2016 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 **2016 *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 standards, including AICPA Statement on Auditing Standards (SAS) No. 131, Amendment to Statement on Auditing Standards No. 122 Section 700, “Forming an Opinion and Reporting on Financial Statements” (AU-C Section 700) and SAS-130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (AU-C Section 940). The 2016 tools include links to specific guidance that provides instant access to detailed analysis related to the steps and processes discussed in the workpapers. Many new tips and examples have been incorporated. 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 2016 edition of *Knowledge-Based Audits of Health Care Entities* includes the following updates:

Knowledge-Based Audit Documents (KBAs) have been modified and updated, where applicable, in accordance with standards, for consistency with CORE, and to customize wording for the industry.

- **KBA-303** title has been modified to ***Inquiries of Management and Others within the Entity about the Risks of Fraud and Noncompliance with Laws and Regulations***
- **KBA-501** title has been modified to ***Team Discussion and Consideration of the Risks of Material Misstatement***

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
KBA-101 Overall Audit Strategy					
Modify	Practice Points added and/or modified for the industry throughout. Section I Item 4 modified; now reads as follows: Users or expected users of the financial statements (e.g., owners, shareholders, lenders).	Section I Reporting Requireme nts, table	N		
Modify	Section I, Audit Coverage, added: The auditor may use ***AID-603 Component Identification and Analysis*** to document the entity’s components and	Section 1	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	the auditor's assessment of the significance of each component.				
Modify	Section III: Added step 3, including comment table and Practice Point: If applicable, the following is our rationale for concluding not to test operating effectiveness of controls: **Practice Point:** If the auditor is assessing control risk at maximum because testing controls would not be effective (as opposed to efficient), for example, the risk assessment procedures have identified controls that are not designed or implemented effectively, a control deficiency exists that must be evaluated and reported. ***KBA-103 Evaluating and Communicating Internal Control Deficiencies*** may be used to assess the severity of the deficiency.	Section III	N		
KBA-103 Evaluating and Communicating Internal Control Deficiencies					
Modify	Modified for SAS-130 updates throughout as in CORE; added columns 11 and 14 and modified instructions accordingly; added N/A to column 15.	Purpose; Instructions; text; table	Y	SAS-130	All columns will retain on roll forward.
KBA-105 Review of Significant Accounting Estimates					
Modify	Modified table, columns have been reorganized so user entry starts with 1st column	Table; text	N		All columns will retain on roll forward if user uses the default roll forward settings or the user selects to keep all responses.
KBA-200 Entity Information and Background					
Modify	Minor modifications for consistency with wording of related workpapers	Table	N		
Modify	Modified Practice Point under step 18; now reads as follows: **Practice Point:** Medicare and Medicaid generally represent significant concentrations for health care entities. In addition, a health care entity may have a concentration based on geographic location.				
Modify	Added step 22 (List of locations with fill-in table, and new Practice Point on locations vs. segments/components) as follows:	Instructions steps	Y	HCI AG 2.23	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Practice Point: Health care entities often have multiple practice locations that do not necessarily represent components or segment locations. A multi-location audit is different from a group audit. For example, a multi-location audit is performed when a single health care entity has multiple locations, and none of the business activities at the individual locations are components. As another example, a group audit exists when a health care entity has two or more components regardless of the number of locations. As noted above, each component is an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. In this situation, there is a group engagement team, and component auditors who perform work on the financial information of a component.				
KBA-201 Client/Engagement Acceptance and Continuance Form: Complex Entities					
New	The Tailoring Question, "Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?" has been added and will show step b in Section III if "Yes" is answered.				This TQ will flow the answer from AUD-100.
Modify	Modified (as in CORE), adding new steps a, b, c, to Section I table, as follows: a. Management has not identified a main point of contact. b. Management and those charged with governance do not care about our integrity. c. Management has not agreed to be available and is unwilling to answer questions and to provide clear answers or requested documentation in a timely fashion.	Table	N		
Modify	Modified substep Section I table step "u", which now reads: Does management lack the commitment to adopt and apply appropriate accounting principles or demonstrate the desire to interpret accounting principles in an aggressive manner?	Table	N		
Modify	Modified Section I table, adding new industry-specific content substep "dd" related to the Sunshine Act as follows:	Table	Y	Sunshine Act	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Has the entity reported any conflicts of interest to the Centers for Medicare & Medicaid Services in accordance with the Physicians Payment Sunshine Act?				
Modify	Modified Section II table step "i", which now reads: Is the entity's industry unfavorable, unusually litigious, highly specialized, or considered risky?	Table	N		
Modify	Added new step in Section III table step "b": If we have been engaged to perform an integrated audit, are we using the same suitable and available criteria as used by management for its assessment of the effectiveness of the entity's internal control over financial reporting? (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). This step will show if the TQ, "Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?" is answered "Yes" in AUD-100.	Table	Y	AU-C Section 940	
Modify	Modified Section III table step "p"; now reads: Are there any services that the firm has already provided, is in the process of providing, or will be providing, during the period of the professional engagement that might impair independence? (See ET Section 1.295, *Nonattest Services*, of the AICPA Code of Professional Conduct.)	Table - procedures steps	Y	Code	
Modify	Modified Section III table step "w" and "x" to add threats and safeguards, as follows: w. Have we evaluated client and auditor relationships and circumstances to identify potential threats to independence not identified above, including: 1. Adverse interest threat, which is the threat that interests in opposition to the client's will cause a lack of objectivity?	Table - procedures steps	Y	Code	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	2. Advocacy threat, which is the threat that the auditor will promote the client's interests to a point of impairing independence? 3. 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? 4. 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? 5. Self-interest threat, which is the threat that the auditor may be influenced by some benefit, financial or otherwise, that may result from an interest in, or relationship with, the client? 6. 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? 7. Undue influence threat, which is the threat 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? x. 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.) **Practice Point:** 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: Safeguards created by the profession, legislation, or regulation.				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	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. Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements.				
Modify	Added new step 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. **Practice Point:** 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). This step will show if the TQ, "Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?" is answered "Yes" in AUD-100.	Table	Y	Code	
KBA-201 Client/Engagement Acceptance and Continuance Form: Noncomplex Entities					
Modify	Added Practice Point in Section III step 1, as follows: **Practice Point:** ***AID-201 Nonattest Services Independence Checklist*** 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.	Text	N		
KBA-301 Worksheet for Determination of Materiality, Performance Materiality, and Thresholders for Trivial Amounts					
Modify	Moved "Performance Materiality" section above "Lesser Materiality" on both the Component Materiality tab and the Materiality Calculations tab	Text	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
Modify	Added new Practice Points in Step 1 on each tab (Materiality Calculation and Component Materiality).	Text	N		
KBA-302 Understanding the Entity and Its Environment: Complex Entities					
Modify	Added: **Practice Point:** In an integrated audit, since risk assessment underlies the entire audit process for the audit of internal control over financial reporting described by AU-C Section 940, *An Audit of Internal Control over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016), the risk assessment procedures described in AU-C Section 315 (and incorporated in this practice aid) support both the financial statement audit and the audit of internal control over financial reporting.	Instructions	Y	AU-C Section 940	
Modify	Modified and updated Section II (Industry, Regulatory and Other External Factors) to add new subsection on Industry and Economic Conditions and Legal and Regulatory factors, adding HCI specific factors to consider; added practice point on HCI risk contracts.	Text	N		
Modify	Updated Practice Point, Section II, 2. (Regulatory Environment) for ACA considerations.				
Modify	Added new Practice Point to Regulatory Environment Factors table (b.), as follows: **Practice Point:** FASB ASC 954, *Health Care Entities,* provides incremental industry-specific guidance for: (a) investor-owned health care entities; and (b) not-for-profit, business-oriented entities. Deleted outdated RAC Practice Point previously above Other External Factors section (3.)	Table	Y	ASC 954	
Modify	Modified factors (d. and e.) under Section III, 4. Business Operations as follows: d. Services and markets (e.g., concentrations with regard to major third-party payors, market share, competitors’	Table	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	reputation and quality of services, trends, marketing strategy and objectives, and utilization processes). e. Key third-party payor relationships and related payors contractual or regulatory arrangements. Added factor (h.) as follows: Payor or patient refund rates and trends.				
Modify	Under Section III, 4. Business Operations Added Practice Point to the going-concern factor (o.) as follows: **Practice Point:** Certain HCEs could face financial and operational challenges associated with the economic and industry developments noted at the beginning of Section II. These or other underlying issues could result in uncertainties about the entities' ability to continue as a going concern.	Table	Y	ARA 175	
Modify	Added Practice Point under Section III, 5. Investments, factor (d.) as follows: **Practice Point:** HCEs should consider whether alternative structures such as joint ventures, joint operating agreements, affiliations, profit and risk sharing agreements, and formation of ACOs require consolidation under (i) the VIE model; (ii) the voting interest model (including consideration of "kick-out rights") if the entity is not required to be consolidated under the VIE model, or (iii) whether the HCE meets the definition of a joint venture if consolidation is not required under either of the previous models.	Table	N		
Modify	Added Practice Point on M&A activity in HCI after the Section III, 5. Investments factors table, including NFP considerations: **Practice Point:** Merger and acquisition (M&A) activity within the health care industry continues to rise. The passage of the ACA, the establishment of ACOs, reductions in Medicare and insurance reimbursement, and other economic and geographic challenges are key drivers behind this trend. The structure of consolidations has taken various forms including joint ventures, joint operating agreements, affiliations, profit and risk sharing agreements, and formation of ACOs. Preparers and auditors have to navigate complex rules related to the accounting for these alternative affiliation structures. In M&A transactions involving NFP HCEs, consideration must be given to the expectations and needs of the communities in which they operate as the NFP HCEs face requirements to maintain their tax-exempt status. State and federal regulatory agencies (such as the IRS) are increasing disclosure requirements and scrutiny of community benefits. The	Table	Y	ASC 805; ASUs 2014-02, 2014-07, 2014-18	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	"*Business Combination*" Subtopics of FASB ASC 954 and FASB ASC 9582 contain guidance related to the combination of one health care NFP with one or more other health care NFPs. Auditors should also be aware of two ASUs issued by FASB (FASB ASU No. 2015-08, *Business Combinations* (Topic 805): *Pushdown Accounting—Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update*), and FASB ASU No. 2014-17, *Business Combinations (Topic 805): Pushdown Accounting (a Consensus of the FASB Emerging Issues Task Force)* that provide guidance on when and how an acquired entity that is a business or an NFP can apply pushdown accounting in its separate financial statements. M&A activities are also on the rise with for-profit entities due to many of the same factors affecting NFPs, with the additional influence of private equity investors moving into the health care area. FASB ASC 805, *Business Combinations*, contains the guidance for transactions that represent business combinations to be accounted for under the acquisition method. Auditors involved with for-profit business combinations should also review the applicability of the following guidance: – FASB ASU No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)*; – FASB ASU No. 2014-07, *Consolidations (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council);* – FASB ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council).*				
Modify	Added Practice Point on ASC 842, Leases, after Section III, 6. Financing, as follows: **Practice Point:** In February 2016, the Financial Accounting Standards Board (FASB) issued new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842).* The amendments in ASU 2016-02 replace Topic 840, *Leases,* with Topic 842, *Leases.* The provisions of ASC 842 will significantly change to the way most health care entities account for leases with original terms in excess of 1 year (generally most equipment and facility				

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	non-cancelable lease arrangements). ASC 842 will require lessees to capitalize these leases as "right to use assets," and recognize a corresponding liability for the future lease payments. Most health care entities follow current guidance pursuant to ASC 840 for operating lease arrangements. This guidance will effectively be eliminated under ASC 842. The amendments in ASU 2016-02 are effective for public entities and not-for-profit entities that have issued, or are conduit bond obligors for, certain securities for annual periods beginning after December 15, 2018, and interim periods within those years (i.e., January 1, 2019, for a calendar-year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar-year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities. Entities will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements. Full retrospective application is prohibited. All new and existing leases will need to be evaluated and classified as a finance lease (similar to capital leases pursuant to ASC 840) or an operating lease. The distinction between the two new types of leases depends upon the manner in which they are amortized/depreciated by health care entities. These health care entities will need to exercise judgment to determine if a lease is a finance lease or an operating lease. The impact of this new lease standard on health care entities' compliance with debt covenants will require careful evaluation of existing debt agreements and, likely, modification of those agreements. Entities should perform a preliminary assessment as soon as possible to determine how their lease accounting will be affected. Two critical first steps include (1) identifying the sources and locations of an entity's lease data and (2) accumulating that data in a way that will facilitate the application of ASC 842. For entities with decentralized operations (e.g., an entity that is geographically dispersed), this could be a complex process, given the possibility of differences in operational, economic and legal environments. Entities will also need to make sure they have processes (including internal controls) and systems in place to collect the necessary information to implement ASC 842. • Develop an inventory of existing leases. • Discuss with bond counsel the potential impact on bond and other debt agreements. • Evaluate current capital acquisition strategies and potential alternatives to new and/or existing agreements. For health care lessees, recognizing lease-related assets and liabilities could have significant financial reporting and business				

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	implications. Recognizing lease-related assets and liabilities also could change management's decisions about allocating funds for capital expenditures. Also, key balance sheet ratios (e.g., debt to capitalization) of health care entities could change. Entities will need to adjust their accounting policies, processes and internal controls to implement the new standard.				
Modify	Section III Nature of the Entity; under item 7 Selection and Application of Accounting Principles, Including Related Disclosures, added substep b: Accounting alternatives adopted by the entity (e.g., those provided for private companies). Also, modified item p for industry; now reads: Inventories or materials on job sites (e.g., locations and quantities).	Table	N		
Modify	Section V, under subsection 3 Entity's Objectives and Strategies, and Related Business Risks, factor (d.) modified for industry; now reads: Objectives and strategies relating to new accounting requirements and any related business risk (a potential related business risk might be, for example, that the impact of the implementation of ASC 842, *Leases*, on debt covenant compliance has not been adequately assessed).	Table	Y	ASC 842	Step will reset on roll forward due to extent of changes.
Modify	Section V, under subsection 3 Entity's Objectives and Strategies, and Related Business Risks, factor (e.) modified for industry; now reads: Objectives and strategies relating to regulatory requirements and any related business risk (a potential related business risk might be, for example, that the health care entity has not effectively monitored its compliance with meaningful use that could result in significant payback of Electronic Health Record incentive payments upon audit.) Modified Practice Point under factor (g.) as follows: **Practice Point:** International Classification of Diseases Tenth Revision (ICD-10) became effective October 1, 2015. Transition to ICD-10 affected coding for everyone covered by the Health	Table	Y	ICD-10	Step will reset on roll forward due to extent of changes.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Insurance Portability and Accountability Act (HIPAA) of 1996, not just those who submit Medicare claims. Because the coding changes affect all areas of a health care entity's practice and ability to be reimbursed, failure to implement the changes effectively and in a timely manner could result in a material adverse effect on an HCO's financial position and results of operations due to possible miscodings, dropped charges, and other errors that could occur. The auditor should inquire as to the health care entity's transition and the financial impact it had of the entities operations.				
Modify	Section V, under subsection 3 Entity's Objectives and Strategies, and Related Business Risks, factor modified factor (i.) for HCI considerations as follows: Changing strategies to create more viable health care entities to respond to the regulatory and market dynamics noted previously. (Examples include development of accountable care organizations and other strategies to increase clinical integration, expand market share, and take on risk sharing arrangements, and a related business risk might be inadequate assessment of the risk associated with risk sharing contracts and arrangements).	Table	N		
Modify	Added Practice Point in Section VII **Practice Point:** For an integrated audit, AU-C Section 940 states that when planning and performing the audit of internal control over financial reporting, the auditor should (1) incorporate the results of the fraud risk assessment performed in the financial statement audit pursuant to the requirements of AU-C Section 240; (2) evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of other controls; and (3) focus more of his or her attention on the areas of higher risk.	Table	Y	AU-C Section 940	
KBA-302N Understanding the Entity and Its Environment: Noncomplex Entities					
	Added Practice Point: **Practice Point:** In an integrated audit, since risk assessment underlies the entire audit process for the audit of internal control over financial reporting described by AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016), the risk assessment procedures described in AU-C Section 315 (and incorporated in this practice aid) support both the financial statement audit and the audit of internal control over financial reporting.	Instructions	Y	AU-C 940; FRF	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Modified Practice Point: **Practice Point:** When reporting on financial statements prepared in accordance with a financial reporting framework that is not GAAP, such as the AICPA Financial Reporting Framework for Small and Medium Enterprises (FRF for SMEs), the auditor should obtain an understanding of such framework.				
Modify	Added Practice Point: **Practice Point:** In an integrated audit, since risk assessment underlies the entire audit process for the audit of internal control over financial reporting described by AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016), the risk assessment procedures described in AU-C Section 315 (and incorporated in this practice aid) support both the financial statement audit and the audit of internal control over financial reporting.	Instructions	Y	AU-C Section 940	
Modify	Modified and updated Section II (Industry, Regulatory and Other External Factors) subsection on Industry and Economic Conditions and Legal and Regulatory factors, adding HCI specific factors to consider; added practice point on HCI risk contracts.	Text	N		
Modify	Added Practice Point under Section VI: **Practice Point:** For an integrated audit, AU-C Section 940 states that when planning and performing the audit of internal control over financial reporting, the auditor should (1) incorporate the results of the fraud risk assessment performed in the financial statement audit pursuant to the requirements of AU-C Section 240; (2) evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of other controls; and (3) focus more of his or her attention on the areas of higher risk.	Table	Y	AU-C 940	
KBA-303 Inquiries of Management and Others Within the Entity About the Risks of Fraud and Noncompliance With Laws and Regulations					
Modify	Modified title (as in CORE) to Inquiries of Management and Others within the Entity about the Risks of Fraud and Noncompliance with Laws and Regulations.	Title; text	N		
Modify	Modified Practice Point (as in CORE):	Instructions	Y	AU-C 250;	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Practice Point: The auditor may wish to define fraud and noncompliance with laws and regulations as a lead-in to any inquiries. AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, states that fraud is "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit". AU-C Section 240 specifically deals with the risk of material misstatement due to fraud and states that there are two types of intentional misstatements that are relevant to the auditor—misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Both of these should be considered by the auditor when assessing the risk of material misstatement. AU-C Section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements,* refers to noncompliance with laws and regulations as "acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. Noncompliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity." Added new Practice Point: **Practice Point:** For an integrated audit, AU-C Section 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, states that when planning and performing the audit of internal control over financial reporting, the auditor should (1) incorporate the results of the fraud risk assessment performed in the financial statement audit pursuant to the requirements of AU-C Section 240; (2) evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of other controls; and (3) focus more of his or her attention on the areas of higher risk.			AUD-C 940	
Modify	Added items under Inquiries of Management: Are you aware of laws or regulations that may be expected to have a fundamental effect on the operations of the entity?	Table	Y	ACA; HIPAA; FCA; Stark laws; HITECH	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Are you aware of any noncompliance with laws and regulations? Added Practice Point on health care-specific laws and regulations: **Practice Point:** The auditor should be aware that health care entities operate in a highly regulated environment. The Patient Protection and Affordable Care Act (ACA) continues to dominate every aspect of the health care industry through the continued implementation of its extensive and far-reaching provisions. As health care reform continues to be phased in, it is having a significant effect on the operational performance and strategic direction of hospitals, health systems, physician groups, and payors. Other health care specific regulations include the following: • Health Insurance Portability and Accountability Act (HIPAA); • False Claims Act; • The anti-kickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987; • Stark I, II, and III; • Emergency Medical Treatment and Active Labor Act; • The Privacy Rule of the Health Insurance Portability and Accountability Act of 1996; • Health Information Technology for Economic and Clinical Health Act (HITECH); and Health Care and Education Reconciliation Act of 2010.				
Modify	Modified/Added under Inquiries of Management: Document the identity of the entity's related parties including changes from the previous year, the nature of the relationships between the entity and each related party, and the type and purpose of transactions entered into, including how these transactions are identified, accounted for, disclosed, authorized and approved: Describe the entity's policies and procedures regarding compliance with laws and regulations, and for identifying, evaluating, and accounting for litigation claims resulting from noncompliance:	Table			The modified question will be retained on roll forward if user selects to keep all responses.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Describe the entity's directives issued and periodic representations obtained from management at appropriate levels of authority concerning compliance with laws and regulations.				
Modify	Added (under Inquiries of Those Charged with Governance): Are you aware of laws or regulations that may be expected to have a fundamental effect on the operations of the entity? Are you aware of any noncompliance with laws and regulations?	Table	N		
Modify	Modified: Describe your understanding of the risks of fraud at the entity, including any specific fraud risks the entity has identified or account balances, classes of transactions, joint ventures or contracts or disclosures for which a risk of fraud may be likely to exist:	Table	N		The modified question will be retained on roll forward if user selects to keep all responses.
Modify	Added (under Inquiries of Employees Involved in the Financial Reporting Process): Are you aware of any noncompliance with laws and regulations?	Table	N		
Modify	Added, under Inquiries of Others: **Practice Point:** Per AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, examples of others within the entity to whom the auditor may wish to direct these inquiries include: Employees involved in initiating, authorizing, processing, or recording complex or unusual transactions (which may help in evaluating the appropriateness of the selection and application of certain accounting policies); Employees with varying levels of authority within the entity, including, for example, entity personnel with whom the auditor comes into contact during the course of the audit (a) in obtaining an understanding of the entity's systems and internal control, (b) in observing inventory or performing cutoff procedures, or (c) in obtaining explanations for fluctuations noted as a result of analytical procedures; Operating personnel not directly involved in the financial reporting process;	Table	Y	AU-C Section 240	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Marketing, sales, or production personnel, or other operating personnel not directly involved in the financial reporting process; In-house legal counsel; Risk management function; Information systems personnel; Chief ethics officer or the equivalent position; and The person(s) charged with dealing with allegations of fraud.				
Modify	Added (under Inquiries of Others): Are you aware of any noncompliance with laws and regulations? Modified: Based upon the above inquiries, we investigated inconsistencies related to inquiries of management, those charged with governance, employees involved in the financial reporting process, and others, and have considered their impact on our assessment of the risk of fraud and identified risks of material misstatement due to fraud that have been summarized at ***KBA-502 Summary of Risk Assessments***.	Table	N		The modified question will be retained on roll forward if user selects to keep all responses.
KBA-400 Scoping and Mapping of Significant Account Balances, Classes of Transactions, and Disclosures					
Modify	Minor modifications throughout	Text; table, other than procedures	N		
New	New diagnostic in Table 2 if the user answers column 12, “Are Controls Functioning” as “No” but the user hasn’t answered column 7, “If Column 6 is “No” Describe the Control Deficiency Identified”. This will remind the user to describe the control deficiency if the controls aren’t functioning so there is no blank flow to KBA-103.	Table	N		
New	New diagnostic in Table 3 if the user answers column 13, “Are Controls Functioning” as “No” but the user hasn’t answered column 8, “If Column 7 is “No” Describe the Control Deficiency Identified”. This will remind the user to describe the control deficiency if the controls aren’t functioning so there is no blank flow to KBA-103.	Table	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
New	Added a comments column at end of Table 1: Scoping and Mapping. This column doesn't have to be completed as it will not have an unanswered question diagnostic.				
KBA-401 Understanding Entity-Level Controls: Complex Entities					
Modify	Modified throughout as in CORE. Added, to Instructions, after first paragraph: Obtaining an understanding of entity-level controls is a continuous, dynamic process of gathering, updating, and analyzing information throughout the audit. Identifying significant changes in entity-level controls from previous periods is particularly important in gaining a sufficient understanding of the entity and to identify and assess risks of material misstatement. To highlight significant changes in the current year, the auditor should designate the degree of change from the previous year. A significant change from the previous year may be an indication of a necessary modification to the assessment of risk and design of further audit procedures related to that item. While performing each audit, the auditor should continually update this form to update the knowledge gained in previous years. Entity-level controls vary in nature and level of precision and the extent to which the auditor may rely on them; therefore, the auditor should consider that: Some entity-level controls, such as certain control environment controls, have an important, but indirect, effect on the likelihood that a misstatement will be detected or prevented on a timely basis. These controls might affect the other controls the auditor selects for testing and the nature, timing, and extent of procedures the auditor performs on other controls. Some entity-level controls monitor the effectiveness of other controls. Such controls might be designed to identify possible breakdowns in lower-level controls, but not at a level of precision that would, by themselves, sufficiently address the assessed risk that misstatements to a relevant assertion will be prevented or detected on a	Instructions	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	timely basis. These controls, when operating effectively, might allow the auditor to reduce the testing of other controls. Some entity-level controls might be designed to operate at a level of precision that would adequately prevent or detect on a timely basis misstatements to one or more relevant assertions. If an entity-level control sufficiently addresses the assessed risk of misstatement, the auditor need not test additional controls relating to that risk				
Modify	Modified bulleted text under "If "No," Identify the Type of Deficiency": *Material weakness*. A deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: – *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely. – *Probable*. The future event or events are likely to occur. *Significant deficiency*. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. *Deficiency in internal control.* A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in *design* exists when (*a*) a control necessary to meet the control objective is missing, or (*b*) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A	Table	Y	ICFR	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	deficiency in *operation* exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. Modified Instructions for table (under "If "Yes," Are Controls Selected for Operating Effectiveness Testing?"): This column should be used to document the auditor's conclusion as to whether the control will be tested for operating effectiveness. For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), the auditor should test those entity-level controls that are important to the auditor's conclusion about whether the entity has effective internal control over financial reporting.				
New	New diagnostic if the user answers column 12, "Are Controls Functioning" as "No" but the user hasn't answered column 7, "If Column 6 is "No" Describe the Control Deficiency Identified". This will remind the user to describe the control deficiency if the controls aren't functioning so there is no blank flow to the Conclusion Section.	Table	N		
KBA-401N Understanding Entity-Level Controls: Noncomplex Entities					
Modify	Added: Entity-level controls vary in nature and level of precision and the extent to which the auditor may rely on them; therefore, the auditor should consider that: Some entity-level controls, such as certain control environment controls, have an important, but indirect, effect on the likelihood that a misstatement will be detected or prevented on a timely basis. These controls might affect the other controls the auditor selects for testing and the nature, timing, and extent of procedures the auditor performs on other controls.	Purpose	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Some entity-level controls monitor the effectiveness of other controls. Such controls might be designed to identify possible breakdowns in lower-level controls, but not at a level of precision that would, by themselves, sufficiently address the assessed risk that misstatements to a relevant assertion will be prevented or detected on a timely basis. These controls, when operating effectively, might allow the auditor to reduce the testing of other controls. Some entity-level controls might be designed to operate at a level of precision that would adequately prevent or detect on a timely basis misstatements to one or more relevant assertions. If an entity-level control sufficiently addresses the assessed risk of misstatement, the auditor need not test additional controls relating to that risk.				
Modify	Under "Procedures Performed to Evaluate the Control / Workpaper Reference, modified: AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, defines deficiencies as follows: *Material weakness*. A deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: --*Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely. --*Probable*. The future event or events are likely to occur. *Significant deficiency*. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.	Text	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
Modify	Under Controls Selected for Operating Effectiveness, Added after the first paragraph: For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), the auditor should test those entity-level controls that are important to the auditor's conclusion about whether the entity has effective internal control over financial reporting.	Text	Y	AU-C Section 940	
KBA-402 Understanding General Controls for Information Technology					
Modify	Modified Section III instructions under "If No, Identify the Type of Deficiency": AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, defines deficiencies as follows: • *Material weakness*. A deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: – *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely. – *Probable*. The future event or events are likely to occur. • *Significant deficiency*. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.	Table	Y	AU-C Section 265	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Deficiency in internal control. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in *design* exists when (*a*) a control necessary to meet the control objective is missing, or (*b*) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.				
Modify	Modified: If “Yes,” Are Controls Selected for Operating Effectiveness Testing? This column should be used to document the auditor’s conclusion as to whether the control will be tested for operating effectiveness. For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), the auditor should test those entity-level controls that are important to the auditor’s conclusion about whether the entity has effective internal control over financial reporting.	Table	Y	AU-C Section 940	
New	New diagnostic in the Less Complex table if the user answers column 8, “Are Controls Functioning” as “No” but the user hasn’t answered column 6, “If Not Effectively Designed or Implemented, Describe the Control Deficiency Identified”. This will remind the user to describe the control deficiency if the controls aren’t functioning so there is no blank flow to the Conclusion Section.	Table	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
New	New diagnostic in the More Complex table if the user answers column 12, “Are Controls Functioning” as “No” but the user hasn’t answered column 7, “If Column 6 is “No” Describe the Control Deficiency Identified”. This will remind the user to describe the control deficiency if the controls aren’t functioning so there is no blank flow to the Conclusion Section.	Table	N		
KBA-403 Understanding Activity-Level Controls: Patient Service Revenue, Patient Accounts Receivable, and Cash Receipts through KBA-411 Understanding Activity-Level Controls: Financial Reporting and Closing Process					
Modify	Step 5 instructions, added: • If testing the operating effectiveness of controls, document the *Description of the Identified Key Controls* at ***AID-702 Results of Tests of Controls***. Table column modified: *Description of the Identified Key Controls* *(Document in AID-702, if applicable)* Also, some wording modifications throughout, e.g., in the Control Objectives column, to customize to industry.	Table; wording throughout	N		
New	New diagnostic in the Subprocesses table if the user answers column 14, “Are Controls Functioning” as “No” but the user hasn’t answered column 9, “If Controls Are Not Implemented, Not Designed Effectively, or Only Partially Effective, Describe the Control Deficiency”. This will remind the user to describe the control deficiency if the controls aren’t functioning so there is no blank flow to the Conclusion Section.	Table	N		
Modify	Column 5 header of the subprocess table was modified to read: Description of the Identified Key Controls (Document in AID-702, if applicable) This part in parenthesis was added to remind the user where to document the key controls that may be tested.				
KBA-406 Understanding Activity Level Controls: Other Assets					
	Updated HCI practice points; added new Practice Point on deferred finance cost:	Table	Y	ASU 2015-03	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Practice Point: On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Upon adoption of these amendments, debt issuance costs related to a recognized debt liability will be required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, as opposed to being presented as a deferred asset;				
KBA-409 Understanding Activity Level Controls: Treasury					
Modify	Added Debt and Interest Payments, Interest Calculation, Compliance with Covenants and Investment and Derivative Income sections. Modified table to add new control objectives.	Table	N		
KBA-410 Understanding Activity Level Controls: Income Taxes					
Modify	Added "Not-For-Profit Tax Considerations" section	Table	N		
KBA-412 Understanding Controls Maintained by a Service Organization					
New	New Tailoring Question, "Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?" that will flow from answer from AUD-100.				
Modify	Added: **Practice Point:** In an integrated audit, if a service organization's services are part of an entity's information system, then they are part of the entity's internal control over financial reporting and the auditor should consider the activities of the service organization when determining the evidence required to support his or her opinion on the effectiveness of an entity's internal control over financial reporting. In such circumstances, the auditor is required to perform the procedures described in AU-C Section 402 with respect to the activities performed by the service organization and obtain evidence that controls at the service organization that are relevant to the auditor's opinion on internal control over financial reporting are operating effectively.	Purpose	Y	AU-C Section 402	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
Modify	Modified last two Practice Points under Instructions, combining them for better flow.	Instructions	N		
Modify	Added step (new step 4): We inquired of management to determine if management is aware of any changes in the service organization's controls subsequent to the period covered by the service auditor's report, and evaluated the effect of any such changes on the audit. **Practice Point:** Changes in the service organization's controls may include: Changes communicated to management from the service organization, including those related to the service organization's processes and information systems. Changes in personnel at the service organization with whom management interacts. Changes in the design or implementation of controls that were necessary to achieve the control objectives. Changes in reports or other data received from the service organization. Changes in contracts or service level agreements with the service organization. Errors identified in the service organization's processing or incidents of noncompliance with laws and regulations or fraud.	Table	N		
Modify	Added new step (6): In an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), we determined whether additional evidence about the operating effectiveness of controls at the service organization is needed based on (a) the procedures performed by management or us and the results of those procedures, and (b) an evaluation of the following risk factors: a. Deficiencies identified as a result of procedures performed. b. The elapsed time between the time period covered by the tests of controls in the service	Table	Y	AU-C Section 940	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	auditor's report and the “as of date” specified in management’s assessment. c. The significance of the activities of the service organization. d. Whether there are errors that have been identified in the service organization’s processing. e. The nature and significance of any changes in the service organization's controls identified by management or the auditor. If these or similar factors have been found to exist, we determined whether to obtain additional evidence about the operating effectiveness of controls at the service organization. This step will Show if the user answers “Yes” to the new TQ noted above.				
Modify	Modified first step under Conclusion: We evaluated whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the entity’s internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of the risks of material misstatement, or whether we need to perform updating or other procedures with respect to the service organization.	Table	N		
Modify	Modified first step under Conclusion; reads as follows: We evaluated whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the entity’s internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of the risks of material misstatement, or whether we need to perform updating or other procedures with respect to the service organization. Added new step under Conclusion: Our assessment of the risk of material misstatement for the affected audit area considers, or has been	Table	N		This step will reset on roll forward since it was combined with another step. Step 2 of the conclusion will retain the answer of this combined step from the prior year.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	appropriately updated for, our conclusions reached based on our evaluation of the service organization.				
KBA-501 Team Discussion and Consideration of the Risks of Material Misstatement					
	Title modified to “Team Discussion and Consideration of the Risks of Material Misstatement” Some wording modified to customize to industry. Added, to the Instructions: This document is designed to help the auditor respond to those risks and to document the auditor’s consideration of fraud in accordance with AU-C Section 240. Modified/added items to the bulleted list of factors in determining whether a risk is a significant risk: The susceptibility of a material misstatement of the financial statements due to fraud or error that could result from the entity’s related-party relationships and transactions, including how related-parties may be involved in fraud, such as: — Entities formed to accomplish a specific purpose and that are controlled by management might be used to facilitate earnings management; — Transactions between the entity and an affiliate of a key member of management could be arranged to misappropriate the entity’s assets; — Equity distributions or capital contributions that may be structured as loans; — Transactions between the entity and related parties that may be subject to period-end window dressing (e.g., a stockholder may pay a loan shortly before period-end, but the entity loans the same amount to the stockholder shortly after period-end); and — Certain entities (e.g., governmental entities or entities operating in regulated industries) may circumvent laws or regulations that curb their ability to engage in transactions with related parties.	Instructions	N	AU-C Section 240	

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
Modify	Modified listing of common fraud schemes in the HC industry as follows: **Some of the more common fraud schemes that occur in the health care industry include the following:** • Billing for services that were never provided, or billing a code that pays a higher reimbursement rate; • Performing and billing medically unnecessary procedures; • Misrepresenting the date, location or provider of healthcare services; • Waiving deductibles and co-pays; • Unauthorized adjustments to patient receivable accounts; such as skimming of cash receipts received from patients; • Stealing co-pays, deductibles, and deposits at the front desk • Issuance of refund checks to friends or relatives; • Payments to fictitious vendors and to accounts outside of the practice; • "Kickbacks" to practice administrators for steering business toward a particular vendor; • Adjustments to wage rates, the number of hours worked, and amount of vacation time accrued for staff; • Falsified expense reimbursements; and • Inappropriate use of credit cards for personal expenses.	Text	N		
Modify	Added Procedures steps 1 to 5 under “Identification of Risks of Material Misstatement”: 1. We discussed the following matters that may be relevant in identifying risks of fraud:	Procedures steps	N		These steps will retain from AUD-903 if the user selects to keep all responses on roll forward. If KBA-501 wasn’t included in the binder before roll forward please insert it so that these steps will retain on roll forward.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	a. Risk of omitted, incomplete, or inaccurate disclosures. b. Information from the results of procedures relating to the acceptance and continuance of entity relationships and engagements. c. Information from the results of reviews of interim financial statements. d. Inherent risk identified as part of the consideration of audit risk at the relevant assertion level. 2. We reminded all engagement personnel of the need to emphasize professional skepticism, recognizing the possibility that a material misstatement due to fraud may exist, notwithstanding past experience related to the honesty and integrity of management and those charged with governance. 3. We reminded all engagement personnel to critically assess audit evidence, and that if reason exists to doubt the authenticity of documents obtained from management or the contents of those documents, to consult with other team members or experts in the firm where appropriate. 4. We included the person with final responsibility for the audit and other key members of the audit team (e.g., managers, seniors) in the discussion of the risks of material misstatement, including fraud. 5. If auditor's specialists were assigned to the engagement, we considered involving such specialists in the brainstorming session. These steps were moved from AUD-903 into KBA-501.				
Modify	Added (new item 8): We emphasized the need to discuss the risks of fraud throughout the audit, including when evaluating audit evidence at or near the completion of fieldwork	Procedures steps	N		
KBA-502 Summary of Risk Assessments					
Modify	Added the following bullet point items under Section I: Financial-Statement-Level Risks:	Instructions	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	• Scrutinizing those accounting principles involving subjective measurements and complex transactions; • Evaluating the entity's selection and application of significant accounting principles; and				
Modify	Modified step 2 under Section II Assertion-Level Risks, adding: and (d) consider the pervasiveness of the risk (i.e., is the risk related to specific financial-statement account balances or classes of transactions and related assertions, or is it related to the financial statements as a whole)	Instructions	N		
Modify	Modified column 8 instructions: Column 8 to document the assessment of control risk. (*Note*: To assess control risk at less than maximum, the auditor should perform tests of operating effectiveness of internal controls. Where applicable, after testing the operating effectiveness of internal controls, the auditor should re-evaluate and modify, if necessary, the assessed level of control risk and determine whether any change in assessment would require any modification to the nature, timing, and extent of substantive audit procedures.)	Table	N		
Modify	Added Column 12 instructions and added a "Comments" column to the Section II table: Column 12 to provide additional comments, if necessary.	Table	N		
Modify	Modified table to reflect split of AUD-802 (now AUD-802A and 802B)	Table	N		
KBA-903 Tax Specialist Review Checklist					
Modify	Under "Tax Specialist Review", added step as follows (as in CORE): Provisions for unrecognized tax benefits (uncertain tax positions), including the related liability, penalties, and interest have been properly accounted for and disclosed.	Table steps	N		

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	Added Not-for-Profit Considerations 6, 7, and 8, as follows: The entity has obtained an exemption from federal income taxes and has not engaged in any activities that would endanger that exemption or result in intermediate sanctions. The entity has registered with applicable state charities bureaus/attorneys general for states in which it has operating or fundraising activities. The entity has a reasonable system in place to identify unrelated business income. Where such income exists, it has properly calculated the net income from those activities and provided for the appropriate tax expense.				
Modify	Under "Other Taxes" modified Practice Point, now reads: **Practice Point:** Section 4191 of the Internal Revenue Code imposes a 2.3% excise tax on the sale of certain medical devices by the manufacturer or importer of the device The Consolidated Appropriations Act, 2016, signed into law on December 18, 2015, includes a two-year moratorium on the medical device excise tax imposed by Internal Revenue Code section 4191. Thus, the medical device excise tax does not apply to the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on January 1, 2016, and ending on December 31, 2017	Table step	Y	IRC	
KBA-904 Audit Documentation Checklist					
New	New Tailoring Question, "Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?" that will flow from answer from AUD-100.				
Modify	SAS-130 updates. Modified step 1 substep a as follows: The objective and scope of the audit of the financial statements or, if applicable, the audit of internal control over financial reporting that is integrated	Table	Y	AU-C 940	Due to the changes within step 1 it will reset on roll forward. Step 2 was added as a new step.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward and Update Content Considerations
	with an audit of financial statements ("integrated audit"); Added substep e to step 1 as follows: A statement that because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with U.S. GAAS; and Added step 2 as follows: For an integrated audit, we requested and obtained from management its written assessment about the effectiveness of the entity's internal control over financial reporting (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). **Practice Point:** Management's refusal to provide a written assessment represents a scope limitation. See ***RES-001 Knowledge-Based Audit Methodology Overview*** for further guidance.				
Modify	SAS-130 Updates, step 5as follows: The audit documentation includes the following (AU-C 300; AU-C 940): The overall audit strategy for the audit of the financial statements or, if applicable, the integrated audit;	Table	Y	AU-C 300; AU-C 940	Due to the changes in step 5 and 5a these two steps will reset on roll forward.

Audit Programs (AUDs) have been modified and updated, where applicable, in accordance with standards, for consistency with CORE, and to customize wording for the industry.

- **AUD-802** has been modified and as two separate audit programs: ***AUD-802A Audit Program: Investments in Securities*** and ***AUD-802B Audit Program: Derivative Instruments and Hedging Activities***.

Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference	Roll Forward Considerations
AUD-100 Engagement Level Tailoring Questions					
New	New TQ: Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)? If this TQ is marked as “Yes” then the TQ, “Does the auditor intend to test the operating effectiveness of internal controls over financial reporting?” will default to “Yes” and will be hidden. If his TQ is marked as “No” then the TQ, “Does the auditor intend to test the operating effectiveness of internal controls over financial reporting?” will be left for user selection. TQ will affect other workpapers within the title.				If the TQ “Does the auditor intend to test the operating effectiveness of internal controls over financial reporting?” was answered “Yes” in the prior year then after roll forward this question will be hidden by default but retains the “Yes” answer. The tailoring question above will only show in AUD-100 if you have answered “No” to this new TQ, “Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)?” After you answer this new TQ, the TQ, “What audit areas, applicable to the engagement, will you be performing tests of operating effectiveness of controls?” will show and retain your prior year response.
AUD-101 Overall Audit Program					
New	New TQ: Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)? TQ will flow from AUD-100. New TQ will show/hide multiple steps within AUD-101. Each of these are new steps for this title. TQ answer will flow from AUD-100.				
Modified	Modified first sentence under Purpose as follows: This overall audit program has been designed to help the auditor apply an audit methodology to an audit of financial statements (and, if applicable, an audit of internal control over financial reporting) in accordance with professional auditing standards by listing the steps that should typically be performed in each phase of an audit.	Purpose	N		

Modify	Modified and updated throughout for ICFR and with new references and Practice Points where applicable. Added step (new step 3) and Practice Point, step will show if the TQ above is answered "Yes": 1. For an integrated audit, determine which suitable and available criteria has been used by management for its assessment of the effectiveness of the entity's internal control over financial reporting for use in our evaluation of the effectiveness of the entity's internal control over financial reporting. (AU-C Section 940*, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). **Practice Point:** The auditor should plan and perform the audit of internal control over financial reporting to obtain appropriate evidence that is sufficient to provide reasonable assurance about whether material weaknesses exist as of the date specified in management's assessment about the effectiveness of internal control over financial reporting. To achieve this objective, the auditor should use the same suitable and available criteria to perform the audit of internal control over financial reporting as management uses for its assessment of the effectiveness of the entity's internal control over financial reporting.	Text; procedures steps	Y	AU-C 940	
Modify	Modified subitem (a.) in the Practice Point in step 13to read as follows: a. The objective, timing, and scope of the audit of the financial statements (and, if applicable, the audit of internal control over financial reporting); Modified references to other documents (adding references to the new CORs 201A and 202A).	Procedures step (Practice Point)	Y	ICFR	

Modify	Added new step (14) and Practice Points, step will show if the TQ above is answered "Yes": For an integrated audit, obtain from management its written assessment of the effectiveness of the entity's internal control over financial reporting. (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). **Practice Point:** Management's refusal to provide the auditor with a written assessment represents a scope limitation. See ***RES-001 Knowledge-Based Audit Methodology Overview*** for further guidance. **Practice Point:** Management's assessment about internal control over financial reporting should include: (1) entities that are acquired on or before the date specified in management's assessment; (2) operations that are accounted for as discontinued operations on the date specified in management's assessment; and (3) for equity-method investment components, controls over the reporting in the entity's financial statements of the entity's portion of the investees' income or loss, the investment balance, adjustments to the income or loss and investment balance, and related disclosures.	Procedures steps	Y	AU-C 940	

Modify	Step 17 modified: Establish and document the overall audit strategy for the audit of financial statements, and if applicable, the audit of internal control over financial reporting, that sets the scope, timing, and direction of the audit, and that guides the development of the audit plan. Added Practice Point: **Practice Point:** For an integrated audit (AU-C Section 940*, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), the following factors may assist the auditor in developing an audit strategy and planning the audit of internal control over financial reporting: Knowledge of the entity's internal control over financial reporting obtained during other engagements performed by the auditor or, if applicable, during a review of a predecessor auditor's working papers; Matters affecting the industry in which the entity operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes; Matters relating to the entity's business, including its organization, operating characteristics, and capital structure; The nature and extent of recent changes, if any, in the entity, its operations, or its internal control over financial reporting; The auditor's preliminary judgments about financial statement materiality, risk, and other factors relating to the determination of material weaknesses; Internal control deficiencies previously communicated to those charged with governance or management; Legal or regulatory matters of which the entity is aware; The type and extent of available evidence related to the effectiveness of the entity's internal control over financial reporting; Preliminary judgments about the effectiveness of internal control over financial reporting; Public information about the entity pertinent to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of its internal control over financial reporting; Knowledge about specific risks related to the entity that were evaluated as part of the acceptance and retention evaluation of the client; and Complexity of the entity's operations.	Procedures steps	Y	AU-C 940	Step will reset on roll forward due to extent of changes.

Modify	Step (23) modified: Hold a discussion among the engagement team, which should include the engagement partner and other key engagement team members, including any component auditors, to emphasize the need to use professional skepticism and to discuss the susceptibility of the entity's financial statements to material misstatements, whether due to error or fraud, and the application of the applicable financial reporting framework to the entity's facts and circumstances. Added references to AUD-903, AUD-904	Procedures step	Y	ICFR	
Deleted	Deleted the following Practice Point (as in CORE): **Practice Point:** During the engagement team meeting, the auditor should: a. Discuss the susceptibility of the entity's financial statements to material misstatements. b. Discuss the entity's selection and application of accounting principles, including related disclosure requirements. c. "Brainstorm" about how and where the entity's financial statements might be susceptible to material misstatement due to fraud; consideration of known external and internal factors affecting the entity that might create incentives, pressures, and opportunities; how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated; and consideration of risk of management override of internal controls. The discussion should occur setting aside beliefs that management and those charged with governance are honest and have integrity. d. Emphasize the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement due to fraud and, when issues arise, remind engagement team members of the need to probe the issues, acquire additional evidence, and consult with other team members. e. Enable the engagement partner to determine which matters discussed are to be communicated to the team members not involved in the discussion.	Procedures step	Y	ICFR	

Modify	Added step (25) and substeps as follows: 2. Obtain an understanding of the entity's business rationale for significant unusual transactions and whether that suggests the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets. In obtaining such an understanding, consider the following: a. Whether the structure of such transactions is unnecessarily complex (e.g., involving multiple entities within a consolidated group or unrelated third parties). b. Whether management has informed those charged with governance about the nature of and accounting for such transactions. c. Whether management is emphasizing the need for a particular accounting treatment over the underlying economics of the transaction. d. Whether those charged with governance have reviewed and approved transactions that involve unconsolidated related parties. e. Whether the transactions involve previously unidentified related parties or parties that are unable to support the transaction without assistance from the entity being audited.	Procedures step	Y	ICFR	
Modify	Modified step (26) as follows: Make required fraud and noncompliance with laws and regulations inquiries of those charged with governance, the internal audit function, and others within the entity (e.g., operating personnel not directly involved in the financial reporting process and employees with different levels of authority considered to have information that is likely to assist in identifying risks of material misstatement).	Procedures step	Y	ICFR	Step will reset on roll forward due to extent of changes

Modify	Modified step (32) as follows: Presume that there is a risk of material misstatement due to fraud as a result of improper revenue recognition, and develop auditing procedures based on the understanding obtained of the entity and its environment, including the composition of revenues, specific attributes of the revenue transactions, and unique industry considerations. **Practice Point:** In the construction industry, the accepted revenue recognition is the cost-to-cost percentage of completion method (POC) for fixed price contracts. If the contractor has other types of contracts, such as service agreements or time and material, the POC method is not applicable for those contract types. If the contractor has fixed price contracts and is employing any other method of revenue recognition, the auditor should carefully consider whether the contractor's revenue recognition method(s) is appropriate.	Procedures step	Y	ICFR	
Modify	Added step (46) and substeps as follows: 3. Evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and controls intended to address the risk of management override of other controls, including: a. Controls over significant, unusual transactions, particularly those that result in late or unusual journal entries; b. Controls over journal entries and adjustments made in the period-end financial reporting process; c. Controls over related party transactions; d. Controls related to significant management estimates; and e. Controls that mitigate incentives for, and pressures on, management to falsify or inappropriately manage financial results.	Procedures step	Y	ICFR	

Modify	Modified step (57) as follows: 4. Design further audit procedures to respond to the assessed risks of material misstatement at the relevant assertion level, including the risks of management override of internal controls, providing a clear link between the nature, timing, and extent of audit procedures and the risk assessments due to fraud or error. The procedures must address all relevant assertions related to each significant account balance, class of transactions, and disclosure, as well as the financial statement closing process. Procedures may include: a. Obtaining additional corroborative audit evidence from independent sources outside the entity or physically inspecting certain assets. b. Performing substantive tests closer to or at year-end. c. Increasing sample sizes or using computer-assisted audit techniques. d. Performing substantive analytical procedures using disaggregated data, for example, comparing gross profit by location, by line of business, or by month to expectations developed by the auditor. e. Performing procedures at locations on a surprise or unannounced basis. f. Making oral inquiries of major customers and suppliers in addition to sending written confirmations. g. Interviewing personnel involved in activities in areas where fraud risk has been identified to obtain their insights about the risk and how controls address the risk. h. If other auditors are auditing the financial statements of other components (e.g., contracts, joint ventures, subsidiaries, divisions), discussing with them the extent of work that needs to be performed to address the fraud risk resulting from transactions and activities among these components.	Procedures step	Y	ICFR	Step will reset on roll forward due to extent of changes

Modify	Added step (63) and Practice Point: For an integrated audit, test those entity-level controls that (1) support our assessment of control risk, and (2) are important to our conclusion about whether the entity has effective internal control over financial reporting. (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). **Practice Point:** The auditor should evaluate and test controls over the following: • Controls related to the control environment, including whether management's philosophy and operating style promote effective internal control over financial reporting; • Controls over management override; • The entity's risk assessment process; • Centralized processing and controls, including shared service environments; • Controls to monitor results of operations; • Controls to monitor other controls, including activities of the internal audit function, those charged with governance, and self-assessment programs; • Controls over the period-end financial reporting process; and • Programs and controls that address significant business risks.	Procedures step	Y	ICFR	
Modify	Added step (92) as follows: For an integrated audit, the auditor may issue either separate reports or a combined report on the entity's financial statements and on internal control over financial reporting, and the dates of the reports should be the same when issuing separate reports. (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016). ***AID-903 Audit Report Preparation Checklist***	Procedures step	Y	ICFR	

Modify	Modified step (95) and Practice Point as follows: Communicate in writing significant deficiencies in internal control and material weaknesses to management and those individuals responsible for financial reporting oversight. Alternatively, if no material weaknesses exist and the client requests the auditor to communicate such, a "no material weaknesses" communication may be issued if the auditor is not performing an integrated audit. ***COR-904 Communication to Entity with Significant Deficiencies and/or Material Weaknesses*** ***COR-904A Communication to Entity with Significant Deficiencies and/or Material Weaknesses: ICFR*** ***COR-905 Communication to Entity with* No *Material Weaknesses (Not for Use When Performing an Integrated Audit)*** **Practice Point:** For an integrated audit, the auditor should not issue a report indicating that no material weaknesses were identified during the integrated audit because the auditor is issuing a report that expresses an opinion on the effectiveness of the entity's internal control over financial reporting. (AU-C Section 940*, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016).	Procedures step	Y	ICFR	Step will reset on roll forward due to extent of changes
Modify	Modified step (98) as follows: Obtain a representation letter addressed to the auditor signed by management with appropriate responsibilities for the financial statements and, if applicable, internal control over financial reporting and knowledge of the matters concerned. ***COR-901 Management Representation Letter*** ***COR-901A Management Representation Letter: ICFR***	Procedures step	Y	ICFR	Step will reset on roll forward due to extent of changes
Modify	Modified step (101) as follows: Issue the auditor's report on the financial statements, and if applicable, on the integrated audit, and document the report release date. ***AID-903 Audit Report Preparation Checklist***	Procedures step	N		Step will reset on roll forward due to extent of changes

AUD-601 Audit Program: Testing and Evaluating Internal Auditors' Work					
Modify	Modified Purpose section (now reads as follows); added a new Practice Point: This audit program has been designed to assist the auditor in accomplishing the following objectives when the auditor expects to use the work of the internal audit function to modify the nature or timing or reduce the extent of audit procedures to be performed during the audit of financial statements or, when applicable, the audit of internal control over financial reporting: • Determine whether the work of the entity's internal audit function, or others in a similar function (hereinafter referred to as "internal audit function"), or direct assistance from the internal auditors can be used and, if so in which areas and to what extent; • If using the work of the internal audit function to obtain audit evidence, determine whether such work is adequate for the purposes of the audit; and • If using internal auditors to provide direct assistance, determine the appropriate level of direction, supervision, and review of their work. **Practice Point:** When the auditor plans to use the work of others in obtaining audit evidence or to provide direct assistance in the audit of internal control over financial reporting, the auditor should apply the requirements in AU-C Section 610, *Using the Work of Internal Auditors*, as if others were internal auditors.	Purpose	Y	AU-C Section 610	
Modify	Added new substep (2.a.) as follows: An understanding of the work of the internal audit function sufficient to identify those activities related to the audit.	Purpose	Y	ICFR	
AUD-602 Audit Program: Involvement of a Component Auditor					
Modify	Added a "Not Applicable" option to question 9, "If the component prepares financial statements using a different financial reporting framework than that used by the group, we have evaluated following:"	Floatie option			This question will retain on roll forward if the workpaper is set to keep all responses on roll forward.

Modify	Modified Purpose; now reads as follows: This audit program has been designed to help the auditor in the audit of group (or combined) financial statements and, if applicable, in the audit of internal control over financial reporting for the group: • Plan procedures when involving a component auditor, whether from another office of the firm, correspondent, affiliate, or another independent auditor, in the group financial statement audit and, if applicable, in the audit of internal control over financial reporting for the group; • Document the procedures the group engagement team performed to supervise and review the work performed by the component auditor; and • When applicable, decide whether to make reference to the component auditor in the auditor's report.	Purpose	Y	ICFR	

Modify	Modified instructions: This audit program should be used when the auditor plans to involve another office of the firm, correspondent, affiliate, or independent auditor to audit the financial statements and, if applicable, internal control over financial reporting of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements. The auditor may use ***AID-603 Component Identification and Analysis***, to identify, assess significance of, and document all the components included in the group. This audit program contemplates that (1) the group engagement team will establish an overall group audit strategy and develop a group audit plan(s), and (2) the group engagement partner is responsible for reviewing the overall group audit strategy and group audit plan(s), including the direction, supervision, and performance of the group audit engagement(s) in compliance with professional standards and applicable legal and regulatory requirements. For more information about group audits, refer to AU-C Section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* and, for integrated audits, AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, which is effective for integrated audits for periods ending on or after December 15, 2016. If the decision is made to assume responsibility for the work of a component auditor, no reference is made to the component auditor's work or report. If the decision is made to not assume that responsibility, the report should reference the audit of the component auditor and should indicate clearly the division of responsibility between the auditor of group financial statements and the component auditor in expressing an opinion on the group financial statements. Regardless of the decision reached, the component auditor remains responsible for the performance of his or her own work and for his or her own report(s). Added:	Instructions	Y	AU-C Section 940	

	Practice Point: The decision about whether to make reference to a component auditor in the auditor's report on internal control over financial reporting over the group financial statements might differ from the corresponding decision as it relates to the audit of the financial statements. For example, the audit report on the group financial statements may make reference to the audit of a significant equity investment performed by a component auditor, but the report on internal control over financial reporting over the group financial statements might not make a similar reference because management's assessment about internal control over financial reporting ordinarily would not extend to controls at the equity method investee.				
Modify	Modified Practice Point under step 16: **Practice Point:** The decision to make reference to the audit of a component auditor is made individually for each component auditor. The auditor of the group financial statements may make reference to any, all, or none of the component auditors. For integrated audits, in situations in which management elects to limit its assessment about internal control over financial reporting by excluding certain entities, the auditor should evaluate whether it is appropriate, in the auditor's judgment, to do so. If the auditor concludes that it is appropriate, the auditor should include in the introductory paragraph of the report a disclosure similar to management's regarding the exclusion of an entity from the scope of both management's assessment about internal control over financial reporting and the auditor's audit of internal control over financial reporting. Additionally, the auditor should evaluate the appropriateness of management's disclosure related to such a limitation.	Procedures step	Y	ICFR	
AUD-603 Audit Program: Using the Work of an Auditor's Specialist					
Modify	Added Practice Point to the Instructions: **Practice Point:** An auditor's specialist includes either an auditor's internal specialist (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm) or an auditor's external specialist.	Instructions	N		
AUD-701 Audit Program: Designing Tests of Controls					
New	New TQ: Has the auditor been engaged to perform an integrated audit (i.e., an audit of internal control over financial reporting that is integrated with the audit of financial statements)? TQ answer will flow from AUD-100				

Modify	Added the following to the Instructions: For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), the auditor should design tests of controls to: a. Obtain sufficient appropriate audit evidence to support the auditor's opinion on internal control over financial reporting as of the date specified in management's assessment about internal control over financial reporting; and b. Obtain sufficient appropriate audit evidence to support the auditor's control risk assessments for purposes of the audit of financial statements.	Instructions	Y	SAS-130; AU-C 940	

Modify	Updated for SAS-130 throughout. Added the following section, steps, and substeps: **Integrating the Audit of Internal Control Over Financial Reporting with the Financial Statement Audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016)** 15. We have considered the effect of the results of the financial statement auditing procedures on our risk assessments and the testing necessary to conclude on the operating effectiveness of a control. 16. In selecting which internal controls to test for operating effectiveness, we have focused more attention on areas of higher risk and have taken into consideration our assessment of fraud risk (including the risk of management override of other controls). 17. For purposes of identifying significant classes of transactions, account balances, and disclosures, and their relevant assertions, and understanding the likely sources of potential misstatements, we have: a. Obtained an understanding of the flow of transactions related to the relevant assertions, including how these transactions are initiated, authorized, recorded, processed, and reported; b. Identified the points within the entity's processes at which a misstatement due to fraud or error could arise that, individually or in combination with other misstatements, would be material; c. Identified the controls that management has implemented to address these potential misstatements; and d. Identified the controls that management has implemented over the prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. 18. For each significant account balance, class of transactions, and disclosure and their relevant assertions, we have obtained an understanding of how IT affects the entity's flow of transactions and	Procedures steps	Y	AU-C Section 940	

	how the entity has responded to risks arising from IT. 19. When, during the audit of internal control over financial reporting, we identified deficiencies in internal control over financial reporting (including deficiencies in controls that are designed to prevent, or detect and correct, misstatements due to fraud), we have determined the effect of the deficiency on the nature, timing, and extent of substantive procedures to be performed in the audit of financial statements to reduce audit risk to an acceptably low level. 20. For tests of the operating effectiveness of controls that we performed at an interim date, we determined the need for additional evidence concerning the operation of the controls for the remaining period under audit and considered the following factors: a. The specific control tested prior to the "as of date", including the risks associated with the control, the nature of the control, and the results of those tests; b. The sufficiency of the evidence of the operating effectiveness obtained at an interim date; c. The length of the remaining period; and d. The possibility that there have been any significant changes in internal control over financial reporting subsequent to the interim date. 21. When management has implemented changes to the entity's controls prior to the "as of date", we determined whether the new controls achieve the related objectives of the criteria and have been in effect for a sufficient period to allow us to assess their design and operating effectiveness by performing tests of controls, and whether it was necessary to test the superseded controls. 22. We have formed an opinion on the effectiveness of internal control over financial reporting by evaluating evidence obtained from all sources including: a. Our testing of controls for the audit of internal control over financial reporting;				

	b. Any additional tests of controls performed to achieve the objective related to expressing an opinion on the financial statements; c. Findings or misstatements detected during the financial statement audit; d. Any identified deficiencies; and e. Reports issued during the year by the internal audit function (or similar functions) that address controls related to internal control over financial reporting.				
Modify	References to steps (under Results) adjusted: 23. Our planned control reliance for all risks and assertions remains appropriate after completion of our audit procedures to test the operating effectiveness of controls: If "Yes," continue to step 26. If "No," continue to steps 24 and 25.	Procedures steps	N		
AUD-800 Audit Program: Custom through AUD-821 Audit Program: Concentrations					
Modify	Minor wording modifications in text and Practice Points (clarity); audit program step headings added throughout; additional references added (to other tools) where applicable.	Text	N		
AUD-801 Audit Program: Cash					
Modify	Step (6) under Cash Confirmations – Prep modified: For accounts selected for testing, we obtained electronic bank confirmations or requested that the entity prepare bank confirmation forms for bank/custodian accounts used during the period under audit (see the sample confirmation request at ***COR-802 Standard Form to Confirm Account Balance Information with Financial Institutions***). When not performed electronically, we maintained control of the bank confirmation forms and mailed the forms directly to the bank/custodian.	Procedures step	N		
AUD-802 Audit Program: Investments in Securities, Derivative Instruments, and Hedging Activities					

Deleted	The content of this audit program has been split up and reorganized as 802A and 802B.		N		Due to the split of this program only "Investments in Securities" audit area will stay selected in AUD-100 tailoring question, "What financial statement audit areas are applicable to this engagement?" The user will need to reselect the "Derivative Instruments and Hedging Activities" audit area if this audit area is applicable. The same function will happen in the next TQ, "What audit areas, applicable to the engagement, will you be performing tests of the operating effectiveness of controls?" Due to only being able to retain the "Investments in Securities" audit area and not both due to split, the audit area "Derivative Instruments and Hedging Activities" will be lost from KBA-400 and new flow will need to be established in AUD-100, if applicable.
AUD-802A Audit Program: Investments in Securities					
New	Former AUD-802 content for investments in securities; updated; new practice alerts and practice points added.	text	Y	ASU No. 2016-01	Make sure to publish AUD-802 from the 2015 title before rolling the file forward as there are many steps that will reset due to this split of this audit program. There are some TQ's that will reset on roll forward as well since they may be duplicated in these programs now and can't retain the answer to both places from 2015.
AUD-802B Audit Program: Derivative Instruments and Hedging Activities					
New	Former AUD-802 content for derivative instruments and hedging activities; updated; new practice alerts and practice points added.	text	Y	ASU No. 2016-01; AU-C Section 540	Make sure to publish AUD-802 from the 2015 title before rolling the file forward as ALL TQ's and ALL steps will RESET on roll forward.
AUD-803 Audit Program: Patient Accounts Receivable and Net Patient Service Revenue					
Modify	Minor modifications throughout in accordance with last year's peer reviewer comments (deferred to this year)	Text	No		
Modify	Under Receivables Analytical, deleted former substeps d and g on aging of receivables.	Procedures steps	N		
Modify	Receivables Aging Testing substep d modified; now reads as follows: We summarized the total of credit balances and, if material, proposed appropriate reclassification entries. Deleted the following (former substep e):	Procedures steps.	N		

	On a selective basis, we traced individual patient account balances in the aged trial balance to individual subsidiary ledgers and vice versa. Modified the following substep (g), which now reads as follows: We evaluated which accounts receivable should be selected for confirmation or alternate procedures (test of subsequent cash receipts).				
Modify	Under Receivables Confirmations Testing, modified step as follows: If we determined that confirmation procedures are practical, we selected accounts from the aged trial balance and performed the following procedures (see the sample confirmations at ***COR-805 Request for Confirmation of Accounts Receivable: Positive Request*** through ***COR-807 Request for Confirmation of Notes Receivable***):				
Modify	Under Receivables Confirmations Not at Period End, modified substep 5.c., which now reads as follows: We traced the payment posted to the billing system and recalculated the contractual write off for reasonableness.				
Modify	Under Alternative Procedures to AR Confirmations, modified step 6.b. substep (1); now reads as follows: For the accounts selected, we performed the following procedures: a. We agreed patient account balance to subsequent cash collections and remittance advice noting proper relief of account balance, including contractual and other necessary adjustments to patient accounts. b. If subsequent cash was not received, examined evidence of services provided, including medical records, billing and collection history reports, and related documentation.				

Modify	Under Allowance for Uncollectible Accounts, modified step 7 now reads as follows: We tested the adequacy of the allowance for uncollectible patient accounts as follows (see ***AUD-825 Audit Program: Accounting Estimates*** for audit procedures to be performed on significant estimates and the illustrative allowance for uncollectible accounts receivable at ***AID-814 Allowance for Uncollectible Accounts Analysis***): Step 7 substep f modified, reads: For significant past due patient or payor balances, we reviewed post-balance-sheet transactions related to patient accounts receivable, particularly for contractual adjustments, discounts taken, credits allowed, and accounts written off, and we evaluated whether any adjustments should be made as of the balance sheet date.				
Modify	Under Contractual Adjustments, step 9, deleted former substeps a and b: Deleted: We identified significant third-party payors and obtained an understanding of the reimbursement methodology through review of the third-party payor contracts or other documentation. We reviewed and documented the entity's system for determining contractual adjustments and allowances required on patient accounts receivable and in-house receivables to be paid by third-party payors and considered the reasonableness of the entity's system based upon third-party reimbursement contracts and arrangements. Modified substep d(1) & (2) as follows: If contractual adjustments are recorded at time of payment, we reviewed the reconciliation of the gross charges per the fee schedule to the contractual fee per the unpaid claims logs to the corresponding accounts receivable payor class totals and evaluated the adequacy of the contractual allowance. If contractual adjustments are recorded at time of billing, we reviewed the reconciliation of the total expected payment amounts per the contractual fee schedule				

	included in the unpaid claims logs to the corresponding patient accounts receivable net of the contractual allowance (on unbilled claims). Modified substep e (2) as follows: We obtained the entity's reconciliation of third-party payor accounts receivable at gross to amounts recorded in the general ledger at net realizable value (expected reimbursement from payor). (*Note*: This analysis should include each payor account balance, the corresponding expected payment, and collection percentage.) Deleted former 9e (3): We reviewed the reconciliation of the total expected payment amounts included in the above analysis to the corresponding accounts receivable net of the contractual allowance. Deleted former 9g: We obtained the entity's analysis of Medicare in-house allowance for contractual discounts; evaluated whether the expected DRG payment has been properly allocated between the current and subsequent periods based on charges or patient days; and tested the accuracy of the expected payment amount based on subsequent payments or other supporting documentation.				
Modify	Under Managed Care Contracts, deleted former 10c: We obtained a listing summarizing volume and significant provisions for managed care contracts in effect during the period. Given the listing, we reviewed the patient accounts receivable detail to identify significant discounted payors.				
Modify	Under Revenue Cutoff, deleted former 11b: We obtained the entity's analysis of Medicare in-house allowance for contractual discounts; evaluated whether the expected DRG payment has been properly allocated between the current and subsequent periods based on charges or patient days; and tested the accuracy of the expected payment amount based on subsequent payments or other supporting documentation.				

	Also deleted former 12 and 13: We compared charges to the charge master. We examined original documents for invoices and medical records, being alert for possible alterations.				
Modify	Under Revenue Transactions, deleted former 16: We were alert for transactions that indicate the earnings process may not be complete.				
Modify	Under Receivables from Related Party or Employee, deleted former 21a: We evaluated the nature and purpose of the transaction that resulted in the receivable balance.				
Modify	Under Receivable Transferred, step 33, added new Practice Point: **Practice Point:** If the entity has transferred or factored accounts receivable, the auditor should consider performing the transfers or and Joint Ventures.				
AUD-805 Audit Program: Supplies Inventory and Supplies Expense					
Modify	Added Perpetual Inventory section including step 2 and Practice Point: If the entity maintains perpetual inventory records and verifies them in cycles continually throughout the year, we reviewed the results of the entity's cycle counts to make a preliminary assessment of the reliability of the system. If the system appears reliable, we tested the system. **Practice Point:** The auditor's tests typically include a selection of items from the perpetual records for tracing to the physical inventory and a selection from the physical inventory items for tracing to the perpetual records. These tests can be performed on either an interim or a year-end basis. If the system does not appear reliable, the auditor may need to require the entity to take a full physical inventory.				
AUD-806 Audit Program: Prepaid Expenses, Deferred Charges, and Other Assets					
Modify	Under the Classification and Disclosures Testing heading, step 13, substep c, added Practice Point: **Practice Point:** On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest*				

	(Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, primarily to simplify presentation of debt issuance costs. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Upon adoption of these amendments, debt issuance costs related to a recognized debt liability will be required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, as opposed to a deferred asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update				
AUD-807 Audit Program: Intangible Assets					
Modify	Added: **Practice Alert:** In September 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. U.S. GAAP currently requires that during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The acquirer also must revise comparative information for prior periods presented in financial statements as needed, including revising depreciation, amortization, or other income effects as a result of changes made to provisional amounts. The amendments in ASU No. 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, the amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous	Purpose	Y	ASU No. 2015-16; ASU 2015-05	

	reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. **Practice Alert:** In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Existing U.S. GAAP does not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include: (*a*) software as a service; (*b*) platform as a service; (*c*) infrastructure as a service; and (*d*) other similar hosting arrangements. The amendments add guidance to Subtopic 350-40, which will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The guidance already exists in ASC paragraphs 985-605-55-121 through 55-123, but it is included in a Subtopic applied by cloud service providers to determine whether an arrangement includes the sale or license of software. The amendments in ASU No. 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For public business entities, the amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments are effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively.				

	Added: In March 2016, the FASB issued ASU 2016-03, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivative and Hedging (Topic 815): Effective Date and Transition Guidance (A consensus of the Private Company Council)* to remove the effective dates from the private company accounting alternatives issued pursuant to the following Accounting Standards Updates: • ASU 2014-02 - *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* • ASU 2014-03 - *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach;* • ASU 2014-07 - *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*; and • ASU 2014-18 - Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination. ASU 2016-03 will allow private companies to elect the accounting alternatives at any time without a preferability assessment. The ASU also extends certain favorable transition provisions of the accounting alternatives. As such, under ASU 2016-03, private companies may: – Elect the goodwill accounting alternative as of the beginning of the first annual period it is elected for existing goodwill and prospectively for new goodwill; – Elect the simplified hedge accounting approach to existing swaps upon initial election of the alternative using a modified retrospective approach or a full retrospective approach; – Elect the VIE exemption retrospectively for all periods presented (unchanged from prior guidance); – Elect the option for intangible assets for the first eligible transaction that occurs in the annual reporting period it is adopted (unchanged from prior guidance). ASU 2016-03 is effective immediately.				
Modify	Modified substep 2.d.(3), now reads as follows: We ascertained that capitalized costs are recognized in accordance with the requirements of the applicable financial reporting framework (e.g., technological feasibility met; product design has been completed). Deleted substep:	Procedures steps	N		

	We evaluated whether the intangible asset was recorded in accordance with the applicable financial reporting framework. Modified substep2.f., now reads: We reviewed valuations (prepared by an independent third party or internally) for intangible assets, obtained an understanding of the methods used, and assessed the reasonableness thereof.				
Modify	Under Long-Lived Intangibles Subject to Amortization, step 3.d.(9) modified to read as follows: A current expectation that, more likely than not an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Deleted the following sub-substep (formerly 3.e): If there is an indication that an asset may be impaired, we evaluated whether the entity reviewed the remaining useful life, the depreciation (amortization) method, and the residual value for the asset and, if needed, adjusted it in accordance with the applicable financial reporting framework, even if no impairment loss is recognized for the asset. Modified step f., now reads as follows: If an impairment loss should have been or was recognized, we tested the calculation of the loss in accordance with the applicable financial reporting framework and evaluated whether any impairments or write-offs have been authorized and approved by appropriate officials and examined related supporting documentation (e.g., board minutes, agreements, and correspondence).	Procedures steps	N		
Modify	Under Sale of Long-Lived Intangibles Subject to Amortization, modified substep 4.c.: We evaluated whether an impairment loss was recorded in the income statement in accordance with the applicable financial reporting framework.	Procedures steps	N		

	Deleted former substep 4.e. If a previously intended sale will not occur, we evaluated the new value for the asset group.				
AUD-808 Audit Program: Property and Equipment, and Depreciation					
Modify	Added: **Practice Alert:** In February 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required recognize the following for all leases (with the exception of short-term leases) at the commencement date: • A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and • A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.	Purpose	Y		
Modify	Deleted previous sub-substeps 2.c.(1) and (2): Depreciation expense to total depreciable fixed assets.	Procedures steps	N		

	Repairs and maintenance expense to total depreciable fixed assets.				
Modify	Modified substep 9.c., now reads as follows: We evaluated whether an impairment loss was recorded in the income statement in accordance with the applicable financial reporting framework.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
AUD-810 Audit Program: Payroll and Other Liabilities					
Modify	Added: **Practice Alert:** In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-04, *Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. For an entity with a fiscal year-end that does not coincide with a month-end (e.g., companies with a 52/53-week fiscal year), the amendments in ASU No. 2015-04 provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. Employee benefit plans are not within the scope of the amendments. If a contribution or significant event (e.g., a plan amendment, settlement, or curtailment that calls for a remeasurement in accordance with existing requirements) occurs between the month-end date used to measure defined benefit plan assets and obligations and an entity's fiscal year-end, the entity should adjust the measurement of defined benefit plan assets and obligations to reflect the effects of those contributions or significant events. However, an entity should not adjust the measurement of defined benefit plan assets and obligations for other events that occur between the month-end measurement and the entity's fiscal year-end that are not caused by the entity (e.g., changes in market prices or interest rates). If an entity applies the practical expedient and a contribution is made between the month-end date used to measure defined benefit plan assets and obligations and the entity's fiscal year-end, the entity should not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the entity should disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this ASU. The new guidance includes a similar practical expedient for interim remeasurement for significant events that occur on other than a month-end date, which permits entities to remeasure	Purpose	Y	ASU No. 2015-04	

	defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event, adjusted as necessary for the effects of the significant event. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. If elected, the practical expedient amendments should be applied prospectively.				
Modified	Under Payroll-Related Liabilities, added Practice Point as follows: **Practice Point:** In June 2015, the Office of the Inspector General (OIG) issued a Fraud Alert: *Physician Compensation Arrangements May Result in Significant Liability.* Physicians are subject to the federal Anti-Kickback Statute ("Anti-Kickback Statute"), which is a criminal statute that prohibits the exchange (or offer to exchange), of anything of value, in an effort to induce (or reward) the referral of federal health care program business. Physicians who enter into compensation arrangements such as medical directorships must ensure that those arrangements reflect fair market value for bona fide services the physicians actually provide. Although many compensation arrangements are legitimate, a compensation arrangement may violate the anti-kickback statute if even one purpose of the arrangement is to compensate a physician for his or her past or future referrals of federal health care program business. Those who commit fraud involving federal health care programs are subject to possible criminal, civil, and administrative sanctions. Auditors should inquire of health care clients as to the compensation policy for physicians, and specifically as to the policies in place to prevent violations of the Stark Law and the Anti-Kickback Statute.	Procedures steps	Y	OIG Fraud Alert	
Modify	Under Ratios, deleted: Substeps a and b.	Procedures steps			
Modify	Deleted Disclosure of Payroll and Other Short-Term Employee Benefits and former step 8: We reviewed management's disclosure of payroll and other short-term employee benefits for compliance with the applicable financial reporting framework (e.g., IFRS).	Procedures steps			
Modify	Modified step 8.g.(6), now reads as follows: We evaluated whether the actuary appears to have the proper professional qualifications and credentials, in accordance with AU-C Section 500, *Audit Evidence*, and evaluated whether the relationships between the actuary and the entity would impair independence.	Procedures steps	Y	AU-C Section 500	Step will reset on roll forward due to extent of changes.

Deleted	Deleted former substep: We inquired about any relationships between the actuary and the entity that would impair independence.	Procedures steps	N		
Modify	Modified step 8.g.(7), now reads as follows: We compared key plan provisions included in the actuarial valuation report to the latest plan document and inquired about any recent plan amendments.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Deleted	Deleted former substep 8.g.(8): We inquired about any recent plan amendments considered in preparing the actuarial valuation.	Procedures steps	N		
Deleted	Deleted former substep: They relate to services already rendered.				
Deleted	Deleted former substep: We evaluated whether management properly disclosed postemployment benefit policies relating to key management personnel, as well as any contingent liabilities relating to postemployment benefits.	Procedures steps	N		
AUD-811 Audit Program: Medical Malpractice Loss Contingencies					
Modify	Added item C under Primary Audit Objectives: If collectability of anticipated insurance recoveries is deemed probable, a receivable is recognized concurrently and measured on the same basis as the liability, subject to the need for a valuation allowance for uncollectible accounts.	Primary Audit Objectives table	N		
Modify	Under Inquiry to Insurance Carriers, modified step 6, now reads: We sent letters of inquiry to malpractice insurance carriers used by entity during the period under audit and reviewed their responses for reasonableness and ensured they were included on the entity's schedule. We evaluated whether adequate accruals were recorded for all asserted and unasserted claims. (***COR-822 Malpractice Liability Insurance Confirmation*** may be used to confirm with malpractice insurance carriers). In addition, we confirmed the amount of any settled claims and related amount for which the company would be indemnified by the carrier. We agreed such amounts to management's schedule of insurance recoveries.	Procedures steps	N		

Modify	Under Inquiry to Attorney, modified step 8 and added new Practice Point: We sent letters of inquiry to all lawyers handling significant medical malpractice claims during the period under audit and reviewed their responses for reasonableness and ensured they were included on the entity's schedule. We evaluated whether adequate accruals were recorded for all asserted and unasserted claims based on legal responses. (***AID-844 Analysis of Legal Fees*** may be used to summarize the open litigations, claims and assessments and range of loss, if applicable.) Where the legal response indicated the settlement of a claim, we evaluated the response for indication of probable indemnification by the malpractice carrier, and recognition of a related receivable. **Practice Point:** If the auditor is uncertain about the meaning of the legal counsel's evaluation, clarification either in a follow-up letter or conference with the legal counsel and entity, appropriately documented, may be appropriate. If the legal counsel is still unable to give an unequivocal evaluation of the likelihood of an unfavorable outcome in writing or orally, the auditor is required by AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), to determine the effect, if any, of the legal counsel's response on the auditor's report.	Procedures steps	Y	AAG – 8.126	
Modify	Under Totals on Asserted and Unasserted Claims, added step 12 and Practice Points as follows: We determined that the estimated medical malpractice liability includes costs associated with litigating or settling malpractice claims. **Practice Point:** Guidance in FASB ASC 954-450-25-2A requires an accrual of estimated costs associated with settling claims to be included in the accrual for malpractice losses. AICPA Technical Questions and Answers Section 6400.50, "Accrual of Legal Costs Associated With Contingencies Other Than Malpractice" clarifies that this treatment is applicable only to malpractice claims, and not to other similar contingent liabilities. In accounting for legal costs associated with contingent liabilities other than malpractice, some health care entities follow the guidance in FASB ASC 450-20-S99-2 , which permits making a policy election to either expense claims-related legal fees in the period(s) in which the costs are actually incurred or to estimate and accrue them in the period in which the associated claim arises. If the accrual is discounted, we reviewed and tested the present value calculation, including the reasonableness of the inputs.	Procedures steps	Y	AAG; FASB ASC 954-450-25-2A; AICPA T QA Section 6400.50,	

	Practice Point: FinREC believes that the accrued liabilities for medical malpractice claims may be discounted to reflect the time value of money if all of the following are true: (a) the amount of the liability, individually or in the aggregate, is fixed or reliably determinable; (b) the amount and timing of cash payments for the liability, individually or in the aggregate, based on the health care entity's specific experience, are fixed or reliably determinable; and (c) expected insurance recoveries, if any, are also discounted.				
Modify	Reorganized Presentation and Disclosures sections. Added step 13 and Practice Point under Financial Statement Presentation: We determined the liability for malpractice or similar claims were not presented net of anticipated insurance recoveries. **Practice Point:** AICPA, Technical Questions and Answers Section 6400.51, "Presentation of Insurance Recoveries When Insurer Pays Claims Directly" explains that unless a health care entity has a valid right of setoff (which is not common), the health care entity should report the gross amount of its claims liabilities (including legal costs) as its obligations, regardless of whether covered by insurance, and should record a receivable as if it were entitled to receive insurance recoveries to offset those obligations as discussed in FASB ASC 954-450-25-2. It is expected that in most cases, this results in reporting a receivable that mirrors the amount of estimated losses accrued that are covered by insurance.	Procedures steps	Y	FASB ASC 954-450-25-2	
Modify	Under Reviewing Estimates for Biases, added substep 15d: Performed a retrospective review based on information collected in the current year of accounting estimates related to the valuation of insurance recoveries recognized as receivables, including those estimates that involve highly sensitive assumptions or judgments made by management reflected in the prior year's financial statements to determine whether there is possible management bias. This includes assumptions regarding probability of full recovery from third parties in the event of a loss or appeal.	Procedures steps	Y		
Modify	Modified the Disclosures Testing section, adding substeps 18.d. and e. as follows: We considered the need for disclosure of self-insured risks, significant loss retentions, and losses incurred subsequent to closing date.	Procedures steps	Y		

	For health care entities that discount accrued malpractice claims, we evaluated adequacy of disclose in the notes to the financial statements of the carrying amount of accrued malpractice claims that are discounted and the interest rate(s) used to discount those claims.				
AUD-812 Audit Program: Contributions Receivable, Related Support, Contribution Revenue, and Split-Interest Agreements					
Modify	Under Support Revenue and Receivables – Analytical, modified step 1: We performed the following substantive analytical procedures and relevant ratios for program service fees, support, revenue, and receivables and investigated any significant fluctuations or deviations from the expected balances (see the sample analytical procedures for accounts receivable at ***AID-846 Contributions Receivable: Analytical Procedures***). Deleted former substeps a – e.	Procedures steps	Y		
AUD-813 Audit Program: Income Taxes					
Modify	Added: **Practice Alert:** In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU No. 2016-01 also amends ASC Topic 740, *Income Taxes*, to clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's other deferred tax assets. This amendment is intended to reduce diversity in current practice whereby some entities evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities separately from their other deferred tax assets. In addition, ASU No. 2016-01 moves from ASC Topic 320, *Investments—Debt and Equity Securities*, to ASC Topic 740 the content addressing presentation of deferred tax assets relating to losses on available-for-sale debt securities. ASU No. 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities (including nonpublic entities), the requirements are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Purpose	Y	ASU No. 2016-01; ASU No. 2015-17	

	Practice Alert: In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which changes how deferred taxes are classified on an entity's balance sheet. The ASU eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities (along with any related valuation allowance) as noncurrent. Consequently, each jurisdiction will now only have one net noncurrent deferred tax asset or liability; however, entities are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The amendments apply to all entities that present a classified balance sheet. For public business entities, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in ASU No. 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively (i.e., by reclassifying the comparative balance sheets) to all periods presented. If an entity applies the guidance prospectively, the entity should disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If an entity applies the guidance retrospectively, the entity should disclose in the first interim and first annual period of change the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods.				
Modify	Added new Objectives D, E, F to Primary Audit Objectives column in table: D. Provisions for unrecognized tax benefits (uncertain tax positions), including the related liability, penalties, and interest have been properly accounted for and disclosed. E. The not-for-profit entity has obtained qualifying tax exemptions from the appropriate government authorities. F. The entity's tax-exempt status and any tax contingencies and unrecognized tax benefits for uncertain	Table other than procedures	N		

	tax positions are disclosed in the notes to the financial statements.				
Modify	Added Not-for-Profit Tax Considerations (step 9 and substeps a – f: We performed the following procedures related to the entity's tax-exempt status: a. We reviewed evidence of the entity's tax-exempt status. b. We reviewed the minutes of the governing board meetings for changes in the entity's governing instruments that could affect its tax-exempt status. c. We considered the effect of new, expanded, or unusual activities on the entity's tax-exempt status. d. We considered the possibility that the IRS or individual state regulatory bodies could successfully challenge the entity's tax-exempt status e. We inquired as to whether federal, state, and local tax returns have been filed on a timely basis. f. We reviewed tax returns or filings and related correspondence for all "open" periods. g. We reviewed revenue agent's reports, if any, for evidence of additional liabilities or contingencies. h. We reviewed minutes of governing board and governing board committee meetings and the accounting records for evidence of significant unrelated business income. i. We reviewed any Schedule K-1s received by the entity to determine if activities reported thereon generate unrelated business income. j. We evaluated the reasonableness of the computation of any unrelated business income tax liability k. We inquired about how the entity identifies whether it conducts activities in jurisdictions requiring registration.	Procedures steps	N		

	l. We reviewed private foundation excise tax returns to determine the reasonableness of the computation of any excise tax.				
AUD-815 Audit Program: Debt Obligations					
Modify	Added: **Practice Alert:** In February 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required recognize the following for all leases (with the exception of short-term leases) at the commencement date: • A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and • A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.	Purpose	Y	ASU No. 2016-02	
Delete	Modified step 1.b., deleting subitems (1) to (5).	Procedures steps	N		

Modify	Modified step 2.d., now reads as follows: We obtained copies of new debt agreements and amendments to existing agreements entered into during the year and reviewed terms, conditions, and restrictive covenants.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Modified step 4, now reads: We obtained or reviewed executed agreements documenting that debt maturing in the current or succeeding period had/has been extended, renewed, or replaced with debt maturing more than 12 months after the balance sheet date.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Added Practice Point in step 15.c.: **Practice Point:** On April 7, 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, primarily to simplify presentation of debt issuance costs. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Upon adoption of these amendments, debt issuance costs related to a recognized debt liability will be required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, as opposed to a deferred asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update.	Procedure steps	Y	ASU 2015-03	
AUD-819 Audit Program: Journal Entries and Financial Statement Review					
Modify	Added the following new Practice Point to Section 1: **Practice Point:** For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), because the annual period-end financial reporting process normally occurs after the "as of date" specified in management's assessment about the effectiveness of internal control over financial reporting, those controls usually cannot be tested until after the "as of date."	Section 1	Y	AU-C 940	
Deleted	Deleted: Practice Point: Steps 3 through 5 relate to testing journal entries and other adjustments for indications of potential fraud. Step 7 relates to testing journal entries as part of substantive procedures related to the financial statement reporting process. Because of	Procedures steps	N		

	the nature of the testing, the auditor may consider testing the steps in conjunction with each other.				
Modify	Added substeps 1.f. and 1.g.: f. The nature and extent of the oversight of the process by management. g. Management's procedures for preparing the financial statements.	Procedures steps	N		
Modify	Former steps 9 to 20 moved down and renumbered as steps 16 – 27 (under Financial Statement Review).	Procedures steps	N		These steps will retain on roll forward if you select to keep all responses on roll forward.
Modify	Modified step 1.o., now reads as follows: We inquired of the contractor's bonding agent or surety of their knowledge, if any, of any related-party relationships and transactions.	Procedures steps	N		
AUD-820 Audit Program: Related-Party Transactions					
Modify	Modified step 2.a., now reads as follows: We inquired of management about the nature of these transactions and whether related parties could be involved.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
AUD-821 Audit Program: Fair Value Measurements and Disclosures					
Modify	Added: **Practice Alert:** In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The following discussion addresses the more significant provisions of ASU No. 2016-01. *Equity investments with readily determinable fair values*. Equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are required to be measured at fair value with unrealized holding gains and losses in fair value to be recognized in net income. This amendment supersedes the guidance that requires (1) classification of equity securities with readily determinable fair values into different categories (i.e., trading or available-for-sale), and (2) recognition of changes in fair value of available-for-sale securities in other comprehensive income.	Purpose	Y	ASU No. 2016-01; ASU No. 2015-07	

	Equity investments without readily determinable fair values. For equity investments without readily determinable fair values, ASU No. 2016-01 eliminates the cost method of accounting previously allowed in ASC Subtopic 325-20, *Investments—Other—Cost Method Investments*. Rather, under ASU No. 2016-01, an entity has the option to measure these equity investments either at: (1) cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, or (2) fair value. This amendment simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment (similar to the qualitative assessment for long-lived assets, goodwill, and indefinite-lived intangible assets). When a qualitative assessment indicates that impairment exists, an entity is required to measure the equity investment at fair value and recognize an impairment loss in net income. The impairment loss is calculated as the difference between the fair value of the investment and its carrying amount. This impairment assessment reduces the complexity of the other-than-temporary impairment guidance entities were required to follow before ASU No. 2016-01. *Simplified disclosures.* This amendment eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. Although public business entities will still be required to do so, they no longer will have to disclose the methods and significant assumptions used in estimating those fair values. *Using the exit price notion when measuring fair value for disclosure purposes.* This amendment requires public business entities that are required to disclose fair value of financial instruments measured at amortized cost to use the exit price notion when measuring the fair value for disclosure purposes, consistent with ASC Topic 820, *Fair Value Measurement*. This change to U.S. GAAP eliminates the entry price method previously used by some entities to estimate the fair values of certain instruments when a market price is not available. *Financial liabilities measured under the fair value option.* For entities that elect the fair value option to measure financial liabilities, this amendment requires the entity to present separately in other comprehensive income the portion of the total change in the fair value of a financial liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit risk"). Upon derecognition of the financial liability, the accumulated gains and losses due to changes in the instrument-specific credit risk will be reclassified from other comprehensive income to net income. Under current U.S. GAAP, entities that elect the fair value option to measure financial liabilities recognize all changes in fair value in net income (including changes in fair value related to instrument-specific credit risk). *Separate presentation of financial assets and financial liabilities*. This amendment requires separate presentation of financial assets and financial liabilities by measurement category and form				

	of financial asset (i.e., securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. *Deferred tax assets*. This amendment clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's other deferred tax assets. This amendment is intended to reduce diversity in current practice whereby some entities evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities separately from their other deferred tax assets. *Effective date*. ASU No. 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities (including nonpublic entities), the requirements are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. *Early adoption*. Nonpublic business entities may early adopt the standard in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years (i.e., as of the effective date for public business entities). Also, nonpublic business entities may early adopt the provisions of the standard that eliminate certain previously required disclosures for financial statements of annual or interim periods that have not yet been made available for issuance, including those for periods in 2015. All entities may early adopt the provisions requiring them to recognize the fair value change in the instrument-specific credit risk in other comprehensive income for financial liabilities measured using the fair value option. These provisions may be early adopted for financial statements of annual or interim periods that have not yet been issued (public business entities) or made available for issuance (nonpublic business entities), including those for periods in 2015. *Transition guidance*. Entities should apply the standard by recording a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption, except as follows: (1) the provisions related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to all equity investments that exist as of the adoption date; and (2) the provisions that require the exit price notion to be used to measure the fair value of financial instruments for disclosure purposes should be applied prospectively. **Practice Alert:** In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient.				

	ASC Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. For investments that are redeemable with the investee at a future date, a reporting entity must consider the length of time until those investments become redeemable to determine the classification within the fair value hierarchy. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted.				
Delete	Deleted former substep 7.b.(3): Whether the valuation technique meets the criteria of the applicable financial reporting framework and is appropriate in the circumstances.	Procedures steps	N		
Delete	Deleted former substeps 7.e. thru 7.h.: We determined that the method of estimation and significant assumptions used are adequately disclosed. We evaluated whether the disclosures adequately inform users about any estimation uncertainty (e.g., observable market input and entity-specific input disclosures). We evaluated whether the nature and extent of risks arising from financial instruments are adequately disclosed in accordance with the applicable financial reporting framework. If the required fair value disclosures have been omitted because it is not practicable to determine fair value, we	Procedures steps	N		

	evaluated the adequacy of disclosures required in the circumstances and whether the financial statements are materially misstated.				
Delete	Deleted former step 10: We considered applying additional audit procedures (e.g., inspecting an asset) to obtain adequate evidence about the appropriateness of a fair value measurement.	Procedures steps	N		
Modify	Modified step 10 (formerly step 11); now reads as follows: If the fair value measurement was made as of a date that is different from the date that the entity is required to measure and report that information in its financial statements, we evaluated whether management has appropriately considered the effect of intervening events, transactions, and changes in circumstances (i.e., those occurring between the date of fair value evidence and the reporting date).	Procedures steps	N		
Delete	Deleted former substep 14.b.(6): We determined that all tangible and intangible assets acquired and all liabilities assumed have been identified and accounted for in accordance with the applicable financial reporting framework.	Procedures steps	N		
Modify	Modified step 14.c, adding substeps as follows: (1) The purchase price allocation. (2) The methods, assumptions, and inputs used to assign values to the assets acquired and liabilities assumed, particularly those relating to items such as intangibles; complex financial instruments; inventories; executive compensation plans; and plant, property, and equipment. (3) The allocation of assets, including goodwill, and liabilities to reporting units.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
AUD-822 Audit Program: Variable Interest Entities					
Modify	Modified step 13.d., now reads as follows: We considered using a valuation specialist. ***AUD-603 Audit Program: Using the Work of an Auditor's Specialist***	Procedures steps	N		

Modify	Modified and simplified step 14, which now reads as follows: For VIEs for which the entity is the primary beneficiary and for which the entity is not electing the PCC VIE accounting alternative, we determined that the entity has properly accounted for the VIE in its consolidated financial statements in accordance with the applicable financial reporting framework. **Practice Point:** Additional guidance is provided in AU-C Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, for auditing fair value measurements.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Procedures Performed, Evidence Obtained, and Conclusions Reached: Added step 24 and substeps a through g.	Procedures steps	N		
AUD-823 Audit Program: Share-Based Payments					
Modify	Moved substeps up into step 1.a., reducing signoffs; substep now reads: Requirements of the applicable financial reporting framework, such as: (1) Accounting for discounted options. (2) Accounting for variable plans. (3) Accounting for contingencies. (4) Accounting for tax effects.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Modified step 9, now reads as follows: We have evaluated whether the option pricing model (e.g., Black-Scholes, Lattice) was an appropriate model to estimate fair value of employee share options or whether a new model or technique would better meet the fair value objective of the applicable financial reporting framework.	Procedures steps	N		
Modify	Modifies step 10, reducing signoffs; now reads as follows: 10. Where applicable, we have assessed the effect of the following factors on the fair value measurement: a. Expected term of the option; b. Expected volatility of the price of the underlying share for the expected term of the option;	Procedures steps	N		Step will reset on roll forward due to extent of changes.

	c. Exercise price of the option; d. Current price of the underlying share; e. Risk-free interest rate(s) for the expected term of the option; and f. Expected dividends of the underlying share for the expected term of the option				
Modify	Modified step 12 & 13; now read as follows: 12. For Black-Scholes or other closed form option pricing models, we have considered whether the risk-free interest rate is appropriate in the context of the remaining term of the option. 13. For lattice or binomial option pricing model, we have considered whether the entity's model incorporates a term structure of expected volatilities that uses an appropriate yield curve for the contractual period.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Consolidated substeps in step 19 and added Practice Point (reducing signoffs); now reads: We reviewed grant documentation to ensure that the terms conform to "plain vanilla" requirements. **Practice Point:** "Plain vanilla" options typically include the following basic characteristics: • Share options are granted at-the money; • Exercisability is conditional only on performing service through the vesting date; • If an employee terminates service prior to vesting, the employee would forfeit the share options; • If an employee terminates service after vesting, the employee would have a limited time to exercise the share options; and • Share options are nontransferable and non-hedgeable.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Consolidated substeps in step 23 and added Practice Point (reducing signoffs); now reads: We have considered the criteria established by the applicable financial reporting framework for exclusive reliance on historical volatility, including relevant factors. **Practice Point:** Factors that may be considered include the following:	Procedures steps	N		Step will reset on roll forward due to extent of changes.

	• Whether the entity has reason to believe that its future volatility over the expected or contractual term, as applicable, is likely to differ from its past; • Whether the computation of historical volatility uses a simple average calculation method; • Whether a sequential period of historical data at least equal to the expected or contractual term of the share option, as applicable, is used; and • Whether a reasonably sufficient number of price observations are used, measured at a consistent point throughout the applicable historical period.				
Modify	Revised steps 31 and 32; now read as follows: 31. For Black-Scholes or other closed form pricing model, we have evaluated whether the entity used an appropriate risk-free interest rate and an appropriate yield based on the traded price. 32. For lattice or binomial option pricing model, we have verified that the entity properly calculated the yield curve and accurately entered the yields into the model.	Procedures steps	N		
Modify	Steps after former step 37 reorganized (deleted 37 to 60). Step 37 and substeps now read as follows: Existence of Share Option Plans We determined the existence of any share option plans, traced authorization and details to board of directors and other appropriate committee meeting minutes, and performed the following procedures: a. We obtained an understanding of the option plan, including the following: • The persons who are entitled to receive options. • The number of shares authorized for grants. • The method for determining the option price. • Vesting requirements. b. We obtained an understanding of the method and significant assumptions used during the year to estimate the fair values of options, including the following: • Risk-free interest rate. • Expected life. • Expected volatility.	Procedures steps	N		Step will reset on roll forward due to extent of changes.

	• Expected dividends. c. We obtained, or prepared, and tested analyses of share options, which include the number and exercise prices of options that were: • Outstanding and exercisable at the beginning of the year. • Granted during the year. • Exercised during the year. • Forfeited during the year. • Expired during the year. • Outstanding and exercisable at the end of the year. d. We determined that the appropriate accounting treatment had been applied.				
Modify	Modified step 46.a., reducing signoffs; now reads: a. For awards already accounted for in accordance with the applicable financial reporting framework, we tested that the entity considered the impact of the modification on all of the following: • The classification of the award as equity versus liability. • The amount of compensation cost. • The expected life of an option. • The probability of performance targets being achieved.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Modified step 47.a., reducing signoffs; now reads: a. Reviewing the terms of executive compensation agreements to see if: b. Executives have any latitude in selecting the dates their options are awarded, c. Exercise prices are allowed to be less than grant date market price, or d. Authority for grants is delegated to management.	Procedures steps	N		Step will reset on roll forward due to extent of changes.
Modify	Modified Disclosure Compliance step (52); now reads: Disclosure Compliance	Procedures steps	N		

	52. We reviewed financial statement disclosures related to this cycle to ensure: a. Disclosed events and transactions have occurred and pertain to the entity. b. All disclosures that should have been included in the financial statements have been included. c. Financial information is appropriately presented, classified, and described and disclosures are clearly expressed and at appropriate amounts.				
AUD-824 Audit Program: Commitments and Contingencies					
Modify	Added: **Practice Alert:** In February 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required recognize the following for all leases (with the exception of short-term leases) at the commencement date: • A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and • A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest	Purpose	Y	ASU No. 2016-02	

	comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.				
Modify	Modified step 15 substeps a-h now read as follows: 15. Whether the entity has policies and procedures in place to help identify environmental remediation liabilities. a. Whether the entity is aware of any potential environmental hazards on its site and what steps management has taken to minimize the entity's exposure for environmental remediation liabilities. b. Whether the entity is required to have a permit to transport, treat, store, or dispose of any potential environmental hazards. c. Whether the entity generates any potential environmental hazards or "regulated substances" in its business and how it disposes of these substances. d. Whether the entity ever used landfills, underground storage tanks, or barrels to dispose of any potential environmental hazards and how management tests and monitors for leakage. e. Whether the entity has undergone any cleanup activities on its premises (e.g., tank or pump removal, removal of contaminated soil, installation of new tanks or pumps). f. Whether the entity has been designated a potentially responsible party (PRP) and the status of such matters. g. Whether the entity is involved in any civil or criminal investigations involving environmental issues and the status of the investigations	Procedures steps	N		
Modify	Modified step 22; now reads as follows: 22. If the entity had not consulted legal counsel during the period under audit, we included the following item in the representation letter from management: "We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial	Procedures steps	N		Step will reset on roll forward due to extent of changes.

	statements and we have not consulted legal counsel concerning litigation, claims, or assessments."				
AUD-901 Audit Program: Subsequent Events					
Modify	Modified Instructions, Section I, General Procedures, paragraph one; now reads as follows: Many audit procedures that normally are integrated as part of the verification of year-end account balances, provide evidence of subsequent events. For example, subsequent-period sales and purchases transactions are tested to determine whether the cutoff is accurate. Likewise, the auditor often tests the collectibility of accounts receivable by reviewing subsequent-period cash receipts. However, in addition to these normal audit procedures, AU-C Section 560, *Subsequent Events and Subsequently Discovered Facts*, requires the auditor to perform other audit procedures to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor's responsibility for reviewing for subsequent events normally is limited to the period from the date of the financial statements to the date of the auditor's report. When performing an integrated audit of financial statements and internal control over financial reporting, AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016), provides additional direction with respect to subsequent events in an audit of internal control over financial reporting. In an integrated audit, the auditor is also concerned about changes in internal control over financial reporting, or other conditions that might significantly affect internal control over financial reporting, that have occurred subsequent to the date specified in management's assessment about the effectiveness of internal control over financial reporting but before the date of the auditor's report. The procedures in this audit program incorporate the audit requirements discussed in both AU-C Section 560 and AU-C Section	Instructions	Y	AU-C Section 940	

	940 and are designed to help the auditor address those requirements.				
Modify	Added step 5: For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), we inquired of management, and where appropriate those charged with governance, and obtained information about any changes in, or conditions that might significantly affect, internal control over financial reporting that have occurred subsequent to the "as of date" but before the date of the auditor's report on internal control over financial reporting.				
Modify	Added step 6: For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), we inquired about, and if available, obtained and read the following for the subsequent period: a. Relevant internal audit (or similar functions) reports issued; b. Reports regarding deficiencies in internal control over financial reporting issued by other independent auditors; c. Regulatory agency reports on the entity's internal control over financial reporting; and d. Information about the effectiveness of the entity's internal control over financial reporting obtained through other engagements performed for the entity.	Procedures steps	Y	AU-C Section 940	
Modify	Modified steps 13 to 16; now read as follows: 13. We reviewed the entity's financial statement disclosures related to subsequent events to ensure the disclosures are complete and accurate, and that the date through which management evaluated subsequent events is on or before the date of the auditor's report.	Procedures steps	Y	AU-C Section 940	

	14. For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), if we have become aware of a subsequent event and have determined that this event materially and adversely affected the operating effectiveness of the entity's internal control over financial reporting, as of the date of management's assessment, we have issued an adverse opinion on the internal control over financial reporting. 15. For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), if we were unable to determine the effect of the subsequent event on the operating effectiveness of internal control over financial reporting, we disclaimed an opinion. 16. For an integrated audit (AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, effective for integrated audits for periods ending on or after December 15, 2016), if we have become aware of a material subsequent event with respect to conditions that did not exist as of the date of management's assessment but arose subsequent to that date and before the release of the audit report, we included in the auditor's report either: (1) an emphasis-of-matter paragraph directing the reader's attention to the subsequently discovered fact and its effects as disclosed in management's report, or (2) an other-matter paragraph describing the subsequently discovered fact and its effects.				
AUD-902 Audit Program: Going Concern					
Modify	Added: **Practice Alert:** In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* to provide guidance under U.S. GAAP as to 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	Instructions	Y	ASU No. 2014-15	

	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, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*), 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 that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for interim periods thereafter. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. In January 2015, the Auditing Standards Board issued four interpretations of AU-C Section 570 (see AU-C Section 9570). Interpretation No. 2 (*Definition of Reasonable Period of Time*) addresses how an auditor should apply the definition of "reasonable period of time" when the applicable financial reporting framework requires management 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. It 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 management's going concern evaluation would be for the same period of time as required by the applicable financial reporting framework.				
AUD-903 Audit Program: Consideration of Fraud					
Modify	Modified Practice Point above Purpose section; now reads: **Practice Point:** The auditor should be familiar with the following five important federal fraud and abuse laws that apply to physicians are: • False Claims Act (FCA);, • Anti-Kickback Statute (AKS); • Physician Self-Referral Law (Stark law); • Exclusion Authorities; and • Civil Monetary Penalties Law (CMPL). The auditor should consider the following types of fraud that may occur in health care in preparing and executing audit plans to gain an understanding of whether their clients are involved in such fraud schemes: • Billing for services not rendered. This includes billing for a service not performed at all, billing for additional services not performed that are related to services	Text	Y	FCA; AKS; Stark law; CMPL	

	performed, and billing for more expensive procedures than were actually performed. • Performing medically unnecessary services. This includes performing services not required to increase revenue, misrepresenting treatments not covered by medical insurance as medically necessary treatments, and misrepresenting the diagnosis. • Unbundling one procedure into separate procedures to inflate billings. • Billing more than the co-pay amount to a patient, or waiving patient co-pays and claiming them from health insurance entities, Medicare, or Medicaid. • Receiving patient referral kickbacks. The auditor may also may wish to refer to AICPA Audit Risk Alert *Health Care Industry Developments*—2015/15 for additional overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audit and the auditors consideration of fraud.				
Modify	Purpose modified; now reads: This audit program is designed to help the auditor address the risk of fraud in a financial statement audit or, when applicable, in an integrated audit of financial statements and internal control over financial reporting.	Purpose	Y	ICFR	
Modify	First paragraph of instructions modified and new Practice Point added; now reads: This audit program is based on the requirements and guidance set forth in AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, and when applicable, AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (effective for integrated audits for periods ending on or after December 15, 2016). Refer to this guidance for additional information. **Practice Point:** For an integrated audit, AU-C Section 940 states that when planning and performing the audit of internal control over financial reporting, the auditor should (1) incorporate the results of the fraud risk assessment performed in the financial statement audit pursuant to the requirements of AU-C Section 240; (2) evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of other controls; and (3) focus more of his or her attention on the areas of higher risk.	Instructions	Y	AU-C Section 940	

Modify	Deleted the “Brainstorming” segment.	Table	N		The 2015 AUD-903 steps 2, 2a – 2d, 3, 4, 5, and 6 will retain into KBA-501 on roll forward if you have set to keep all responses on roll forward. If KBA-501 wasn’t included in the binder before roll forward please insert it so that these steps will retain on roll forward.
AUD-904 Audit Program: Compliance with Laws and Regulations					
Modify	Step 1 modified; now reads as follows: 1. We obtained an understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, including the identification of instances of noncompliance, by performing the following steps: a. Understanding the entity’s policies and procedures for compliance with laws and regulations; b. Inquiring of management regarding compliance with laws and regulations; c. Understanding those laws and regulations that directly determine the reported amounts and disclosures in the financial statements; d. Inspecting correspondence, if any, with the relevant licensing or regulatory authorities; and e. Incorporating our knowledge of the entity’s history of noncompliance with laws and regulations. ***KBA-303 Inquiries of Management and Others within the Entity about the Risks of Fraud and Noncompliance with Laws and Regulations***	Table	N		Step will reset on roll forward due to extent of changes.
AUD-908 Interim Review Program: Management Inquiries					
Modify	Modified throughout with additional steps.	Text; steps	N		

Auditor's Reports (RPTs) have been modified and updated, where applicable, in accordance with standards, for consistency with CORE, and to customize wording for the industry.

- **NEW RPT-0901A *Unmodified Opinion: Single-Year Financial Statements—Combined Report Expressing an Unmodified Opinion on ICFR* -** sample unmodified report for single-year financial statements with a combined opinion on internal control over financial reporting.
- **NEW RPT-0901B *Unmodified Opinion: Single-Year Financial Statements with Reference Made to Separate Report on ICFR* -** Sample unmodified report for single-year financial statements with a separate opinion on internal control over financial reporting..
- **NEW RPT-0902A *Unmodified Opinion: Comparative Years Financial Statements—Combined Report Expressing an Unmodified Opinion on ICFR* -** Sample unmodified report for comparative-years financial statements with a combined opinion on internal control over financial reporting.
- **NEW RPT-0902B *Unmodified Opinion: Comparative Financial Statements with Reference Made to Separate Report on ICFR* -** Sample unmodified report for comparative-year financial statements with a separate opinion on internal control over financial reporting will be issued
- **NEW RPT-0918A *Unmodified Opinion on Internal Control over Financial Reporting When Making Reference to the Report of a Component Auditor* -** Sample unmodified opinion on internal control over financial reporting when part of the opinion is based in part on the report of a component auditor
- **Deleted: Former RPT-0957** *Unmodified Opinion: Since Inception Report—Development Stage Entity* has been **deleted** (as in CORE).
- **NEW RPT-0959 *Unmodified Opinion: Separate Report on ICFR* -** Sample separate unmodified opinion on internal control over financial reporting (added as in CORE).
- **NEW RPT-1004 *Adverse Opinion: Separate Report on ICFR* -** Sample adverse opinion: internal control over financial reporting (added as in CORE).
- **NEW RPT-1019 *Disclaimer of Opinion: Separate Report on ICFR* -** Sample disclaimer of opinion: internal control over financial reporting (added as in CORE).
- **NEW RPT-1033 *Unmodified Opinion: U.S.-Form Report on an Audit Conducted in Accordance with Both U.S. GAAS and the Standards of the PCAOB When the Audit Is Not Within the Jurisdiction of the PCAOB* -** Sample consolidated report in connection with an audit conducted in accordance with U.S. GAAS and in accordance with the auditing standards of the PCAOB.

Correspondence Documents (CORs) have been modified and updated, where applicable, in accordance with standards, for consistency with CORE, and to customize wording for the industry.

- **NEW COR-201A *Audit Engagement Letter: Integrated Audit* -** Sample letter from auditor to client confirming scope of audit engagement that includes both an audit of the financial statements and an audit of internal control over financial reporting.
- **NEW COR-202A *Audit Engagement Letter: Integrated Audit When Also Performing Reviews of Interim Financial Information* -** Sample letter from auditor to client confirming scope of audit engagement that includes both an audit of the financial statements and an audit of internal control over financial reporting, when the auditor is also performing reviews of interim financial information.
- **NEW COR-901A *Management Representation Letter: ICFR.***
- **NEW COR-904A *Communication to Entity with Significant Deficiencies and/or Material Weaknesses: ICFR***
- **COR-905** modified with new title ***Communication to Entity with No Material Weaknesses (Not for Use When Performing an Integrated Audit)***

Tool	Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference
COR-201	Modify	Modified section on Auditor Responsibilities. Added guidance related to reporting on cost reports as supplemental information.	Text	Y	AAG, AICPA TQA

Tool	Type of Change	Description of Change	Location	Based on Standard Y/N	Standard Reference
					9110.15; HIPAA
COR-201A	Modify	Modified section on Auditor Responsibilities. Added guidance related to reporting on cost reports as supplemental information. Added PP on including cost reports in the basic FS. Added HIPAA considerations.	Text	Y	AAG, AICPA TQA 9110.15
COR-202	Modify	Modified Auditor Responsibilities. Added guidance related to reporting on cost reports as supplemental information. Added PP on including cost reports in the basic FS.	Text	Y	AAG, AICPA TQA 9110.15
COR-202A	Modify	Added guidance related to reporting on cost reports as supplemental information. Added PP on including cost reports in the basic FS. Added HIPAA considerations.	Text	Y	AAG, AICPA TQA 9110.15
COR-215	Modify	Added PP on AS-18 for auditors of public companies.	Text		
COR-216	Modify	Modified for ICFR			
COR-820	Modify	Added Additional Guidance Note for ASU No. 2015-04, *Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*	Text	Y	ASU No. 2015-04
COR-901	Modify	Added bullet points on self-health care reserve, revised patient revenue recognition, and RAC audits			RAC
COR-901	Modify	Minor modification for Information Provided (Illustrative Letter); and wording of the note concerning litigation, claims, and assessments.	Text	Y	
COR-904	Modify	Modified, adding "Reasonably possible" and "Probable" considerations.			
COR-906	Modify	Modified, adding "Reasonably possible" and "Probable" considerations; added additional guidance notes, including considerations when the engagement is also performed in accordance with Government Auditing Standards.			AU-C Section 940

Practice Aids (AIDs) have been modified and updated, where applicable, with additional tips, references, and examples, for consistency with CORE, and to customize wording for the construction industry.

- **AID-201** ***Nonattest Services Independence Checklist*** modified and updated to reflect the provisions of ET Section 1.295, *Nonattest Services*, of the AICPA Code of Professional Conduct, including independence considerations and threats to independence and safeguards.
- **AID-302** ***Understanding the Entity's Revenue Streams and Revenue Recognition Policies*** modified and updated, adding Health Care Industry Revenue Streams Considerations, including new steps and Practice Points for HCI-specific issues and developments including third-party payors; charity care; electronic health records technology.
- **AID-601** ***Considering the Use of the Work of Internal Auditors*** updated in accordance with the requirements of AU-C Section 610, *Using the Work of Internal Auditors*, and AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*; wording modifications for construction industry.
- **AID-602** ***Understanding and Preliminary Assessment of the Entity's Internal Audit Function*** updated in accordance with the provisions of AU-C Section 610, *Using the Work of Internal Auditors*.
- **AID-701** ***Audit Sampling Worksheet for Tests of Controls*** modified Purpose to add consideration, if applicable, for an audit that is integrated with an audit of internal control over financial reporting. New Practice Point added regarding the auditor's assessment of control risk; Section III table modified to add a column for "Assertion Is Relevant/Not Relevant."
- **AID-702** ***Results of Tests of Controls*** modified to add an Appendix illustrating a recommended workflow when evaluating and testing controls.
- **AID-838** ***Deferred Taxes Analysis*** modified to add a section for "Permanent Differences."
- **AID-840** ***Carryforward Share Book Analysis*** modified to add a column for "Transferred to Certificate No."
- **AID-841** ***Analysis of Equity Accounts*** modified to add a line for "Share-based compensation" under "Additions,"
- **AID-903** ***Audit Report Preparation Checklist*** modified with new tips and references and updated with additional new steps reflecting the provisions of AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*.

Resource Documents (RESs) Modified and updated where applicable for consistency with CORE and for health care industry considerations.

- **RES-001** ***Knowledge-Based Audit Methodology Overview*** modified and updated appropriate in accordance with current audit and accounting guidance and for consistency with CORE.
- **RES-002** ***Index of Audit Programs, Forms, and Other Practice Aids*** modified as appropriate to incorporate new workpapers.
- **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*** modified and updated for HCI considerations, to flow with HCI revenue cycle, and take into account technical review and peer review questions/comments.
- **RES-012** ***Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Other*** Assets added new Practice Point on Deferred Finance Cost (ASU 2015-03, Subtopic 835-30).
- **RES-015** ***Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Treasury*** modified and reorganized for consistency with CORE and KBA-409, adding compliance with covenants and interest calculation; added new controls throughout.
- **RES-016** ***Assertions and Examples of "What Can Go Wrong" and Related Controls That Address What Can Go Wrong: Income*** **Taxes** modified, adding not for profit tax considerations.
- **RES-019** ***Example Factors to Be Considered When Understanding the Entity and Its Environment*** modified with updated Practice Points.
- **NEW RES-023** ***Special Considerations in Auditing Financial Instruments*** has been added to illustrate questions that may be helpful to the auditor in obtaining an understanding of an entity's controls over its financial instrument activities.
- **NEW RES-024** ***Illustrative Management's Report on Internal Control over Financial Reporting*** has been added as an aid to the client in preparing their Management's Report on Internal Control Over Financial Reporting for an integrated audit.
- **NEW RES-025** ***Considerations of an Audit of Internal Control over Financial Reporting That Is Integrated with the Knowledge-Based Audit of Financial Statements*** has been added to provide a cross reference between the key AU-C 940 (SAS 130) requirements and the applicable form.

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

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

Statements on Auditing Standards (SASs):

- SAS-131, *Amendment to Statement on Auditing Standards No. 122 Section 700, "Forming an Opinion and Reporting on Financial Statements"* (AU-C Section 700)
- SAS-130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AU-C Section 940)

AICPA Statement on Quality Control Standards No. 8 (QC Section 10), *A Firm's System of Quality Control (Redrafted)*

Revised AICPA Code of Professional Conduct (Code), including ET Section 1.295, *Nonattest Services*

FASB Accounting Standards Codification as of June 30, 2016, and through Accounting Standards Update (ASU) No. *ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

AICPA Audit & Accounting Guide, *Health Care Entities.*

HCI Audit Risk Alert 15/16, *Economic and Industry Developments*.

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.

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
KBAs	**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		

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
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

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
KBA-501	Team Discussion of the Risks of Material Misstatement		
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		

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
AUD-800	Audit Program: Custom		X
AUD-801	Audit Program: Cash		
AUD-802A	Audit Program: Investments in Securities		
AUD-802B	Audit Program: 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		

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
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		
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-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		

Form No.	*Form Name*	*Foundation Workpaper*	*Association Workpaper*
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		
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 Ctrls: 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 intend 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 intend 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

