

# 2011 Knowledge-Based Audits™ of Financial Institutions (10/24/11) for Knowledge Coach



ProSystem fx  
Knowledge Coach  
October 2011

Release  
Bulletin

Welcome to the *2011 Knowledge-Based Audits of Financial Institutions (10/24/11)*, the latest title available in the ProSystem fx® Knowledge Coach series! Please review this bulletin prior to installation and use. If you have any questions, call Technical Support at 1-800-PFX-9998, option 4.

***Knowledge-Based Audits of Financial Institutions*** is designed to help the auditor efficiently and effectively perform financial statement audits of financial institutions in accordance with auditing standards generally accepted in the United States of America (GAAS). The knowledge-based audit is a risk-based methodology that emphasizes using knowledge of the entity to make risk assessments in connection with financial statement audits. The operations of financial institutions are often unique and complex, and require specialized accounting and auditing knowledge. This module includes up-to-date guidance for auditing financial institutions such as nonpublic banks, savings institutions, and credit unions. The 2011 edition of *Knowledge-Based Audits of Financial Institutions* is current through SAS-121, *Revised Applicability of Statement on Auditing Standards, No. 100 – Interim Financial Information*.

The 2011 edition of *Knowledge-Based Audits of Financial Institutions* includes the very latest information and has been updated to take into account new or pending auditing standards and guidance. References to FASB pre-Codification literature have been removed throughout the forms and practice aids. Many new tips and examples have been incorporated. Also included is a general GAAP financial statement disclosures checklist (KBA-901) with an industry-specific section for financial institutions. Together these provide a centralized resource of the required and recommended GAAP disclosures and key presentation items currently in effect, using the style referencing under the FASB Accounting Standards Codification™. The 2011 documents now include Accounting Research Material links to specific guidance that provides instant access to detailed analysis related to the steps and processes discussed in the workpapers. This is the first update to this Knowledge Coach title. If you are updating from the previous version of this title refer to the Knowledge Coach User Guide Chapter 12. The guide is found on the Engagement File Room Help menu.

For more information on the Knowledge-based Audit (KBA) Methodology and how it works within ProSystem fx® Knowledge Coach, refer to the [Additional Information](#) section in this bulletin.

## WORKPAPER UPDATES AND ROLL FORWARD NOTES

### Important Note for Customers Updating Binders from 2010 Knowledge Based Audits of Financial Institutions

You **must** install Knowledge Coach 1.8 or higher before updating to the 2011 Financial Institutions content. For more information on the Knowledge Coach 1.8, review the Release Notes and associated Knowledge Base article at the following link <http://support.cch.com/productsupport/solution.aspx?id=sw33821>. If you have not installed Knowledge Coach 1.8, make sure to update all related and independent workpapers at the same time.

### General Roll Forward Note:

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

### Audit Programs (AUDs):

- **AUD-801 Audit Program: Cash** through **AUD-818 Audit Program: Share-Based Payments** – New steps added to include additional industry specific substantive procedures, as well as control testing steps.
- **AUD-901 Subsequent Events** – New steps for reviewing disclosures related to subsequent events.
- **NEW AUD-905 Consideration of Omitted Procedures after the Report Date** – Designed to help the auditor consider and address the importance of omitted procedures that may have been necessary at the time of the audit; document procedures performed subsequent to the date of the audit report; determine the appropriate course of action in the circumstances; and document the auditor's conclusions.

### Practice Aids (AIDs):

- **NEW AID-703 Control Testwork Template** – Designed to assist in performing tests of the operating effectiveness of internal controls.
- **NEW AID-704 Summary Control Testing Plan** – Designed to aid in the documentation of the auditor's plan for testing the effectiveness of internal controls.

### Knowledge-Based Audit Documents (KBAs):

- **KBA-103 Significant Matters** – Review of significant accounting estimates has been moved to a separate workpaper.
- **NEW KBA-106 Review of Significant Estimates** is a new foundation workpaper that has been designed to aid auditors in performing and documenting the review of significant estimates. Once your binder is rolled forward or updated, you will need to insert this workpaper into your binder.  
**Roll Forward Note:** The Review of Significant Estimates table has moved from KBA-103 *Significant Matters* to the new workpaper KBA-106 *Review of Significant Estimates*. Content in the Review of Significant Estimates table will move from previous versions to the new table in KBA-106. To ensure data updates correctly, insert KBA-106 *Review of Significant Estimates* into your updated binder after roll forward.
- **KBA-400 Understanding Internal Controls: Scoping and Mapping** – Includes updated instructions and tables; a new column has been added for indicating whether internal controls over financial reporting have been selected for testing operating effectiveness.
- **KBA-502 Summary of Risk Assessments** – Includes updated instructions, and a new column has been added for indicating whether internal controls over financial reporting have been selected for testing operating effectiveness.
- **KBA-901 Financial Statement Disclosures Checklist** – The disclosures checklist assists the auditor in ensuring that the client has properly reported, presented and disclosed its financial statement activity in accordance with GAAP. The checklist follows the FASB Accounting Standards Codification format and is current through March 31, 2011. An industry specific section for financial institutions has been included and is designed to supplement the presentation and disclosure requirements in the General U.S. GAAP Financial Statement Disclosures Checklist. This supplement serves as a means to document consideration of the specialized presentation and disclosure requirements for depository and lending institutions.  
**Important:** If you are updating from the *2010 Knowledge-Based Audits™ of Financial Institutions*, note that the formatting of the Disclosure checklist has changed. In the 2011 version, the checklist starts as a standard non-public commercial entity checklist and the Financial Institution specific information is included at the end of the document. Because of this format change, not all of your answers will be updated or roll forward. Please verify your answers are still correct after updating or rolling forward.

### Correspondence Documents (CORs):

- **COR-205 Audit Engagement Letter** – Updated to add “material weakness” to the language of the engagement letter and to provide appropriate verbiage for SAS-119 engagements.
- **NEW COR-212 Communication with Predecessor Auditor prior to Client/Engagement Acceptance** – Sample letter from successor auditor to predecessor auditor requesting information regarding management's integrity, prior to making the client acceptance decision.
- **NEW COR-213 Request from Client to Predecessor Auditor to Release Information to Successor Auditor**– Sample letter from client to predecessor auditor asking them to release information and respond to successor auditor inquiries.
- **COR-901 Management Representation Letter** has been updated to reflect language contained in SAS-118, 119, and 120.

### Auditor's Reports (RPTs):

- **RPT-901 Unqualified Opinion: Single-Year Financial Statements through RPT-940 Disclaimer of Opinion: Separate Report on Supplementary Information in Relation to the Financial Statements as a Whole—Adverse Opinion on the Financial Statements** – Updated throughout to remove references to pre-codification FAS statements; reflect changes in standards, where applicable; update or add new practice points addressing clarified standards; and add links to the corresponding guide, *Knowledge-Based Audits™ of Financial Institutions*.

### Resource Documents (RESs):

- **RES-001 KBA Methodology Overview** – Updated to provide information regarding the Auditing Standards Board's Clarity Project and, where applicable, to reflect organizational and instructional changes.
- **NEW RES-010 2011 Financial Institutions Title Overview for Knowledge Coach Users** has been added as a reference document for the workpaper update information, along with list of related workpapers for the title.
- **NEW RES-QCA Meeting Quality Control Standards Using KBA Audit Tools** has been added as a reference document.

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

New literature, standards, and developments applicable to financial institutions and reflected in the following current audit and accounting guidance:

#### Statements on Auditing Standards (SASs):

- SAS-115 *Communicating Internal Control Related Matters Identified in an Audit*
- SAS-118 *Other Information in Documents Containing Audited Financial Statements*
- SAS-119 *Supplementary Information in Relation to the Financial Statements as a Whole*
- SAS-120 *Required Supplementary Information*
- SAS-121 *Revised Applicability of Statement on Auditing Standards, No. 100—Interim Financial Information*

AICPA Statement on Quality Control Standards No. 7, *A Firm's System of Quality Control*

ASU No. 2011-01, *Receivables (Topic 310)—Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*

FASB Accounting Standards Codification (through March 31, 2011)

# Additional Information on Knowledge Coach and the KBA Methodology

## KBA Methodology

The **Knowledge-Based Audit (KBA) Methodology** allows the results of one set of procedures to become the input for the next. The key components of the KBA Methodology include:

- An **Overview** that guides auditors through the new methodology.
- Customizable **Audit Programs** that take auditors through related steps and procedures.
- **Practice Aids** to help auditors complete steps or processes outlined in the Knowledge-Based Audit documents and Audit Programs.
- **Auditor's Reports** that provide a variety of sample auditor's opinions on audited financial statements.
- **Correspondence** documents that provide sample letters to be used to comply with GAAS requirement and in many other common situations.
- **Knowledge-Based Audit** documents, integral to the risk assessment and overall audit processes, which contain steps and procedures required by GAAS.

**Risk Assessment Standards-** The practice aids and tools in the *2011 Edition of Knowledge-Based™ Audits of Financial Institutions* are designed around the AICPA's risk assessment standards to assist auditors of financial institutions by:

- Facilitating compliance with GAAS;
- Encouraging more effective audits through tailored audit programs and comprehensive practice aids;
- Helping auditors to focus on and respond to identified audit risks; and
- Enhancing audit documentation.

## ProSystem fx® Knowledge Coach

**ProSystem fx® Knowledge Coach** functionality allows auditors to use the Knowledge-Based-Audit methodology more efficiently by eliminating the need for duplicate entry of the same information, tailoring audit documentation to each particular engagement, and documenting the link between risks identified and procedures performed. **AUD-100 Tailoring Question Workpaper** is a document in Knowledge Coach that presents engagement-level questions designed to aid in tailoring the engagement documentation to fit each client. Completing the questions helps the auditor avoid duplication and unnecessary workpapers.

Before you begin your audit, please review the guidance in **AUD-101 Overall Audit Program**. This workpaper is intended to be your road map through a Knowledge-Based Audit methodology. You should start your audit with **AUD-100 Tailoring Question Workpaper** and **AUD-101 Overall Audit Program**.

**Risks** can be captured via the Risk Summary task pane from any Knowledge Coach workpaper by the current editor of **KBA-502 Summary of Risk Assessments**. This allows the user to continuously assess risks during the engagement. Several workpapers prompt the consideration of the presence of risks, but the Risk Summary task pane must be used to document those risks. All documented risks flow to the Risk Summary. To ensure risks show in findings tables, make sure to check the "workpaper identified in" field of the Risk pane.

**Information Flow** helps cut down on the time spent duplicating information across forms. In addition, the flow of consistent information ensures that information and updates to information are not missed between workpapers. Drill-down functionality helps the user navigate quickly to the source of the information, aiding in the review of the audit file.

**Diagnostics** help you keep track of unresolved issues like unanswered questions, incomplete risks, program steps not linked to risks or relevant assertions, missing workpaper, and more. Diagnostics now show when a form table has not been answered (i.e. tables in **KBA-101 Overall Audit Strategy** that are added by the tailoring questions in **AUD-100 Tailoring Question Workpaper**).

**Links to Accounting Research Manager (ARM)** – If you subscribe to an ARM library that includes audit content, you can link directly to source material from Resources within Knowledge Coach documents. These links have been updated to reference to the standards under the FASB Accounting Standards Codification™. Also, if you subscribe to the *Knowledge-Based Audit of Financial Institutions Guide* on ARM, you can take advantage of brand new links to the audit guide material from within the Knowledge Coach documents.

**Interpretive Guidance** is integrated into each Knowledge Coach template through the Tips view of each new task pane. Informational features include Practice Points, Examples, Optional Workpapers, and Resources to help auditors work more effectively and efficiently. We have also added the ability to navigate from Resources within a document or the tip pane directly to CCH's Accounting Research Manager and industry audit guides by simply clicking on the Reference.

## Important:

- If you are updating from the *2010 Knowledge-Based Audits™ of Financial Institutions*, you must install Engagement 6.8 and Knowledge Coach 1.8 or higher to ensure that your content updates correctly.
- Make sure to save changes to workpapers before closing the workpaper or the binder to ensure data is correctly updated.
- If your Current Editor Knowledge Coach MS Word workpapers become read-only or crash, please do the following
  - Keep the binder with the affected workpapers open.
  - Contact Customer Service at 1-800-PFX-9998, option 4 to obtain a repair utility.
- Knowledge Coach cannot be used within the Shared File Room (SFR) feature of Engagement. However, Knowledge Coach workpapers can be shared across team members through check in, check out, workpaper assignment, synching to the central file room and through peer-to-peer synch in the same way that other Engagement workpapers are shared.

## System Requirements

- This title **MUST** be used with ProSystem *fx* Engagement version 6.8 and higher. If you are upgrading from ProSystem *fx* Engagement 6.0, 6.1, 6.1.2, or 6.5 please contact Technical Support at 1-800-PFX-9998, option 4 for detailed instructions.
- A minimum of 2GB of RAM is required and 4 GB of RAM is recommended for optimal performance when opening and navigating through ProSystem *fx* Knowledge Coach documents.

## Download Instructions

Download the *2011 Knowledge-Based Audits™ of Financial Institutions* from the **ProSystem *fx* Knowledge Coach Updates** section of the ProSystem *fx* Engagement Support Web site at the following URL: <http://support.cch.com/updates/KnowledgeCoach>, then select the **Knowledge Coach Series** and **Download file** link next to the **2011 Knowledge-Based Audits of Financial Institutions**. On some occasions the content package file (.KCP) has downloaded with the extension changed to .ZIP. If this occurs, please change the extension of the downloaded file to KCP using all capital letters.

**Important:** ProSystem *fx* Engagement version 6.8 or higher must be installed on the computer in order to install this Knowledge Coach title. Additional requirements include Microsoft Office 2007, Microsoft Office 2003 Primary Interop Assemblies (PIA) and Visual Studios 2005 Tools for Office Second Edition Runtime (VSTOR).

The following 2011 Knowledge-Based Audits of Financial Institutions (10/18/11).KCP download is a proprietary file that must be installed from within Engagement. Save this KCP file to a location on your local drive, extract it, and follow the Installation Instructions included in the Release Bulletin.

## Installation Instructions

Once you have downloaded your Knowledge Coach title, you will need to add it to the list of titles within ProSystem *fx* Engagement. The only additional system requirement is approximately 75MB of disk space to store your Knowledge Coach program content files. Please refer to the ProSystem *fx* Engagement with Knowledge Coach Release Notes for any other system requirements.

After downloading the *2011 Knowledge-Based Audits of Financial Institutions*, do the following:

1. Launch the ProSystem *fx* Engagement Workpaper Management application so that the Local File Room is displayed. Select **Tools > Knowledge Coach Titles**.  
The Knowledge Coach Titles window will be displayed.
2. Choose **Add Title**.
3. Browse to the title package file (\*.KCP) that you previously downloaded and extracted from the ProSystem *fx* Knowledge Coach Support Web site.
4. Choose **Open**.  
The system will display a progress indicator while the title package is added. You will receive a message that the title has been successfully installed once the process is complete.

Once the title is added, you must release it, so that other staff members in your firm can use it. You may also wish to “unrelease” previous versions of the title.

To unrelease a title:

1. Select a previous version of the KBA Financial Institutions title
2. Choose **Unrelease Title**. The date will be removed from the *Date released* column and staff that do not have the staff group property right to insert unreleased titles will not be able to insert the unreleased titles into a binder.

**Note:** You can determine this access in the **ProSystem fx Engagement Admin** module by selecting a staff group and choosing **File > Properties > Content** “Insert Knowledge Coach workpapers from unreleased titles” option

To release a title:

1. Select one of the Knowledge Coach titles in the list that has been added but is not yet released.
2. Choose **Release Title**. The current date and time will be displayed in the *Date released* column, and the status will change to “Released.”

**Note:** You must add and assign a Knowledge Coach module as well as the Knowledge Tools title license in the ProSystem fx Engagement Administrator before using the workpapers.

**Important:** Once the *2011 Knowledge-Based Audits of Financial Institutions* title has been added and released, it will be automatically deployed to other staff members when they login to the “Office” location, or when they synchronize a binder that contains Knowledge Coach workpapers from this title.

## Online Permission Key

Permission key files may be downloaded from our Web site at <http://tax.cchgroup.com> or when adding or updating the new licenses within ProSystem fx Engagement with Knowledge Coach version 6.8 and higher. After updating the license file in the ProSystem fx Engagement Admin module, licenses need to be assigned to the staff who will use 2011 *Knowledge-Based Audits<sup>SM</sup> of Financial Institutions*.

If you have not already established a Single Sign-on (SSO) account with Customer Service, we urge you to do so at this time.

Permission keys are no longer generally distributed via floppy diskette. You can choose to continue receiving the diskette by going to <http://tax.cchgroup.com/pfxsupport>, clicking the Firm Administration link, and making the appropriate selection (SSO access is required), or by contacting Customer Service at 1-800-PFX-9998, option 4.

## Accounting Research Manager

CCH's Accounting Research Manager is the most comprehensive, up-to-date and objective online database of financial reporting literature. It includes all authoritative and proposed accounting, auditing, and SEC literature, plus independent, expert-written interpretive guidance.

Our Weekly Summary email newsletter highlights the key developments of the week, giving you assurance that you have the most current information. It provides links to new FASB, AICPA, SEC, EITF, and IASB authoritative and proposal-stage literature, plus guidance from financial reporting experts.

Our team of content experts updates the system on a daily basis, so you can stay as current as possible. What's more, our experts attend critical standard-setting meetings and summarize the results for you, which means you'll learn of newly released literature and deliberations of current financial reporting projects as soon as they occur! Plus, you'll benefit from their easy-to-understand technical translations. Our expert's interpretations clearly lay out what the rules mean from your perspective.

Newly available is the Knowledge-Based Financial Institutions, an audit guide that helps you comply with the AICPA's risk assessment standards and has incorporated the Knowledge-Based Audit methodology. The primary objective of the guide is to provide practitioners with an effective approach for conducting audits of financial institutions. This publication supplements and complements the KBA documents that are available in Knowledge Coach.

With Accounting Research Manager, you maximize the efficiency of your research time, while enhancing your results. Learn more about our content, our experts, and how you can request your free trial by visiting <http://www.accountingresearchmanager.com>. You can also access the Accounting Research Manager Web site by selecting the item in ProSystem fx Engagement from the Guidance tab on the Shortcuts bar in the Binder window.

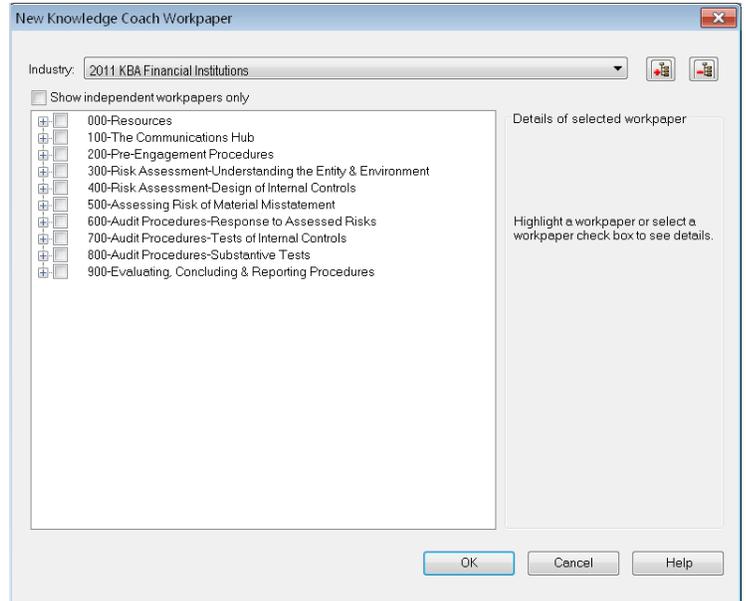
## Links to Accounting Research Manager (ARM)

As indicated above, subscribers to an Accounting Research Manager library that includes source content can link directly to source material from references within Knowledge Coach workpapers. These links have been updated to reference the new Codification released by the FASB and available on ARM. The Codification on ARM is fully integrated with U.S. and international accounting standards, other non-authoritative materials and industry leading interpretive guidance.

## Using Your Knowledge Coach Content

To use your Knowledge Coach Workpaper Templates, open a binder in ProSystem *fx* Engagement, select the workpaper tab into which you would like to insert the workpaper, and select **New Knowledge Coach Workpaper** from the toolbar or File menu. The New Knowledge Coach Workpaper dialog appears (*Figure 1*).

Select the New Knowledge Coach Title with the content you would like to use. You can only select titles you have installed. The information displayed changes to reflect the workpaper organization available for the selected title. Select the Knowledge Coach Workpaper Templates to insert into your binder and click **OK**. The **Selected Workpaper Properties** dialog appears. Each workpaper name is automatically loaded into the Name field. Add a workpaper index in the Index field and make any Name modifications you desire. You can also modify the tab location or the roll forward settings for each workpaper. Then click **OK**. The integrated Knowledge Coach workpaper is now inserted into your engagement binder. For more information on how to use Knowledge Coach workpapers in your binder, see the Knowledge Coach User Guide.



**Figure 1 – New Knowledge Coach Workpaper**

Download Description:	2011 Knowledge-Based Audits of Financial Institutions (10/24/11)
Version:	Engagement v. 6.8 with Knowledge Coach 1.8 or higher
Release Date:	October 2011
File size:	14MB
Approx. Download Time:	45 minutes at 56 kbps
License:	Full Version
Platforms:	Windows XP/Vista
Office:	Microsoft Office 2007 required

## Contact Information

For a demo or to purchase additional titles as they become available      1-800-PFX-9998, option 1  
 Technical Support      1-800-PFX-9998, option 4, then option 1

The ProSystem *fx* Engagement version of the Knowledge Coach Integrated Knowledge-Based Guides is sold and supported by CCH, a Wolters Kluwer business. The contact information above can be used for customer service and support issues for this product. For information about other CCH products, please call 1-800-248-3248 or visit the online Store at <http://tax.cchgroup.com>.