

# 2016 GOVERNMENTAL ENTITIES OVERVIEW FOR KNOWLEDGE COACH USERS

## PURPOSE

This document is published for the purpose of communicating, to users of the toolset, updates and enhancements included in the current version. This document is not, and should not be used as an audit program to update the audit documentation of an engagement started in a previous version of this product

## WORKPAPER UPDATES AND ROLL FORWARD NOTES

### General Roll Forward Note:

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

The 2016 edition of *Knowledge-Based Audits of Governmental Entities* is current through SAS-129 and GASB-73 and 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
<b>KBA-101 Overall Audit Strategy</b>					
Modify	Minor changes for opinion units and materiality.	throughout	N		
Modify	Updated Section I step 9 to add reference to Title 2 CFR Part 200: Need for statutory or regulatory audit requirements; for example, generally accepted government auditing standards (GAGAS), or U.S. Office of Management and Budget Circular A-133 (Circular A-133) or Title 2 CFR Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> , as applicable (Uniform Guidance), and expected deadlines and communications with third parties.	Procedure step	Y	Title 2 CFR Part 200	Prior year response to this step will retain on Roll Forward by using the default settings.
Modify	Updated Practice Point, Section I, Opinion Units, item 1, adding the following after the last sentence:  Furthermore, the <i>GASB Comprehensive Implementation Guide</i> item 7.4.1 directly addresses materiality and opinion units. Preparers (not auditors) per the GASB should make separate materiality evaluations for the governmental activities; the business-type activities; and each major	Practice Point	Y	<i>GASB Comprehensive Implementation Guide</i> item 7.4.1	

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	governmental and enterprise fund because those reporting units are considered to be quantitatively material. That item also states that the components of the remaining fund information—nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds—may or may not be quantitatively material. It states that the preparer's view of the data presented for those reporting units for purposes of materiality evaluations should be based on professional judgment considering relevant qualitative factors and the relationship of the remaining fund reporting units to other appropriate information in the financial statements. Item 7.4.2 of the GASB Q&A indicates that materiality assessments for the reconciliations between the fund financial statements and the government-wide financial statements should be considered in conjunction with the government-wide financial statements. Note that those reconciliations are presented on the fund financial statements or in schedules that accompany those statements. Items 7.4.4 through 7.4.6 discuss discretely presented component unit materiality. Therefore, <b><i>KBA-301 Worksheet for Determination of Opinion Unit Materiality, Performance Materiality, and Thresholds for Trivial Amounts</i></b> should be prepared for each opinion unit.				
Modify	Updated Practice Point, Section I, Reliance on Others, item 4: <b>Practice Point:</b> Specialized skill or knowledge on an audit may be needed to obtain appropriate audit evidence related to complex or subjective matters potentially material to the financial statements; for example, items such as information technology, valuations and appraisals, defined benefit pensions and / or other post-employment benefits and federal awards compliance.	Practice Point	Y		
Modify	Section II, item 5, updated item in table, now reads: Inventory observation (if material)	Table	N		Prior year response to this step will reset on Roll Forward by using the default settings.
Modify	Section III, item 2 table, updated two items as follows: Purchases, inventory (if material), and capital assets Treasury (cash, investments, and debts)	Table	N		Prior year response to this step will reset on Roll Forward by using the default settings.
Added	Tailoring Question, “Will the audit be performed in accordance with Government Auditing Standards (GAGAS)?” which will flow from AUD-100.	Table	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	This New Tailoring Question will Show the table with the question, “Have we prepared documentation related to compliance with the GAGAS independence requirements related to non-audit services? The auditor may also use <b>AID-201</b> to document these independence considerations.” If answered Yes along with the Tailoring Question, “Does the firm perform any other nonattest/nonaudit services for this entity?” if both are answered Yes.				
<b>KBA-103 Evaluating and Communicating Internal Control Deficiencies</b>					
Modify	Minor modifications for consistency with CORE; Purpose paragraph modified in accordance with peer reviewer comments:  ...The communication should be made within 60 days of the report, but in practice is usually prior to the issuance of the auditor’s report on the financial statements. This communication should distinguish clearly between those matters considered significant deficiencies and those considered material weaknesses.	Purpose; table 15 column heading	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 or when combined with other deficiencies, should be classified as a material weakness, significant deficiency, or deficiency in internal control.	Instructions	N		
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	Instructions	N		

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	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.				
<b>KBA-201 Client/Engagement Acceptance and Continuance Form: Complex Entities</b>					
Added	<p>Tailoring Question, “Will the audit be performed in accordance with Government Auditing Standards (GAGAS)?” which will flow from AUD-100.</p> <p>This New Tailoring Question will Show the procedure, “For engagements performed in accordance with GAGAS, has the auditor also evaluated the auditor’s relationships and circumstances at the firm, audit engagement, and auditor level to identify potential structural threats whereby the audit organization’s placement with the government entity will impact the auditor’s ability to perform their work and report objectively?” if Answered Yes</p>	Table	N		
Modify	<p>Section III table, updated for independence considerations; added threats and safeguards:</p> <p>w. Have we evaluated client and auditor relationships and circumstances to identify potential threats to independence not identified above, including:</p> <ol style="list-style-type: none"> <li>1. Bias threat, which is the threat that the auditor will take a position that is not objective as a result of personal convictions. Those convictions may be either opposing (e.g., adverse interest) or consistent (e.g., advocacy) with the interest or position of the client)?</li> <li>2. Familiarity threat, which is the threat that the auditor’s relationship with the client might cause it to be too sympathetic to the client’s interests or to lack professional skepticism when evaluating the client’s work?</li> <li>3. Management participation threat, which is the threat that the auditor will take on the role of client management or will assume management responsibilities for the client?</li> <li>4. Self-interest threat, which is the threat that the auditor may be influenced by some benefit, financial or</li> </ol>	Table	Y	ET Section 1.295, Code	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	<p>otherwise, that may result from an interest in, or relationship with, the client?</p> <p>5. 5. Self-review threat, which is the threat that services previously performed for the client will not be adequately reviewed by the auditor in performing the engagement?</p> <p>6. 6. Undue influence threat, which is the threat that outside influences will impact the auditor's objectivity, for example, risk that the auditor will subordinate judgment to that of an individual associated with the client or some other party due to their reputation, expertise, or some other factor?</p> <p><b>Practice Point:</b> The GAO's "bias threat" comprises both the AICPA's "advocacy threat" and "adverse interest threat."</p> <p>x. For engagements performed in accordance with GAGAS, has the auditor also evaluated the auditor's relationships and circumstances at the firm, audit engagement, and auditor level to identify potential structural threats whereby the audit organization's placement with the government entity will impact the auditor's ability to perform their work and report objectively?</p> <p>y. For any identified threats to independence, have safeguards been created or implemented so that such threats are eliminated or reduced to an acceptable level? (Also, provide additional documentation in step 7 below)</p> <p><b>Practice Point:</b> Safeguards may partially or entirely eliminate a threat, or reduce the potential influence of a threat. The nature and extent of the safeguards applied depend on many factors, including the size of the firm. However, to be effective, safeguards should eliminate the threat or reduce it to an acceptable level. The AICPA Code of Professional Conduct identifies the following three broad categories of safeguards:</p> <ul style="list-style-type: none"> <li>• Safeguards created by the profession, legislation, or regulation.</li> <li>• Safeguards implemented by the client; however, it is not possible to rely solely on safeguards implemented by the client to eliminate or reduce significant threats to an acceptable level.</li> <li>• Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory</li> </ul>				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	requirements.				
Modify	<p>Added new step and Practice Point:</p> <p>7. For identified threat(s) to independence, the following describes the circumstances and/or relationships giving rise to the threat(s); the nature of the threat(s) (for example, advocacy threat; self-interest threat); the safeguards that have been applied; and whether the threat(s) was eliminated or reduced to an acceptable level.</p> <p><b>Practice Point:</b> When the auditor applies safeguards to eliminate or reduce significant threats to an acceptable level, the auditor should document the identified threats and safeguards applied. Failure to prepare the required documentation would be considered a violation of the "Compliance with Standards Rule" (ET Section 1.310.001).</p>	Procedure steps	ET Section 1.310.001	Y	
<b>KBA-201N Client/Engagement Acceptance and Continuance Form: NonComplex Entities</b>					
Modify	<p>Added Practice Point in Section IV:</p> <p><b>Practice Point:</b> <i>AID-201 Nonattest Services Independence Checklist</i> may be used to supplement the information gathered and considered on this form prior to making the decision on whether or not an attest engagement should be accepted or continued.</p>	Text other than procedures steps	N		
<b>KBA-301 Worksheet for Determination of Materiality, Performance Materiality, and Thresholds for Trivial Amounts</b>					
Modify	Expanded practice point to clarify in accordance with peer reviewer comments.	Instructions	N		
<b>KBA-302 Understanding the Entity and Its Environment: Complex Entities</b>					
Modify	<p>Conforming changes for consistency with CORE toolset; Section I, modified Practice Point for GASB-61 (no longer a Practice Alert); added new Practice Alert:</p> <p><b>Practice Alert:</b> The GASB is poised to further modify the criteria for blending. As of the date of publication, an exposure draft is in the process of approval adding an additional blending criterion for the financial statement presentation of component units of all state and local governments. The proposed criterion would require blending of component units incorporated as not-for-profit corporations when the primary government is the sole corporate member of the corporation. This proposed blending criterion would</p>	Text	Y	GASB ED	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	not apply to component units included in the financial reporting entity by GASB Statement No. 39, <i>Determining Whether Certain Organizations Are Component Units</i> . The requirements of this proposed Statement would be effective for financial statements for reporting periods beginning after June 15, 2016. Earlier application would be encouraged. Any resulting change to a reporting entity would result in an adjustment of all prior periods presented.				
Modify	Section III, Investments, added new subitems: e. Investments and dispositions of securities and loans (loans for public mortgage financing entities or community development entities). f. Investments in unconsolidated entities, including partnerships, joint ventures, private equity, and similar alternative investments, including, but not limited to special-purpose entities.	Procedures steps			
<b>KBA-302N Understanding the Entity and Its Environment: Noncomplex Entities</b>					
Modify	Conforming changes for consistency with CORE toolset; Section I Added Practice Point; Practice Alert: <b>Practice Point:</b> GASB Statement No. 61, <i>The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and 34</i> modified certain requirements for inclusion of component units in the financial reporting entity. For component units that are currently required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship will also need to be present between the primary government and that component unit for it to continue to be included in the reporting entity as a component unit, or included for the first time. Further, for entities that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB-61 clarified the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. GASB-61 also amended the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also were added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of	Text	Y	GASB ED	

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	<p>the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Furthermore, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Finally, GASB-61 clarified the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. Because of these changes and changes in laws and regulations, it is important that governments reassess component unit status annually.</p> <p><b>Practice Alert:</b> The GASB is poised to further modify the criteria for blending. As of the date of publication, an exposure draft is in the process of approval adding an additional blending criterion for the financial statement presentation of component units of all state and local governments. The proposed criterion would require blending of component units incorporated as not-for-profit corporations when the primary government is the sole corporate member of the corporation. This proposed blending criterion would not apply to component units included in the financial reporting entity by GASB-39, <i>Determining Whether Certain Organizations Are Component Units</i>. The requirements of this proposed Statement would be effective for financial statements for reporting periods beginning after June 15, 2016. Earlier application would be encouraged. Any resulting change to a reporting entity would result in an adjustment of all prior periods presented.</p>				
<b>KBA-400 Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures</b>					
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 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.	Table	N		
<b>KBA-401 Understanding Entity-Level Controls: Complex Entities</b>					
Modify	Conclusion table answer selections for “Functioning”	Table, other than	N		Prior year response to this step will reset on Roll Forward by



Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	modified from (Y, N) to (Y, N, N/A)	procedures			using the default settings.
<b>KBA-401N Understanding Entity-Level Controls: Noncomplex Entities</b>					
Modify	Conclusion table answer selections for “Functioning” modified from (Y, N,) to (Y, N, N/A)	Table, other than procedures	N		Prior year response to this step will reset on Roll Forward by using the default settings.
<b>KBA-406 Understanding Activity Level Controls: Payroll, Pensions, and Other Liabilities</b>					
Modify	Added additional control objectives and assertions (under Recording Pension-Related Amounts)	Table , other than procedures	Y	SLAG; GASB-67	
Modify	Added additional control objectives and assertions under Cash Management and Deposits: Investment Income; purchases and sales of investments and derivatives; investment and derivative income; derivative and other financial instruments	Table , other than procedures	Y	GASB-72 and pension provisions in SLAG	
<b>KBA-901 Financial Statement Disclosures Checklist</b>					
Modify	Updated for new accounting pronouncements.  New items/tables added to the Table of Contents and tables with new items in the checklist.	Procedure steps	Y	Updates and changes for current standards through GASB-73	
Modify	Comments column has been moved from the Table of Contents to that actual checklist tables for consistency with the Commercial Title	Tables	N		On Roll Forward the comments column in the Table of Comments will be removed and all prior comments here will be removed. The comments column will now be on the individual checklist tables for consistency with the Commercial Title.
<b>KBA-903 Audit Documentation Checklist</b>					
Modify	Added substep 17b.(3): Our understanding with the entity when we perform a nonaudit service.			Consistent with NFP – requirement in par. 3.59.	
Added	Tailoring Question, “Will the audit be performed in accordance with Government Auditing Standards	Table	N		Prior year response to this step will reset on Roll Forward by using the default settings. The default settings on this

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	<p>(GAGAS)?” which will flow from AUD-100.</p> <p>This New Tailoring Question will Show step 17, “In conjunction with audits performed in accordance with Government Auditing Standards, the audit documentation included the following items:” and all substeps below if Answered Yes</p>				workpaper are to reset all answers on Roll Forward.

### Audit Programs (AUDs)

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
<b>AUD-100 Engagement-Level Tailoring Questions</b>					
<b>Added</b>	<p>Added Tailoring Question, “Will the audit be performed in accordance with Government Auditing Standards (GAGAS)?”</p> <p>This TQ will flow to KBA-101, KBA-201, KBA-903 and AID-201. Procedures/Steps within these workpapers will have show/hide functioning based on this new TQ.</p>				
<b>AUD-101 Overall Audit Program</b>					
Modify	<p>Updated reference in Note for Uniform Guidance</p> <p><b>Note:</b> <i>The applicability of GAGAS to the audit of the financial statements and the relationship of those auditing standards to U.S. GAAS are discussed in <b>RES-001 Knowledge-Based Audit Methodology Overview</b> and <b>RES-003 Government Auditing Standards and Single Audits</b>. If the audit engagement is subject to the requirements of the Single Audit Act and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, please refer to Circular A-133 (Single Audit), or Title 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Knowledge-Based Audit Methodology and Tools to be used for the conduct of the compliance audit portion</i></p>	Purpose	NY	Uniform Guidance	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<i>of the Single Audit, which are maintained in a separate add-on module to the government module.</i>				
<b>AUD-802 Audit Program: Investments and Investment-Related Activities</b>					
Modify	<p>Added Practice Alert</p> <p><b>Practice Alert:</b> GASB Statement No. 72, <i>Fair Value Measurement and Application</i>, clarifies the definition of investments and fair value and adds additional note disclosures to existing guidance, depending upon the type of investment. Changes within GASB-72 are somewhat based upon FASB <i>Accounting Standards Codification</i>™ Topic 820, <i>Fair Value Measurement</i>, as they apply to governmental entities.</p>	Purpose	Y	GASB-72	
Modify	<p>The first two Tailoring Questions have been updated from GASB 59 to GASB 72, ““Does the entity have investments in securities subject to GASB-31, as amended by GASB-72 in this period or the prior period? And “Are any of the investments in securities subject to GASB-31, as amended by GASB-72 held by independent third parties?””</p> <p>All Program Step headings have been updated as well from GASB 59 to GASB 72</p>	Tailoring Question Table	Y	GASB-72	Response to the question will retain on Roll Forward if the Roll Forward settings are to keep on Roll Forward
Added	<p>Added step under section, “Investments in Securities Subject to GASB-31, as Amended by GASB-72.</p> <p>a. The classification of the types of securities.</p>	Procedures	Y	GASB-72	
Added	<p>Added section, “Securities Subject to GASB-31, as Amended by GASB-72 – Reasonableness” and the following step:</p> <p>24. We tested the reasonableness of investment income (dividends; interest income) if the amount was material.</p>				
Added	<p>Added section, “Securities Subject to GASB-31, as Amended by GASB-72 – Transfers between Categories” and the following step:</p> <p>26. We evaluated whether any transfers between categories of investments have been properly made and recorded in accordance with the applicable financial reporting framework (GASB-72).</p>				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
Added	<p>Added section, “Management’s Intent and Ability” and the following steps:</p> <p>27. With respect to investments (or non-investment assets that have characteristics that could be construed as an investment), we considered management’s intent and ability to carry these securities as investments.</p> <p>a. We considered whether management’s activities corroborate or conflict with its stated intent. For example, we evaluated management’s assertions and intent by examining evidence such as documentation of management’s strategies and sales and other historical activities with respect to those securities and similar securities.</p>				
<b>AUD-809 Audit Program: Payroll, Other Liabilities, and Deferred Inflows of Resources</b>					
Modify	<p>Modified AUD-809 throughout for GASB-73 and additional AICPA guidance</p> <p>Added Practice Alert:</p> <p><b>Practice Alert:</b> On July 1, 2015, the AICPA issued the 2015 edition of the <i>AICPA Audit and Accounting Guide, State and Local Governments</i>, which includes a new chapter addressing accounting and auditing considerations of plans and employers under GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27</i>. The procedures in this workpaper have been updated to reflect this guidance. Subsequent to that issuance, the AICPA State and Local Government Expert Panel has released nonauthoritative alerts on emerging pension issues.</p> <p>The GASB has also released an exposure draft updating GASB-68 and GASB-78, specifically targeted at governments that are members of multiple-employer plans that are not administered by a government (also known as “Taft-Hartley Plans” – common in transportation entities). Both address some but not all of the AICPA’s emerging pension issues.</p> <p>The GASB has released Statement No. 73 amending certain provisions of GASB-67 and 68 as well as providing for the accounting and financial reporting for pensions where an irrevocable trust or similar instrument is not used. GASB-73 is effective for periods beginning after June 15, 2015, with respect to amendments to GASB-67 and 68, as well as for assets held for the purpose of providing pension payments in a situation that does NOT meet the criteria for GASB-67 and 68. Otherwise, the provisions are applicable for periods beginning after June 15, 2016.</p> <p>Finally, the GASB has also released Statement Nos. 74 and 75,</p>	Purpose	Y	GASB-73	

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	superseding the current OPEB standards, primarily aligning them to the provisions of GASB Statement Nos. 67, 68, 71, and 73. GASB-74 for OPEB plans is effective for periods beginning after June 15, 2016, and GASB-75 for OPEB employers is effective for periods beginning after June 15, 2017. Many of the provisions of pensions that relate to GASB-67, 68, 71, and 73 are similar to the provisions of GASB-74 and 75.				
Modify	Added new item in objectives/assertions table: For pensions <i>without the benefit of an irrevocable trust</i> , audit objectives E through J above have been properly determined in accordance with GASB-73, upon implementation, in the proper period and are properly disclosed.	Table other than procedures	Y	GASB-73	
Modify	Added substeps 6.b. (1): (1) If the primary government has made an Internal Revenue Code Section 414(h)(2) election, the schedule and opinion reflect additional information on employer-paid member contributions. a. We have inquired of the plan and concluded that employer-paid member contributions are not included in determining the total allocable pension expense. The primary government has added the allocated pension expense with their employer specific amount for employer-paid member contributions in determining total pension expense reported by the employer	Procedures steps	Y	GASB-73	
Modify	Added substep 6.g.: g. We have inquired of plan management and considered whether the plan received employer-paid member contributions (known as “pick-ups”) from our primary government and their potential effects on allocations and presentation, including whether employers have elected Internal Revenue Code (IRC) Section 414(h)(2) provisions. (1) If the employer-paid member contribution is recognized by an employer as salary expense (i.e., there has been no IRC section 414(h)(2) election made by that employer), the contributions relative to that employer should be classified	Procedures steps	Y	GASB-73	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<p>as member contributions. <i>The amounts are excluded from the employer's pension expense reported to them.</i></p> <p>(2) If the employer-paid member contribution is recognized by an employer as other than salary expense (i.e., the IRC section 414(h)(2) election has been made by that employer), the contributions relative to that employer should be classified as employer contributions. <i>The contributions would be considered additional employer pension expense if they are made during the measurement period. If made subsequent to the measurement date but before the employer year end, they are recognized as deferred outflows of resources until the subsequent measurement date.</i></p>				
Modify	<p>Added steps, substeps, and Practice Alert:</p> <p>7. If elements of pensions are allocated to funds and departments (even if separately audited,) in accordance with paragraph 42 of NCGA Statement No. 1, <i>Governmental Accounting and Financial Reporting Principles</i>, as amended, we considered and documented all the steps in item 6(f) above with regard to testing the allocation methodology.</p> <p><b>Practice Alert:</b> The AICPA State and Local Government Expert Panel, in its article <i>Emerging Pension Issues</i> notes when a primary government allocates pension amounts to components (i.e., funds, departments, or component units) that issue separate financial statements that are audited by other auditors, component auditors are advised that additional audit evidence may be needed to support the allocations. The following substeps address those concerns.</p> <p>a. For <i>Cost-Sharing Employers</i> – <b>if the allocation basis is the same</b>, as component auditor, we have received the intra-entity allocations and we have tested the “numerator” of the allocation based on the books and records of each component.</p> <p>(1) <b>If the allocation basis is different</b> from the plan, we have obtained an opinion from the auditor of the primary government on the intra-entity allocations.</p> <p>(2) <b>If we are the auditor of the primary</b></p>	Procedures steps	Y	AICPA guidance; GASB-73	

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	<p><b>government that is a cost-sharing employer,</b> we have obtained from the primary government a schedule of intra-entity allocations, have obtained reasonable assurance on the schedule and reported on the schedule for use by components and component auditors.</p> <p>b. <i>For Single Employers and Agent Employers</i> the need for an audited schedule of intra-entity allocations depends upon whether any of the components receiving an allocation of pension amounts are audited by other auditors.</p> <p>(1) As we are the auditors of the components, we have tested the allocations to the components.</p> <p>(2) <i>As we are NOT the auditors of the components.</i></p> <p>(a) The primary government has prepared a schedule of intra-entity allocations and has engaged us to obtain reasonable assurance and report on the schedule of intra-entity allocations.</p> <p>The primary government [or plan] has prepared a schedule of pension amounts and engages the respective auditor (i.e., the auditor of the primary government or plan) to obtain reasonable assurance and report on total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating components included in this schedule.</p>				
Modify	<p>Added the following substeps to step 8:</p> <p>We have read the actuarial certification for potential exclusions from the scope of the actuary's certification related to actuarial methods, assumptions or data.</p> <p>We have documented our inquiry of management or the actuary whether the actuarial valuation considers all pertinent provisions of the plan, including any changes or amendments to the plan or other events affecting the actuarial calculations that are effective as of the measurement date.</p>	Procedures steps		GASB-73	

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	We have documented our evaluation of whether the actuarial valuation was performed as of a date no more than 30 months and 1 day of the employer's fiscal year-end.				
Modify	<p>Modified step 10 and substeps:</p> <p>10. If the plan is audited by another auditor and an audited schedule of pension amounts is not available or does not provide sufficient evidence regarding net pension liability, deferred inflows and outflows of resources, or pension expense we performed the following procedures:</p> <p>a. For net pension liability, we performed the following procedures:</p> <p>(1) We obtained the audited plan financial statements (single employer plan) or audited schedule of changes in fiduciary net position by employer (agent plan).</p>	Procedures steps	Y	GASB-73	
Modify	<p>Added substep a (step 11):</p> <p>For <i>cost-sharing employers</i> that have a special funding situation, we have traced additional revenue and expense for the portion of expense recognized by the governmental nonemployer contributing entity for the change in the total pension liability associated with a separately financed specific liability of the individual governmental nonemployer contributing entity that is associated with the primary government</p>	Procedures steps	Y	GASB-73	
Modify	<p>Added new step 12:</p> <p>If special funding situations <i>do not exist, but employer support is provided</i>, in financial statements prepared using the economic resources measurement focus and accrual basis of accounting, we traced the primary government's revenue for the support of a nonemployer contributing entity, determining that it is reported in the proper reporting period in which the contribution of the nonemployer contributing entity is reported as a change in the net pension liability or collective net pension liability, as applicable.</p>	Procedures steps	Y	GASB-73	
Modify	Updated section heading:	Procedures	Y	GASB-73	



Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
	<b>Postemployment Benefits (Including Defined Contribution Plans and Defined Benefit Plans) That Are Outside the Scope of GASB-68, until GASB-73 is implemented.</b>	steps			
<b>AUD-815 Audit Program: Fair Value Measurements and Disclosures</b>					
Added	<p>Added:</p> <p><b>Practice Point:</b> Many of the procedures contained within are inclusive of steps related to the implementation of GASB Statement No. 72, <i>Fair Value Measurement and Application</i>. <b>AUD-802 Audit Program: Investments and Investment Related Activities</b> contains more generalized audit procedures to respond to the assessed risks of material misstatement at the financial statement level and the assertion level pertaining to fair value measurements and disclosures, especially as a result of the implementation of GASB-72, whereas this program is more specific. Auditors should consider using both programs if the assessed risk of material misstatement warrants it, especially if there are Level 2 or 3 investments.</p>	Instructions	Y	GASB-72	
<b>AUD-902 Audit Program: Going Concern</b>					
Modify	<p>Section I: Added:</p> <p><b>Practice Point:</b> Many auditors and preparers are concerned about reporting a negative net position based on the recognition of a relatively large net pension liability connected to GASB-68. Similar issues may occur in the future once governments implement the forthcoming changes to OPEB standards as a result of the issuance of GASB Statement No. 75. The AICPA State and Local Government Expert Panel has published an article, <i>Emerging Pension Issues</i>, part of which reminds preparers and auditors that a deficit unrestricted net position cannot be attributed to any one individual liability or expense. Therefore, auditors are reminded that unrestricted net position should be reported in the aggregate on the face of the statement of net position. However, Q&amp;A 7.23.10 of the GASB's <i>Comprehensive Implementation Guide</i> provides guidance that a government may disclose additional details of unrestricted net position in the notes to the financial statements or in Management's Discussion and Analysis (MD&amp;A.)</p>	Table, other than procedures	Y	Updated for guidance in CIG & AICPA article <i>Emerging Pension Issues</i>	

### Auditor's Reports (RPTs)

- **RPT-927** has been updated for Uniform Guidance.
- **RPT-930** has been updated to add Census Data Examination Report per SLAG Ch. 13 and a new Practice Alert covering the recently released AICPA State and Local Government Expert Panel nonauthoritative article on emerging pension issues.

## Correspondence Documents (CORs)

- **2016 Knowledge-Based Audits of Governmental Entities** illustrative example correspondence documents have been updated where applicable to include new practice points, practice alerts, and examples.

Tool	Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference
COR-201	Modify	Modified a reference.	Additional Guidance	Y	Uniform Guidance
CORs 803 & 804	Modify	Edited for GASB-72 information	Tables; Additional Guidance	Y	GASB-72
CORs 829–831	Modify	Added information from SLAG; added AICPA SLGEP information	Throughout, as applicable	Y	SLAG; AICPA SLGEP
COR-901	Modify	Updated for GASB-72 and Uniform Guidance	Throughout, as applicable	Y	GASB-72; Uniform Guidance

## Practice Aids (AIDs)

**2016 Knowledge-Based Audits of Governmental Entities** practice aids have been updated throughout to include new considerations where applicable, including the following:

- **AID-201** – Updated for revised Code of Conduct; updated references to ethics standards. Also added TQ that will flow from AUD-100, “Will the audit be performed in accordance with Government Auditing Standards (GAGAS)?” that will show step 6, “Has the auditor avoided the following additional general activities that would impair independence under GAGAS” and its substeps under section, “General Activities That Would Impair the Auditor’s Independence” if answered as “Yes”. This TQ will also show on a “Yes” step 4, “For engagements performed in accordance with GAGAS, did the consideration of significance include the following:” and it’s substeps under section, “Threats to Independence”, step 6, “For engagements performed in accordance with GAGAS, has the auditor documented all potential threats identified and any safeguards applied to eliminate or reduce the threats to an acceptable level?”, step 7, “For threats to independence initially identified after the auditor’s reports have been issued, has the auditor evaluated the threat’s impact on the audit, the auditor’s report(s), and on GAGAS compliance?”, and step 8, “For threats to independence identified after the auditor’s reports have been issued that, had they been known during the audit, would have resulted in the audit report(s) being different than from the report(s) issued, has the auditor:” and it’s substeps under section, “Safeguards”.
- **AID-302** – Added new Practice Alert on Blending. Added an N/A option for step 18, “Component unit will be included in the financial reporting entity under which method?” under Section G, “Method of Inclusion of Component Units”.
- **AID-807** – Modified for GASB-72 and added columns for consistency with CORE.
- **AID-827** – Added additional DIR / DOR rows due to change in proportionate share.
- **AID-903** – Modified to remove non-governmental references.

## Resource Documents (RESS)

- **RES-003** – Updated for Uniform Guidance; minor title change (“Government Auditing Standards and Single Audits”).
- **RES-013** – Updated for AICPA SLGEP article on pick up provisions.
- **RES-019** – Modified step 1 to eliminate duplication.
- **RES-020** – Modified to add EDs and for AICPA SLGEP article.

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

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

This edition of *Knowledge-Based Audits of Governmental Entities* includes revisions and updates to reflect current accounting authoritative literature through AICPA Statement on Auditing Standards No. SAS-129, *Letters to Underwriters and Certain Other Requesting Parties*; *Government Auditing Standards* (GAGAS) 2011 Revision (Yellow Book); OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (Single Audit or Circular A-133) (where still applicable, otherwise the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* contained in the 2<sup>nd</sup> Code of Federal Regulations, Part 200 – 2CFR200); AICPA Code of Professional Conduct—Revised; changes to ET Section 1.295, *Nonattest Services*, and Chapter 3 of the Yellow Book, including a new framework for independence with conditions, remediation, and safeguards; and guidance in the most recent editions of the AICPA Audit and Accounting Guide, *State and Local Governments*. (For a more in depth discussion on the recently released *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, see the *CCH Knowledge Based Audits™ of State and Local Governments with Single Audits* text). Many new tips and examples have been incorporated.

In addition, various practice alerts have been added to address the applicability of new or pending audit standards and guidance to audits of state and local governments, including the recently published AICPA State and Local Government Expert Panel article, *Emerging Pension Issues*; GASB Standards and Exposure Drafts up to and including *Pension Issues*; the Census Data Examination Report; *Internal Revenue Code Section 414(h)(2)* (“pick-up” provisions); SLAG chapter 13; GASB’s *Comprehensive Implementation Guide*; a; SSARS-21; and for changes with respect to disclosures related to GASB Standards that are currently in effect or to begin for periods after June 15, 2015.

## RELATED, FOUNDATIONS AND ASSOCIATION WORKPAPERS FOR THIS TITLE

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

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

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
<b>KBA</b> s	<b>KNOWLEDGE-BASED AUDIT DOCUMENTS</b>		
KBA-101	Overall Audit Strategy	X	
KBA-102	Engagement Completion Document	X	
KBA-103	Evaluating and Communicating Internal Control Deficiencies and Noncompliance	X	
KBA-105	Review of Significant Accounting Estimates	X	
KBA-200	Entity Information and Background	X	
KBA-201	Client/Engagement Acceptance and Continuance Form		
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, Receivables, and Cash Receipts		
KBA-404	Understanding Activity-Level Controls: Purchases, Inventory, and Capital Assets		
KBA-405	Understanding Activity-Level Controls: Accounts Payable and Disbursements		
KBA-406	Understanding Activity-Level Controls: Payroll		
KBA-407	Understanding Activity-Level Controls: Treasury		
KBA-408	Understanding Activity-Level Controls: Financial Reporting and Closing Process		
KBA-409	Understanding Controls Maintained by a Service Organization		X
KBA-502	Summary of Risk Assessments	X	
KBA-503	Basis for Inherent Risk Assessment		
KBA-902	Audit Review and Approval Checklist		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
KBA-903	Audit Documentation Checklist		
<b>AUDs</b>	<b>AUDIT PROGRAMS</b>		
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 Investment-Related Activities		
AUD-803	Audit Program: Exchange Revenues and Receivables		
AUD-804	Audit Program: Nonexchange Revenues and Receivables		
AUD-805	Audit Program: Inventories and Cost of Goods Sold		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-806	Audit Program: Prepaid Expenses and Other Assets or Deferred Outflows of Resources		
AUD-807	Audit Program: Capital Assets and Depreciation Including Service Concession Arrangements		
AUD-808	Audit Program: Accounts Payable and Purchases		
AUD-809	Audit Program: Payroll, Other Liabilities, and Deferred Inflows of Resources		
AUD-810	Audit Program: Long-Term Debt and Debt Service		
AUD-811	Audit Program: Net Position and Fund Balance		
AUD-812	Audit Program: Other Income and Expenditures/Expenses		
AUD-813	Audit Program: Journal Entries and Financial Statement Review		
AUD-814	Audit Program: Related-Party Transactions		
AUD-815	Audit Program: Fair Value Measurements and Disclosures		
AUD-816	Audit Program: Interfund Transactions		
AUD-817	Audit Program: Budgets		
AUD-818	Audit Program: Derivative Instruments		
AUD-819	Audit Program: Self-Insurance		
AUD-820	Audit Program: Municipal Solid Waste Landfill		

<i>Form No.</i>	<i>Form Name</i>	<i>Foundation Workpaper</i>	<i>Association Workpaper</i>
AUD-821	Audit Program: Commitments and Contingencies		
AUD-822	Audit Program: Accounting Estimates		
AUD-823	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, Contract Provisions and Grant Agreements, and Abuse		
<b>AIDs</b>	<b>PRACTICE AIDs</b>		
AID-304	Understanding the Entity's Revenue Streams and Revenue Recognition Policies		
AID-601	Considering the Use of the Work of Internal Auditors		
AID-603	Group Engagement Documentation		
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-409 Understanding Ctrls: Service Org (Custom)	AUD-100 Tailoring Question Workpaper	Does the entity use service organizations? is "Yes" 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 we 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 intend 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	Does the auditor intend 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