide direct assistance. We obtained a written acknowledgment from an authorized representative of the entity that internal auditors providing direct assistance will be allowed to follow our instructions, and that the entity will not intervene in the work of internal auditors in the performance of procedures on the engagement. We obtained written acknowledgement from the internal auditors that they will keep confidential 	Procedures steps	Y	SAS-128 – AU-C 610	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>specific matters as instructed by us and inform us of any threat to their objectivity.</p> <ul style="list-style-type: none"> • We determined that using internal auditors to provide direct assistance did not preclude us from being sufficiently involved in the audit to fulfill our responsibility for the audit opinion expressed. • We documented: <ul style="list-style-type: none"> – Our evaluation of the existence and significance of threats to the objectivity of the internal auditors, any safeguards applied to reduce or eliminate the threats, and the level of competence of the internal auditors used to provide direct assistance on the engagement; – The basis for the decision regarding the nature and extent of the work performed by the internal auditors; – The nature and extent of our review of the internal auditors' work, including the testing of some of the work performed by the internal auditors; – The written acknowledgments above obtained from an authorized representative of the entity and the internal auditors; and – The working papers prepared by the internal auditors who provided direct assistance. 				
AUD-701 Audit Program: Designing Tests of Controls					
New	We have tested the accuracy and the reliability (e.g., tested the source of the data, including information technology [IT] general and application controls) of the data used by management when performing control activities.	Procedures steps	N		
New	Added "The reliability of the data on which the controls testing will be performed" to the determination and the extent of the tests of controls steps.	Procedures steps	N		
AUD-800's Audit Programs					

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
New	Materiality Summary Tables have been added to all workpaper. Data flows from KBA-301				
New	Tailoring has been added for the Operating Effectiveness Testing. This tailoring is on a per audit area basis.				Be sure to answer all tailoring questions in AUD-100 before starting the rest of your engagement.
AUD-801 Audit Program: Cash					
New	<p>Added new section and procedures for joint ventures accounted for using proportionate consolidation method: Joint Ventures Using the Proportionate Consolidation Method</p> <p>If the contractor has a joint venture and is reporting its ownership interest on a proportionate basis, we preformed the following:</p> <p>a. Determined whether the contractor is reporting and recording the joint venture under the proportionate consolidation method where the contractor records its proportionate share of each asset, such as cash, or whether it instead records its share of current assets and current liabilities, or assets and liabilities.</p> <p>b. If the contractor is reporting and recording its proportionate share of each asset:</p> <p>(1) We determined whether the joint venture agreement permits the contractor joint venture share to be reported as such, i.e. that the joint venture agreement allows the joint venture assets to be owned by the joint venture participant in a divided or separate manner.</p> <p>(2) If the joint venture agreement permits the joint venture assets to be bifurcated into ownership for the contractor's joint venture percentage or specific asset identification, we then applied and performed the appropriate substantive audit procedures in this audit program as necessary and documented those procedures and findings.</p> <p>c. If the contractor is not reporting and recording its proportionate share of each asset, we then considered and employed the applicable audit procedures for joint ventures in <i>AUD-802 Investments and Joint Ventures</i>.</p>	Procedures Steps	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
AUD-802 Audit Program: Investments and Joint Ventures					
Modify	Changed title to Audit Program: Investments and Joint Ventures;				
New	Added new section and steps for joint ventures accounted for using the proportionate consolidation method: (See steps for AUD-801 above).	Procedures Steps	N		
AUD-803 Audit Program: Contracts, Retentions, Accounts Receivable, Revenues, and Contract Billings					
Modified	Modified step to delete duplicative wording leaving step as follows: We compared the gross profit ratio of completed contracts with the gross profit of uncompleted contracts for the current period.	Procedures steps	N		
New	Added the following new ratios to substantive analytical procedures for contracts, retentions, accounts receivable, and revenues: Ratio of allowance for uncollectible accounts to total receivables. Ratio of gross profit to net revenues. Ratio of customer discounts to contract revenues.	Procedures steps	N		
New	Added new substep: If, in accordance with AU-C 505, <i>External Confirmations</i> , we determined that confirmation of receivables is not necessary, we documented our acceptable reason for not confirming receivables.	Procedures steps	N		
New	Added new step: Inquiring of the entity's personnel (e.g., estimating, project management, sales, and/or and marketing personnel or in-house legal counsel) about sales near period-end and whether they are aware of any unusual terms or conditions in connection with these transactions.	Procedures steps	N		
New	Added new section and procedures for joint ventures accounted for using proportionate consolidation method (see steps for AUD-801 above).	Procedures steps	N		
AUD-804 Audit Program: Inventories, Work in Process, and Job Costing of Inventory Items					

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
New	Added new step: We determined whether any inventory is pledged or subject to liens.	Procedures steps	N		
Deleted	Deleted duplicative steps.	Procedures steps	N		
New	Added new section and procedures for joint ventures accounted for using proportionate consolidation method (see steps for AUD-801 above).	Procedures Steps	N		
AUD-805 Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets					Tailoring added and modified to reflect changes noted below.
New	Added new section and procedures for joint ventures accounted for using the proportionate consolidation method (see steps for AUD-801 above).	Procedures steps	N		
AUD-806 Audit Program: Intangible Assets					Tailoring added and modified to reflect changes noted below.
New	<p>New steps for goodwill subject to amortization:</p> <p>5. We evaluated whether the entity meets the criteria to elect to amortize goodwill on a straight-line basis over 10 years or less in accordance with U.S. GAAP or, in the alternative, the entity is applying the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities and is electing to amortize goodwill on a straight-line basis over 15 years or is matching its goodwill amortization for tax purposes.</p> <p>6. If the entity has elected to amortize goodwill on a straight-line basis over less than 10 years, we evaluated whether the entity has adequately demonstrated that another useful life is more appropriate.</p> <p>7. We have evaluated whether the entity has properly made an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level, as part of its election to amortize goodwill.</p> <p>8. We evaluated whether management has properly identified triggering events and determined whether management properly tested goodwill for impairment, and performed the following procedures, in accordance with the applicable financial reporting framework.</p> <p>a. If the entity opts to first assess qualitative factors to determine whether the existence of events or</p>	Procedure steps	Y	ASU 2014-02 and FRF for SMEs	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>circumstances leads to a determination that it is more likely than not that the fair value of the entity (or reporting unit) is less than its carrying amount, we have reviewed and evaluated management's assessment and conclusion.</p> <p>b. If the entity performed a quantitative goodwill impairment test, we tested management's analysis by comparing the entity's (or the reporting unit's) fair value with its carrying amount.</p> <p>c. If the carrying amount of the entity (or reporting unit) exceeds its fair value, we ascertained that an impairment loss has been properly recognized in the income statement in an amount equal to that excess.</p> <p>d. After any impairment loss is recognized, we ascertained that management appropriately adjusted the carrying amount of the goodwill so the adjusted carrying amount becomes its new accounting basis.</p> <p>Practice Point: Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.</p>				
AUD-807 Audit Program: Property and Equipment, and Depreciation					
New	<p>Added new substep:</p> <p>(2) If the entity has adopted a de minimis safe harbor policy for tax purposes, we reviewed the total amounts written off under that policy for the period to determine if the amounts in total are material and if part to all of those items written off should be added back in order for the financial statements not to materially misstated in accordance with the financial reporting framework.</p>	Procedures Steps	N		
New	<p>Added new substep:</p> <p>(8) We reviewed the entity's tax return filings to see if it filed for "partial asset dispositions" under the tangible property regulations in the current tax year, or filed IRS Form 3115 for "partial asset dispositions" for prior tax years.</p> <p>(i) If the taxpayer did file for "partial asset dispositions" for tax purposes, we determined whether these same asset dispositions should be recognized and removed for financial statement purposes.</p> <p>(ii) If the taxpayer did not also remove those assets</p>	Procedures Steps	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	disposed of for tax purposes for financial statement purposes, we determined why.				
New	Added new section and procedures for joint ventures accounted for using the proportionate consolidation method (see steps for AUD-801 above).	Procedures Steps			
AUD-808 Audit Program: Accounts, Retainages, Subcontractors Payable, and Job Costing					
New	Added new section and procedures for joint ventures accounted for using the proportionate consolidation method (see steps for AUD-801 above).	Procedures Steps	N		
AUD-809 Audit Program: Payroll, Job Costing (of Payroll), and Other Liabilities					
New	Added new section and procedures for joint ventures accounted for using the proportionate consolidation method (see steps for AUD-801 above).	Procedures Steps	N		
AUD-811 Audit Program: Income Taxes					
New	Added new section and procedures for joint ventures accounted for using the proportionate consolidation method (see steps for AUD-801 above).	Procedures Steps	N		
AUD-815 Audit Program: Related-Party Transactions					Tailoring added and modified to reflect changes noted below.
Modify	This audit program has been modified to only apply to Related-Party Transactions. New separate audit programs were created for commitments and contingencies, accounting estimates, and concentrations.	Procedures Steps	N		
AUD-817 Audit Program: Uncompleted and Completed Contracts					
New	Added Other Audit Procedures section and the following steps: Other Audit Procedures 39. If, based on the results of our testing performed, we believed that the planned audit procedures were insufficient to respond to the assessed risk of material misstatement due to error or fraud, audit procedures such as the following were considered in addition to the ones listed above (<i>Note</i> : If these procedures were already being performed, we considered expanding their extent, for example, by selecting more items): a. We performed detailed reviews of contract files.	Procedures Steps	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>b. We selected additional contracts and contract-related receivables for confirmation.</p> <p>c. We obtained corroborating evidence for significant over- or underbillings.</p> <p>d. We performed analytical procedures for direct labor costs and investigated unexpected results.</p> <p>40. We were alert for items that may be indicative of fraud, for example, underestimation of total contract costs, job cost shifting between contracts, inaccurate work in process schedules, missing costs that actually have been incurred through the period-end, and fraudulent, unauthorized disbursements.</p> <p>41. We agreed information in the financial statements and the accompanying notes to the underlying accounting records in this cycle.</p>				
AUD-818 Audit Program: Variable Interest Entities					
New	<p>Added new substep to obtain a list of:</p> <p>Any identified variable interests in common control leasing arrangements that the entity is electing not to consolidate under the Private Company Council (PCC) VIE accounting alternative.</p>	Procedures Steps	Y	ASU 2014-07	
Modify	<p>Modified step to exclude VIE's that the entity is electing not to consolidate using the PPC VIE accounting alternative:</p> <p>For VIEs for which the entity is the primary beneficiary and for which the entity is not electing the PCC VIE accounting alternative, we performed the following procedures to determine whether the entity has properly accounted in its consolidated financial statements for a VIE:</p>	Procedures Steps	Y	ASU 2014-07	
New	<p>Added new steps for VIEs for which the entity is electing the PCC VIE accounting alternative:</p> <p>15. For VIEs for which the entity is electing the PCC VIE accounting alternative, we evaluated whether the VIE meets the following criteria for election:</p> <p>a. The entity has a lease arrangement with the lessor entity.</p> <p>b. The entity and the lessor entity are under common control.</p>	Procedures Steps	Y	ASU 2014-07	

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	<p>c. Substantially all activities between the entity and the lessor entity are related to the leasing activity (which includes supporting leasing activities) between the two entities.</p> <p>d If the entity explicitly guarantees or provides collateral for any obligation of the lessor entity related to the leased asset, the principal amount of the obligation at inception of the guarantee or collateral arrangement is not more than the value of the leased asset.</p> <p>16. If the entity has elected the PCC VIE accounting alternative, we evaluated whether the entity: has properly applied it to all leasing arrangements meeting the above criteria.</p>				
Modify	<p>Modified step 19 as follows:</p> <p>19. When assessing whether additional audit evidence is needed for VIEs for which the entity is not electing the PCC VIE accounting alternative, we considered the following:</p>	Procedures Steps	N		
AUD-820 Audit Program: Commitments and Contingencies					<p>AUD-815 was broken apart into four separate areas. This is one of the new audit areas add to the tailoring questions in AUD-100. Review the questions in AUD-100.</p> <p>New tailoring question related to these steps. All answers and customizations will retain per your roll forward selections.</p>
New	New audit program on Commitments and Contingencies.				
AUD-820 Audit Program: Accounting Estimates					<p>AUD-815 was broken apart into four separate areas. This is one of the new audit areas add to the tailoring questions in AUD-100. Review the questions in AUD-100.</p> <p>New tailoring question related to these steps. All answers and customizations will retain per your roll forward selections.</p>
New	New audit program on Accounting Estimates.				
AUD-821 Audit Program: Concentrations					<p>AUD-815 was broken apart into four separate areas. This is one of the new audit areas add to the tailoring questions in AUD-100. Review the questions in AUD-100.</p> <p>New tailoring question related to these steps. All answers and customizations will retain per your roll forward selections.</p>
New	New audit program on Concentrations.				

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AUD-901 Audit Program: Subsequent Events					Tailoring questions have been added to help facilitate a more efficient workflow.
Modify	<p>Modified step 4 substeps a-c, j, and p; added new substep q:</p> <p>4. We inquired of management, and where appropriate those charged with governance, as to whether:</p> <p>a. There have been any new commitments, borrowings, guarantees, joint ventures, or contracts entered into, or whether the contractor has been notified of any bid awards. We used this information related to contracts in the backlog calculations and disclosures.</p> <p>b. There have been any developments or significant changes regarding contingencies, claims, disputes, change orders, or insurance reserves for workers compensation or other contract related accidents.</p> <p>c. There have been any significant changes in capital or issuance, partnership agreements, or change to the terms of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.</p> <p>j. Any events that could materially affect estimated costs to complete such as weather delays, strikes, construction problems, or other factors that could cause a loss on a major contract.</p> <p>p. There have been any losses of significant customers, relationships with general contractors or subcontractors, construction management, owners, governmental entities, major suppliers, or key executive employees.</p> <p>q. There have been any contracts suspended or terminated.</p>	Procedures Steps	N		
AUD-902 Audit Program: Going Concern					Tailoring questions have been added to help facilitate a more efficient workflow.
New	<p>Added new going concern considerations for indicators of possible financial difficulties:</p> <p>(5) The contribution of additional capital or equity by the construction entity owner(s)</p> <p>(6) Large reduction in or cancelation of salaries or payments to owner(s)</p> <p>The inability to obtain commercial general liability</p>	Procedures Steps	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	insurance or any other forms of insurance coverage.				
New	Added new going concern considerations for external matters (7) New environmental legislation with potential adverse effects either because the entity is unlikely to be able to comply or the cost of compliance would be prohibitive.	Procedures Steps	N		
AUD-903 Audit Program: Consideration of Fraud					Tailoring questions have been added to help facilitate a more efficient workflow.
AUD-904 Audit Program: Compliance with Laws and Regulations					Tailoring questions have been added to help facilitate a more efficient workflow.
Modify	Step modified to obtain an understanding as follows How the entity is complying with applicable laws and regulations. (e.g., Davis-Bacon Act, set aside programs (e.g. disabled business enterprise (DBE), state lien laws, governmental prequalification reporting, compliance with the entity's operating license, and with laws or regulations related to occupational safety and health (OSHA), labor relations (DOL, USDA), environmental protection (EPA), employee relations (Department of Health and Human Services, Department of Homeland Security, EEOC), and others.).	Procedures Steps	N		
AUD-905 Audit Program: Evaluating Subsequently Discovered Facts Existing at the Date of the Auditor's Report					Tailoring questions have been added to help facilitate a more efficient workflow.
Modify	Modified the instructions to include Sections and additional guidance.	Procedures Steps	N		
New	Added a Results section to capture findings as a result of work performed on this audit program.	Procedures Steps	N		

Practice Aids (AIDs)

- **AID-201 Nonaudit Services Independence Checklist** Updated the Practice Alert on AICPA *Code of Professional Conduct* (AICPA Code) through changes released January 28, 2014 and effective Dec. 15, 2014, with a delayed effective date for the implementation of two conceptual frameworks.
- **AID-301 Preliminary Analytical Procedures: Fluctuation and Ratio Analysis** "Ratio Analysis" tab has been updated and modified; the last two ratios are now under a separate category: Underbilling Ratios.
- **AID-601 Considering the Use of the Work of Internal Auditors** modified to be compliant with SAS-128, *Using the Work of Internal Auditors*.
- **NEW AID-602 Understanding and Preliminary Assessment of the Entity's Internal Audit Function** *Understanding and Preliminary Assessment of the Entity's Internal Audit Function* designed to aid the auditor obtain an understanding and make a preliminary assessment of the entity's internal audit function and document the

auditor's procedures for understanding the internal audit function's organizational status, determining the nature and extent of the work of the internal audit function that can be used, technical competence of the internal auditors, and the systematic and disciplined approach used by the internal audit function.

Auditor's Reports (RPTs)

No significant changes for the Reports; minor wording modifications for consistency with CORE; "Prepared in Accordance with U.S. GAAP" added to document titles for consistency with similar sample opinions.

Correspondence Documents (CORs)

- **2014 Knowledge-Based Audits of Construction Contractors and Related Entities** illustrative example correspondence documents have been updated throughout to include new practice points and examples, and to adopt t new terminology used in the clarified standards.
- **New COR-826 Confirmation of Sales Terms** Confirmation of Sales Terms
- **Former COR-907 Preapproval of Nonaudit Services** has been renumbered to **New COR-220 Preapproval of Nonaudit Services**.
- **New COR-908 Management Representation Letter: Interim Review of Financial Information—Short Form** Management Representation Letter: Interim Review – Short Form
- **New COR-909 Management Representation Letter: Interim Review of Financial Information—Long Form** Management Representation Letter: Interim Review – Long Form

Resource Documents (RESs)

- **RES-001 Knowledge-Based Audit Methodology Overview** modified for consistency and as appropriate in accordance with current audit and accounting guidance.
- **RES-002 Index of Audit Programs, Forms, and Other Practice Aids** modified as appropriate to incorporate new workpapers and realignment of workpaper numbering schemes.
- **RES-008 Entity-Level Controls: Examples of Control Activities for Each Internal Control Component and Related Relevant Principles and Points of Focus** Revised for the provisions of the COSO Framework, 2013.
- **New RES-022 Factors to Be Considered When Documenting Client/Engagement Acceptance and Continuance** Factors to be Considered when Documenting Client/Engagement Acceptance and Continuance
- **KCO-001 2013 Construction Contractors and Related Entities Title Overview for Knowledge Coach Users** formally **RES-KCO** has been added as a reference document for the workpaper update information, along with list of related workpapers for the title.

In addition, forms and practice aids throughout have been updated to include new examples and tips and, where applicable, to take into account:

New literature, standards, and developments, reflected in the following current audit and accounting guidance:

Statements on Auditing Standards (SASs):

SAS-128, Using the Work of Internal Auditors

FASB Accounting Standards Codification as of June 15, 2014, and through Accounting Standards Update (ASU) No. 2014-09—(ASC 606-10), *Revenue from Contracts with Customers*.

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>
KBA s	KNOWLEDGE-BASED AUDIT DOCUMENTS		
KBA-101	Overall Audit Strategy	X	
KBA-102	Engagement Completion Document	X	
KBA-103	Evaluating and Communicating Internal Control Deficiencies	X	
KBA-105	Review of Significant Accounting Estimates	X	
KBA-200	Entity Information and Background	X	
KBA-201	Client/Engagement Acceptance and Continuance Form: Complex Entities		
KBA-201N	Client/Engagement Acceptance and Continuance Form: Noncomplex Entities		
KBA-301	Worksheet for Determination of Materiality, Performance Materiality, and Thresholds for Trivial Amounts		
KBA-302	Understanding the Entity and Its Environment: Complex Entities		
KBA-302N	Understanding the Entity and Its Environment: Noncomplex Entities		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
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		
KBA-401N	Understanding Entity-Level Controls: Noncomplex Entities		
KBA-402	Understanding General Controls for Information Technology		
KBA-403	Understanding Activity-Level Controls: Revenue; Contracts, Retentions, and Accounts Receivable; and Cash Receipts		
KBA-404	Understanding Activity-Level Controls: Inventory, Purchases, Job Costing (of Inventory Items), and Work in Process		
KBA-405	Understanding Activity-Level Controls: Property, Plant, and Equipment		
KBA-406	Understanding Activity-Level Controls: Other Assets		
KBA-407	Understanding Activity-Level Controls: Accounts and Subcontractors Payable, Cash Disbursements, and Job Costing		
KBA-408	Understanding Activity-Level Controls: Payroll and Job Costing		
KBA-409	Understanding Activity-Level Controls: Treasury		
KBA-410	Understanding Activity-Level Controls: Income Taxes		
KBA-411	Understanding Activity-Level Controls: Estimating and Project Management		
KBA-412	Understanding Activity-Level Controls: Financial Reporting and Closing Process		
KBA-413	Understanding Controls Maintained by a Service Organization		X

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
KBA-502	Summary of Risk Assessments	X	
KBA-503	Basis for Inherent Risk Assessment		
KBA-902	Audit Review and Approval Checklist		
KBA-904	Audit Documentation Checklist		
AUDs	AUDIT PROGRAMS		
AUD-100	Overall Tailoring Questions	X	
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 Joint Ventures		
AUD-803	Audit Program: Contracts, Retentions, Accounts Receivable, Revenues, and Contract Billings		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-804	Audit Program: Inventories, Work in Process, and Job Costing of Inventory Items		
AUD-805	Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets		
AUD-806	Audit Program: Intangible Assets		
AUD-807	Audit Program: Property and Equipment, and Depreciation		
AUD-808	Audit Program: Accounts, Retainages, Subcontractors Payable, and Job Costing		
AUD-809	Audit Program: Payroll, Job Costing (of Payroll), and Other Liabilities		
AUD-810	Audit Program: Income Taxes		
AUD-811	Audit Program: Debt Obligations		
AUD-812	Audit Program: Equity		
AUD-813	Audit Program: Other Income and Expense		
AUD-814	Audit Program: Journal Entries and Financial Statement Review		
AUD-815	Audit Program: Related-Party Transactions		
AUD-816	Audit Program: Fair Value Measurements and Disclosures		
AUD-817	Audit Program: Uncompleted and Completed Contracts		
AUD-818	Audit Program: Variable Interest Entities		
AUD-819	Audit Program: Share-Based Payments		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-820	Audit Program: Commitments and Contingencies		
AUD-821	Audit Program: Accounting Estimates		
AUD-822	Audit Program: Concentrations		
AUD-901	Audit Program: Subsequent Events		
AUD-902	Audit Program: Going Concern		
AUD-903	Audit Program: Consideration of Fraud		
AUD-904	Audit Program: Compliance with Laws and Regulations		
AUD-907	Interim Review Program: Review of Interim Financial Information		
AIDs	PRACTICE AIDs		
AID-302	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-801	Audit Sampling Worksheet for Substantive Tests of Details		
AID-901	Differences of Professional Opinion		
AID-903	Audit Report Preparation Checklist		

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-413 Understanding Ctrl's: Service Org (Custom)	AUD-100 Tailoring Question Workpaper	Does the entity 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	Does the auditor plan to rely on audit evidence provided by a component auditor? is "Yes" Shows the "Document the audit evidence provided by the component auditor(s) that the engagement team will rely on in our engagement." table in KBA- 101 Overall Audit Strategy.	
	KBA-101 Overall Audit Strategy	Document the audit evidence provided by the component auditor(s) that the engagement team will rely on in our engagement.	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