

2015 HEALTH CARE 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 **2015 Knowledge-Based Audits of Health Care Entities** has been updated to help auditors conduct efficient and effective audit engagements in accordance U.S. GAAS and is current through the most recent auditing standard, SAS-128, *Using the Work of Internal Auditors*. Many new tips and examples have been incorporated. Additionally, the 2015 edition of *Knowledge-Based Audits of Real Estate 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 2015 tools include links to specific guidance that provides instant access to detailed analysis related to the steps and processes discussed in the workpapers. Also included are revised financial statement disclosures checklists that provide a centralized resource of the current required and recommended U.S. GAAP disclosures and key presentation items for health care entities, using the style referencing under the FASB Accounting Standards Codification™.

The 2015 edition of *Knowledge-Based Audits of Health Care 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-103 Evaluating and Communicating Internal Control Deficiencies					
Modify	Minor wording modification (customer request), first sentence now reads: This form has been designed to accumulate internal control deficiencies identified in the audit, and to evaluate their severity and classify each deficiency as a (a) material weakness, (b) significant deficiency, or (c) deficiency in internal control.	Purpose	N		
Modify	Modified instructions and column header (column 14 and 15).	Instructions ; column heading	N		Column 14 of table will reset on roll forward.
Modify	Instructions for column 15 (customer request) now read: Column 15. Based on the preceding steps, conclude as to whether the control deficiency, either individually	Instructions	N		

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	or when combined with other deficiencies, should be classified as a material weakness, significant deficiency, or deficiency in internal control.				
Modify	Instructions for column 14 (customer request)now read: If the control deficiency, either individually, or when combined with other deficiencies, would not be considered a material weakness based on the preceding steps, consider whether the deficiency is nevertheless important enough to merit attention by those charged with governance. If the answer is “Yes”, then the deficiency is a “significant deficiency” that should be reported to management and to those charged with governance. If the answer is “No”, then the deficiency is a “deficiency in internal control” that should be reported to management, if it is of sufficient importance to merit management’s attention and if it has not been communicated to management by other parties.	Instructions	N		
KBA-200 Entity Information and Background					
Modify	Minor wording modifications to improve consistency and flow of information (KBA-302; KBA-302N)		N		
KBA-302 Understanding the Entity and Its Environment: Complex Entities					
Modify	Minor wording modifications to improve consistency and flow of information (KBA-200).	Text	N	Modify	Data flows in from KBA-200
KBA-302N Understanding the Entity and Its Environment: Noncomplex Entities					
Modify	Minor wording modifications to improve consistency and flow of information flow (KBA-200).	Text	N		Data flows in from KBA-200
KBA-400 Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures					
Added	Added a “Potential Error Diagnostic” in KBA-400 to note if an audit area has a significant or fraud risk but no risk has been identified this will notify the user to a potential error.	Table	N		
Removed	Removed "Potential Error Diagnostic" on last column (Control Understanding / Testing Workpaper) of Table 1	Table	N		

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	in KBA-400 when the user selects to add a, "Custom Value" option. The user would only select a "Custom Value" option if they're using a memo or non-KC workpaper to document their understanding of activity level controls. This diagnostic will continue to show if the user selects any other options and has not included the recommended workpaper option.				
KBA-401 Understanding Entity-Level Controls: Complex Entities					
Modify	Conclusion table answer selections for "Functioning" modified from (Y, N) to (Y, N, N/A)	Table, other than procedures	N		
KBA-401N Understanding Entity-Level Controls: Noncomplex Entities					
Modify	Conclusion table answer selections for "Functioning" modified from (Y, N,) to (Y, N, N/A)	Table, other than procedures	N		
KBA-405 Understanding Activity Level Controls: Property and Equipment					
Modify	Modified Practice Point, which now reads: Practice Point: Health care entities use various kinds of property and equipment. Those assets are generally significant to the financial position of institutional health care entities, such as hospitals and nursing homes. Typical accounts used to record property and equipment transactions are land, land improvements, buildings and improvements, leasehold improvements, fixed and movable equipment, leased property and equipment, accumulated depreciation and amortization, and construction in progress.	Table, other than procedures	N		
KBA-406 Understanding Activity Level Controls: Other Assets					
Modify	Expanded Practice Point under "Purchases"; now reads: Practice Point: Health care entities that incur costs for upgrading or improving computer systems should follow the guidance in FASB ASC 350-40 for costs of computer software developed or obtained for internal use and FASB ASC 720-45 for business and technology reengineering. Business and technology reengineering may include software development, software acquisition, software implementation, training, and ongoing support. Many health care entities have other long-lived or intangible assets, such as goodwill, trademarks, prepaid benefits, patents, and costs associated with certificates of need. These assets may be acquired by purchase, through internal development, or through research and development efforts, among other	Table, other than procedures	N		

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	activities. Health care entities also have intangible assets, which may be acquired in connection with business combinations or purchases or developed from other resources of the entity. Intangibles with finite lives are amortized according to their useful life.				
Modify	Added Practice Point under “Amortization”: Practice Point: In January 2014, the FASB issued Accounting Standards Update No. 2014-02, <i>Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill</i> . This update permits a private company to subsequently amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. Goodwill is the residual asset recognized in a business combination after recognizing all other identifiable assets acquired and liabilities assumed. The ASU is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early adoption permitted.	Table, other than procedures	N		
KBA-408 Understanding Activity Level Controls: Payroll					
Modify	Minor modification for activity-level control objective under Hiring New Employees; now reads: All compensation and referral arrangements are in compliance with relevant health care industry laws and regulations (i.e., Stark Laws).	Table	Y	Stark Laws	
Modify	Added Practice Point: Practice Point: Any service organization that has access to protected health information (PHI) is classified as a business associate and is subject to The Privacy Standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act, HITECH and HIPAA require a covered entity to have written agreements with business associates in place. A business associate is a person or an entity that performs or assists in the performance of a function or an activity on behalf of a covered entity that involves access to, or use or disclosure of PHI. Independent auditors and advisory and tax professionals may be considered business associates. The HITECH Act also requires business associates to comply with the HIPAA Security Rule’s administrative, technical, and physical safeguard requirements and to implement security policies and procedures in the same manner as a covered entity. This will require a business associate to implement written policies and procedures that address each Security Rule standard; implement a security awareness and training program for workforce members;	Instructions	Y	The Privacy Standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act	

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	designate a security official; and conduct an accurate and thorough security risk analysis, along with a security management process. Business associates are subject to potentially significant civil and criminal penalties for violation of data privacy and security rules governing the protection of PHI. Business associates' agreements generally are an addendum to, or incorporated into (as is the case in this sample engagement letter), the audit engagement letter. Auditors may need to work with management to tailor the form of the business associates' agreement, so that it is consistent with the requirements of the privacy regulations of HIPAA and the HITECH Act while recognizing the various rules and regulations applicable to CPAs.				
KBA-412 Understanding Controls Maintained by a Service Organization					
Modify	<p>Added Practice Point:</p> <p>Practice Point: Any service organization that has access to protected health information (PHI) is classified as a business associate and is subject to The Privacy Standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act, HITECH and HIPAA require a covered entity to have written agreements with business associates in place.</p> <p>A business associate is a person or an entity that performs or assists in the performance of a function or an activity on behalf of a covered entity that involves access to, or use or disclosure of PHI. Independent auditors and advisory and tax professionals may be considered business associates. The HITECH Act also requires business associates to comply with the HIPAA Security Rule's administrative, technical, and physical safeguard requirements and to implement security policies and procedures in the same manner as a covered entity. This will require a business associate to implement written policies and procedures that address each Security Rule standard; implement a security awareness and training program for workforce members; designate a security official; and conduct an accurate and thorough security risk analysis, along with a security management process. Business associates are subject to potentially significant civil and criminal penalties for violation of data privacy and security rules governing the protection of PHI. Business associates' agreements generally are an addendum to, or incorporated into (as is the case in this sample engagement letter), the audit engagement letter. Auditors may need to work with management to tailor the form of the business associates' agreement, so that it is consistent with the requirements of the privacy regulations of HIPAA and the HITECH Act while recognizing the various rules and regulations applicable to CPAs.</p>	Instructions	Y	Privacy Standards of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act	

Audit Programs (AUDs)

Updated for consistency with CORE and with added practice points and practice alerts.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
AUD-803 Audit Program: Patient Accounts Receivable and Net Patient Service Revenue					
Modify	Modified wording of step 12h; now reads: We investigated material cash payments to third-party payors near the cutoff date and inquired about the nature of such payments (e.g., refunds, settlements).	Procedures table	N; Peer Reviewer		
Modify	Modified wording for step 16, which reads: We reviewed billing complaints for the period under audit and for a reasonable period of time following the balance sheet date, for any unusual patterns or trends.	Procedures step	N; Peer Reviewer		
AUD-807 Audit Program: Intangible Assets					
New	<p>Added Practice Alert:</p> <p>Practice Alert: In December 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-18, <i>Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination</i>, which is a consensus of the Private Company Council. ASU No. 2014-18 provides private companies with an accounting alternative for the recognition of certain intangible assets acquired in a business combination. Under this accounting alternative, a private company would no longer recognize the following intangible assets separate from goodwill: (a) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and (b) noncompetition agreements.</p> <p>Many customer-related intangible assets, because they are not capable of being sold or licensed independently from the other assets of the business, would not be separately recognized under this accounting alternative. However, some customer-related intangible assets that are capable of being sold or licensed independently would continue to be separately recognized, such as mortgage servicing rights, commodity supply contracts, core deposits, and customer information (e.g., names and contact information).</p> <p>The decision to adopt the accounting alternative in ASU No. 2014-18 must be made upon the occurrence of the first transaction within the scope of this accounting alternative. If the transaction occurs in the first fiscal year beginning after December 15, 2015, the adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter. If the transaction occurs in fiscal years beginning after December 15, 2016, the adoption will be effective in the interim period that includes the date of that first transaction and subsequent interim</p>	Purpose/Instructions	Y	ASU No. 2014-18	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>and annual periods thereafter. Early application is permitted for any interim and annual financial statements that have not yet been made available for issuance.</p> <p>An entity that elects the accounting alternative in ASU No. 2014-18 must adopt the private company alternative to amortize goodwill as described in ASU No. 2014-02, <i>Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill</i>, (discussed above). However, an entity that elects the accounting alternative in ASU No. 2014-02 is not required to adopt the amendments in ASU No. 2014-18.</p>				
New	<p>Added new substep 1.c. under “Intangible Assets Subject to Amortization” section:</p> <p>If the entity elected the accounting alternative for not recognizing certain intangible assets acquired in a business combination separate from goodwill, we evaluated whether the intangible assets meet the criteria for such election (i.e., customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business; and noncompetition agreements).</p>	Procedures steps	Y	ASU No. 2014-18	
New	<p>Added new substep 9.f. under “Goodwill and Intangible Assets Not Subject to Amortization”:</p> <p>If the entity elected the accounting alternative for not recognizing certain intangible assets acquired in a business combination separate from goodwill, we evaluated whether the intangible assets meet the criteria for such election (i.e., customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business; and noncompetition agreements).</p>	Procedures steps	Y	ASU No. 2014-18	
New	<p>Added new substeps 12.a–h under the section “Goodwill and Intangible Assets Not Subject to Amortization”:</p> <ul style="list-style-type: none"> a. Macroeconomic conditions such as deterioration in general economic conditions. b. Limitations on accessing capital. c. Fluctuations in foreign exchange rates or other developments in equity and credit markets. d. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent 	Procedures steps	Y	ASU No. 2014-18	

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	<p>multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development.</p> <p>e. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows.</p> <p>f. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.</p> <p>g. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation.</p> <p>Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.</p>				
AUD-811 Audit Program: Medical Malpractice Loss Contingencies					
Modify	Added references (to Practice Aid 836 (in step 3); COR-822 (in step 6); AID-844 (step 8).	Table, other than procedures	N		
AUD-812 Audit Program: Contributions Receivable, Related Support, Contribution Receivable, and Split-Interest Agreements					
Modify	<p>Updated Practice Point, now reads:</p> <p>Practice Point: Independent auditors that have clients with A-133 compliance requirements need to be aware that on December 26, 2013, the Office of Management and Budget published <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>. This rule supersedes several OMB Circulars that governed federal awards, including Circulars A-110, A-122, and A-133, which had governed the administrative requirements, cost principles, and audit requirements, respectively, for federal awards programs received</p>	Instructions	Y	A-133	

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	<p>by not-for-profit organizations. Some of the more important changes included in the document are as follows:</p> <ul style="list-style-type: none"> • The threshold for when a Single Audit is required is raised to \$750,000 of federal expenditures in a year (from \$500,000); • For auditor determination of major programs, the minimum Type A threshold for major program determination is raised to \$500,000 (from \$300,000) with conforming changes for larger entities; • For auditor risk determination, changes were made for determining high and low risk programs and for determining whether an auditee qualifies as a low risk auditee; • A <i>de minimis</i> indirect cost rate of 10% of direct costs is provided to those entities that have never negotiated an indirect cost rate; • Requirements to maintain contemporaneous time records of time charged to federal awards are modified to be more flexible. <p>The standards set forth in these rules which affect the administration of Federal awards become effective once implemented by federal agencies. Federal agencies must implement the policies and procedures by promulgating regulations which will be effective by December 26, 2014. Federal awards made after December 26, 2014 will be governed by the new requirements. The audit requirements will apply to audits of fiscal years beginning on or after December 26, 2014. Note that the audit requirements, particularly the increase in the audit threshold, cannot be implemented early.</p> <p>The new Uniform Guidance is extensive and will require a thorough review by auditors and NFPs for proper implementation. While many of the changes will apply more directly to NFPs, auditors will need to identify and understand the content as it may impact compliance testing for awards. The complete document can be found on the OMB website along with a cross-walk that compares the requirements of the old Circulars with those of the new consolidated circular.</p>				
AUD-824 Audit Program: Commitments and Contingencies					
New	<p>Added the following four NEW Practice Alerts:</p> <p>Practice Alert: In March 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-07, <i>Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements</i>, which provides private companies with an accounting alternative in applying variable interest entity (VIE) guidance to lessor entities</p>	Purpose/ Instructions	Y	ASU No. 2014-07; ASU No. 2014-10; ASU No. 2014-13;	

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	<p>under common control.</p> <p>Under current U.S. GAAP, a reporting entity is required to consolidate an entity in which it has a controlling financial interest. The assessment of controlling financial interest is performed under either: (a) a voting interest model, or (b) a VIE model. Under the VIE model, a reporting entity is deemed to have a controlling financial interest (i.e., deemed to be the primary beneficiary) when it has: (a) the power to direct the activities that most significantly affect the economic performance of the entity, and (b) the obligation to absorb losses or the right to receive benefits of the entity that could be potentially significant to the entity. To determine which model applies, a reporting entity must first determine whether it has a variable interest in the entity being evaluated for consolidation and whether that entity is a VIE.</p> <p>Under the accounting alternative in ASU No. 2014-07, a private company could elect not to apply the VIE guidance to a lessor entity under common control if all of the following criteria are met:</p> <ol style="list-style-type: none"> The private company lessee and the lessor entity are under common control; The private company lessee has a leasing arrangement with the lessor entity; Substantially all of the activities between the private company lessee and the lessor entity are related to leasing activities (including supporting leasing activities) between those two entities; and If the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. <p>Under the accounting alternative, a private company lessee would not be required to provide the VIE disclosures about the lessor entity. Instead, the private company lessee would disclose (a) the amount and key terms of liabilities recognized by the lessor entity that expose the private company lessee to providing financial support to the lessor entity, and (b) a qualitative description of circumstances not recognized in the financial statements of the lessor entity that expose the private company lessee to providing financial support to the lessor entity.</p> <p>If elected, the accounting alternative should be applied to all current and future lessor entities under common control that meet the above criteria. The accounting alternative should be applied retrospectively to all periods presented, and is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted for any annual or interim period for which an entity's financial statements have not yet been made available for issuance.</p>			ASU No. 2015-02	

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	<p>Practice Alert: In June 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-10, <i>Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation</i>. The amendments in this ASU remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, including the removal of ASC Topic 915, <i>Development Stage Entities</i>, from the Codification. In addition, ASU No. 2014-10 removes an exception provided to development stage entities in ASC Topic 810, <i>Consolidation</i>, for determining whether an entity is a variable interest entity. The elimination of this exception will require all reporting entities that have an interest in a development stage entity to apply consistent guidance for transactions that are economically the same or similar. Therefore, the same guidance will be applied for determining whether an entity is a variable interest entity and whether the variable interest entity should be consolidated, regardless of whether that entity has commenced planned principal operations or has significant revenue from its principal operations.</p> <p>The amendments in ASU No. 2014-10 related to the consolidation guidance (ASC Topic 810), which should be applied retrospectively, are effective for annual reporting periods beginning after December 15, 2015 (and interim periods therein) for public business entities. For all other entities, the amendments to the consolidation guidance are effective for annual reporting periods beginning after December 15, 2016 and interim reporting periods beginning after December 15, 2017.</p> <p>Early adoption is permitted for public business entities for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. For all other entities, early adoption is permitted for financial statements that have not yet been made available for issuance.</p> <p>Practice Alert: In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-13, <i>Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity</i>. The amendments in this ASU apply to a reporting entity that is required to consolidate a collateralized financing entity (e.g., a collateralized debt obligation or a collateralized loan obligation entity) under the "Variable Interest Entities" guidance when: (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other ASC Topics, and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings.</p> <p>The fair value of the financial assets of a collateralized financing entity, as determined under U.S. GAAP, may differ from the fair</p>				

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	<p>value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. Before ASU No. 2014-13, there was no specific guidance in U.S. GAAP on how a reporting entity should account for that difference. The amendments in ASU No. 2014-13 provide an alternative to ASC Topic 820, <i>Fair Value Measurement</i>, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate that difference. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of ASU No. 2014-13, the amendments clarify that: (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of ASC Topic 820, and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated income statement.</p> <p>The amendments in ASU No. 2014-13 are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments are effective for annual periods ending after December 15, 2016, and interim periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an annual period.</p> <p>Entities may apply the amendments in ASU No. 2014-13 either: (1) using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption, or (2) retrospectively to all relevant prior periods beginning with the annual period in which the amendments in ASU No. 2009-17, <i>Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities</i>, were initially adopted.</p> <p>A reporting entity that consolidates a collateralized financing entity that does not meet the scope requirements in ASU No. 2014-13 because the fair value option in ASC Topic 825, <i>Financial Instruments</i>, was not elected to measure the eligible financial assets, financial liabilities, or both of the collateralized financing entity when it was initially consolidated, may elect at the date of adoption to apply the measurement alternative in ASU No. 2014-13 to those financial assets and financial liabilities, or to continue using the guidance in other ASC Topics to measure the financial assets and the financial liabilities of the consolidated collateralized financing entity. A reporting entity that does not elect to use the measurement alternative may not elect at the date of adoption to use the measurement requirements of ASC Topic 820, <i>Fair Value Measurement</i>, or otherwise change its basis for measuring the financial assets or the financial liabilities of the collateralized financing entity.</p> <p>Practice Alert: In February 2015, the FASB issued Accounting</p>				

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	<p>Standards Update (ASU) No. 2015-02, <i>Consolidation (Topic 810): Amendments to the Consolidation Analysis</i>, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations (public and private companies and not-for-profit organizations) that are required to evaluate whether they should consolidate certain legal entities. Among other matters, the amendments in ASU No. 2015-02:</p> <ul style="list-style-type: none"> • Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities; • Eliminate the presumption that a general partner should consolidate a limited partnership; and • Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. <p>ASU No. 2015-02 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the requirements are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period.</p>				
Modify	Modified substep 14.a.; modified substep now reads: We evaluated whether the entity properly measured the assets, liabilities, and noncontrolling interests of the VIE at their fair values, including:	Procedures steps	Y		
Modify	Modified substep 14.b.: We evaluated whether, in connection with the reporting at fair value, the entity followed appropriate accounting treatments for such items as gains and losses and, when applicable, made necessary adjustments to asset values.	Procedures steps	Y	ASU 2015-01	
Delete	Deleted the following substep: We evaluated whether the entity properly accounted for the excesses (e.g., goodwill) described in applicable accounting principles.	Procedures steps	Y		
Delete	Deleted the following substep: We evaluated whether management has properly considered and concluded on whether to recognize an	Procedures steps	Y		

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	impairment loss for an other-than-temporary decline in the fair value of the VIE's individual assets below their respective carrying amounts.				
AUD-824 Audit Program: Commitments and Contingencies					
Modify	Added substep 4e: e. Third-party settlements	Procedure steps	N		
AUD-902 Audit Program: Going Concern					
Modify	<p>Added practice alerts addressing ASU 2014-15.</p> <p>Practice Alert: In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, <i>Presentation of Financial Statements—Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern</i> to provide guidance under GAAP whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. Under generally accepted auditing standards (U.S. GAAS), the auditor's responsibility is to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time (AU-C Section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>) which is defined as "a period of time not to exceed one year beyond the date of the financial statements being audited." ASU No. 2014-15, requires the entity's management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the date the financial statements are available for issue, whichever is applicable.</p> <p>ASU 2014-15 is effective for annual periods ending after December 15, 2016 and for interim periods thereafter with early application permitted.</p> <p>Practice Alert: AU-C 570.07 defines "reasonable period of time" as a period of time not to exceed one year beyond the date of the financial statements being audited, while ASU No. 2014-15, requires the entity's management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the date the financial statements are available for issue, whichever is applicable. In January 2015, the Auditing Standards Board issued four interpretations of AU-C 570 (see AU-C 9570). Interpretation No. 2 (<i>Definition of Reasonable Period of Time</i>) states that if under the entity's applicable financial reporting framework management is required to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the financial statements, the auditor's assessment of</p>	Instructions	Y	ASU 2014-15	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	management's going concern evaluation would be for the same period of time as required by the applicable financial reporting framework.				
AUD-908 Interim Review Program: Management Inquiries					
Modify	Modified Practice Point (under step 16) now reads: Practice Point: Management is required to perform the assessment in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The failure to perform such an assessment and management's instructions to the auditor to not perform the assessment constitute a departure from U.S. GAAP, unless the entity is eligible to apply the accounting alternative in ASU No. 2014-07, <i>Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements</i> .	Procedures steps	Y	ASU No. 2014-07	

Auditor's Reports (RPTs)

- **NEW RPT-939A Unmodified Opinion on Comparative Financial Statements with Emphasis-of-Matter Paragraph: Opinion on the Financial Statements of a Prior Period Is Revised to Reflect Adoption of a Private Company Council Accounting Alternative for VIEs That Results in a Change to a Previously Issued Report** sample illustrative report provided for reporting on comparative financial statements with emphasis-of-matter paragraph when the opinion on the financial statements of a prior period is revised to reflect adoption of a private company council accounting alternative for VIEs resulting in a change to a previously issued report.
- **RPT-0934 Unmodified Opinion on Current Year's Financial Statements; Qualified Opinion on Prior Year's Statement of Operations** modified sample illustrative report.
- **RPT-0957 Unmodified Opinion: Since-Inception Report--Development-Stage Entity** modified; added new Practice Alert for ASU No. 2014-10.
- **RPT-0984 Qualified Opinion: Departure from U.S. GAAP—Unconsolidated Variable Interest Entity (VIE)** modified; added new Practice Alert for ASU No. 2014-07.

Correspondence Documents (CORs)

No significant changes for the Correspondence documents; minor wording modifications for consistency with CORE.

Tool	Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference
COR-220	Modify	Title changed to "Preapproval of Nonattest Services"; minor wording changes.	Text	Y	Code
COR-901	Modify	Minor wording changes under "Information Provided."	Text		

Practice Aids (AIDs)

No significant changes for the Practice Aids; minor modifications for consistency with CORE.

- **AID-201 Nonattest Services Independence Checklist** added Practice Alert addressing the revised AICPA Code of Professional Conduct (Code); modified sample correspondence in accordance with revised CODE and the Nonattest Services Interpretation.
- **AID-801 Audit Sampling Worksheet for Substantive Tests of Details** modified functionality.
- **AID-847 Board Minutes Review Checklist** added Practice Point tip to review minutes from the prior year.

Resource Documents (RESs)

No significant changes for the Resource documents; minor modifications for consistency with CORE.

- **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-014 Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Payroll and Other Liabilities** minor text modifications for correspondence with KBA-408.
- **RES-009 Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Patient Service Revenue, Patient Accounts Receivable, and Cash Receipts** minor text modifications for the examples of controls.
- **RES-015 Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Treasury** minor modification in the examples of controls and for consistency with KBA-409.

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 (SAS):

SAS-128, *Using the Work of Internal Auditors*

FASB Accounting Standards Codification as of June 30, 2015.

Users of this content should consider guidance issued subsequent to these items to determine their effect on engagements conducted using this product.

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: Patient Service Revenue, Patient Accounts Receivable, and Cash Receipts		
KBA-404	Understanding Activity-Level Controls: Supplies Inventory, Purchases, and Supplies Expense		
KBA-405	Understanding Activity-Level Controls: Property and Equipment		
KBA-406	Understanding Activity-Level Controls: Other Assets		
KBA-407	Understanding Activity-Level Controls: Accounts Payable and Cash Disbursements		
KBA-408	Understanding Activity-Level Controls: Payroll		
KBA-409	Understanding Activity-Level Controls: Treasury		
KBA-410	Understanding Activity-Level Controls: Income Taxes		
KBA-411	Understanding Activity-Level Controls: Financial Reporting and Closing Process		
KBA-412	Understanding Controls Maintained by a Service Organization		X
KBA-501	Team Discussion of the Risks of Material Misstatement		

<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-903	Tax Specialist Review Checklist		
KBA-904	Audit Documentation Checklist		
KBA-905	Review and Approval Checklist: Interim Review of Financial Information		
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		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-802	Audit Program: Investments in Securities, Derivative Instruments, and Hedging Activities		
AUD-803	Audit Program: Patient Accounts Receivable and Net Patient Service Revenue		
AUD-804	Audit Program: Third-Party Settlements		
AUD-805	Audit Program: Supplies Inventory and Supplies Expense		
AUD-806	Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets		
AUD-807	Audit Program: Intangible Assets		
AUD-808	Audit Program: Property and Equipment, and Depreciation		
AUD-809	Audit Program: Accounts Payable and Purchases		
AUD-810	Audit Program: Payroll and Other Liabilities		
AUD-811	Audit Program: Medical Malpractice Loss Contingencies		
AUD-812	Audit Program: Contributions Receivable, Related Support, Contribution Revenue, and Split-Interest Agreements		
AUD-813	Audit Program: Income Taxes		
AUD-814	Audit Program: Tax Considerations of a Tax-Exempt Health Care Organization		
AUD-815	Audit Program: Debt Obligations		
AUD-816	Audit Program: Equity		
AUD-817	Audit Program: Net Assets		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-818	Audit Program: Other Income and Expense		
AUD-819	Audit Program: Journal Entries and Financial Statement Review		
AUD-820	Audit Program: Related-Party Transactions		
AUD-821	Audit Program: Fair Value Measurements and Disclosures		
AUD-821	Audit Program: Fair Value Measurements and Disclosures		
AUD-822	Audit Program: Variable Interest Entities		
AUD-823	Audit Program: Share-Based Payments		
AUD-824	Audit Program: Commitments and Contingencies		
AUD-825	Audit Program: Accounting Estimates		
AUD-826	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		
AUD-908	Interim Review Program: Management Inquiries		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AIDs	PRACTICE AIDs		
AID-302	Understanding the Entity's Revenue Streams and Revenue Recognition Policies		
AID-601	Considering the Use of the Work of Internal Auditors		
AID-603	Component Identification and Analysis		
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-412 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	Does the auditor expect to use a specialist on this engagement? 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	Does the auditor expect to use a specialist on this engagement? 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