

2011 Knowledge-Based Audits™ of Construction Companies and Contractors (5/9/11) for Knowledge Coach

ProSystem fx
Knowledge Coach
May 2011



Release
Bulletin

Welcome to the *2011 Knowledge-Based Audits of Construction Companies and Contractors (5/9/11)*, 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 Construction Companies and Contractors is designed to help the auditor efficiently and effectively perform financial statement audits of construction companies and contractors 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 a financial statement audit of construction companies and contractors. This allows the auditor to more appropriately focus audit efforts on those areas which in the auditor's judgment are the most significant and pose the most risk to the financial statement audit. The operations of construction companies and contractors are often unique and complex and require specialized accounting and auditing knowledge. The module includes guidance for audits of nonpublic construction entities of all types.

The 2011 edition of *Knowledge-Based Audits of Construction Companies and Contractors* 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; they are retained in the financial statement disclosures checklist. Many new tips and examples have been incorporated. 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. Also included is a revised financial statement disclosures checklist that provides a centralized resource of the current required and recommended GAAP disclosures and key presentation items, using the style referencing under the FASB Accounting Standards Codification™. 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 Construction

Entities: You **must** download and install the Knowledge Coach 1.6 update before updating to the 2011 Construction Companies and Contractors content to ensure that all the 2011 content is updated correctly. For more information on the Knowledge Coach 1.6 Update, review the Release Notes and associated Knowledge Base article at the following link: <http://support.cch.com/updates/KnowledgeCoach/>.

Also, make sure to update all related and independent workpapers at once until you have installed the upcoming Knowledge Coach 1.7 update. More information on Knowledge Coach 1.7 will be available at the same site shortly.

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-101 Overall Audit Program** has been updated and now also includes steps for documenting compliance with firm quality control requirements and independence considerations related to nonattest work; the sections on completion, reporting, and finalization procedures have been enhanced and reorganized to better reflect a more typical work flow.
- **AUD-201 Audit Program: Additional Audit Procedures for an Initial Audit Engagement** now provides additional instructions and guidance regarding audit procedures for an initial audit engagement.
- **AUD-604 Audit Program: Using the Work of a Specialist** now provides additional guidance regarding procedures to test the data provided by the client to the specialist and to document the auditor's evaluation of and conclusions on the specialist's findings.
- **AUD-802 Audit Program: Investments in Securities, Derivative Instruments, and Hedging Activities** has been updated to reflect the most recent ASC 820 (FAS-157) guidance on *Fair Value Measurements and Disclosures* and to clarify program steps relating to whether investments are properly classified and valued.

Practice Aids (AIDs)

- **NEW AID-201 Nonaudit Services Independence Checklist** is designed to help the auditor document considerations of auditor independence regarding the provision of nonattest services and independence considerations related to issues such as client relationships.
- **AID-801 Audit Sampling Worksheet for Substantive Tests of Details** has been converted to an Excel worksheet to better accommodate the formulas contained in the practice aid.

Knowledge-Based Audit Documents (KBAs)

- **KBA-104 Evaluating and Communicating Internal Control Deficiencies**
 - **Roll Forward Note:** There is not a separate table for "other matters" in KBA-104 *Evaluation and Communication of Internal Control Deficiencies*. Content in the description column of the other matters table from previous versions will be moved to the Significant Matters table in KBA-103 on update. Other answers from the 2010 Other Matters table will not be included on update.

- **KBA-202 Engagement Continuance Form/KBA-201 Engagement Acceptance and Continuance Form** have been combined to create new **KBA-201 Client/Engagement Acceptance and Continuance Form**.
 - **Roll Forward Note:** KBA-202 *Engagement Continuance Form* was replaced by KBA-201 *Engagement Acceptance and Continuance Form* in the 2011 version. Any risks and findings added to the KBA-202 *Engagement Continuance Form* of the 2010 Knowledge-Based Audits of Construction Companies and Contractors title will be included in the findings table of the KBA-201 *Engagement Acceptance and Continuance Form* of 2011 *Knowledge-Based Audits of Construction Companies and Contractors*. Other added data will no longer be available.
 - **IMPORTANT NOTE:** To ensure data updates correctly, insert the 2010 version of KBA-201 *Engagement Acceptance Form* is in your 2010 binder **BEFORE** you update to 2011 *Knowledge-Based Audits™ of Construction Companies and Contractors*. If you perform the update through the Update all Knowledge Coach Workpapers menu option and you want to keep this workpaper for reference, ensure you create a back-up of the binder or a copy of the workpaper before you update.
- **KBA-400 Understanding Internal Controls: Scoping and Mapping** has been revised to enable clearer documentation of the procedures performed to gain an understanding of controls related to assertion-level risks, significant risks, fraud risks, and risks for which substantive testing alone is not sufficient.
- **KBA-403 Understanding Activity-Level Controls: Revenue, Accounts Receivable, and Cash Receipts through KBA-411 Understanding Activity-Level Controls: Financial Reporting and Closing Process** have been revised to include a new column testing the operating effectiveness of controls and new practice points.
 - **Roll Forward Note:** Since no data will be kept in excel workpapers when replaced with latest content, you may want to set the roll forward properties to "Include in roll forward" for this workpaper and manually add the new column so that your previous work is kept on roll forward.

- **KBA-502 Summary of Risk Assessments** has been revised with updated instructions and a new control test column.
- **KBA-901 Financial Statement Disclosure Checklist** is current through September 30, 2010, and includes the relevant citation from the Codification as of September 30, 2010, using the FASB classification system. References to the FASB pre-Codification literature are included throughout the checklist to assist users who might be interested in determining where the relevant requirements were previously addressed. Industry-specific guidance related to construction companies and contractors is included in the following Topics: Topic 910, *Contractors—Construction*; and 912, *Contractors—Federal Government*.

Correspondence Documents (CORs)

- **COR-204 Audit Engagement Letter** has been updated to incorporate the language previously contained in **COR-209** covering situations when access to audit documentation is required by law, regulation, or firm peer reviews, and to document the auditor's understanding with the client regarding audit services and limitations.
- **COR-209 Communication to Client When the Auditor May Be Required by Law, Regulation, or Audit Contract to Provide Access to the Audit Documentation** has been eliminated; the remaining correspondence documents have been renumbered accordingly.
- **COR-905 Communication to Client with No Material Weaknesses** has been updated in line with SAS-115 guidance regarding communication of significant deficiencies and material weaknesses in internal control noted in the audit.

Auditor's Reports (RPTs)

- **RPT-961 Qualified Opinion: Client's Lawyer Not Responding to Audit Inquiry Letter** has been deleted in accordance with the requirements of SAS-119 (this type of report may no longer be issued).
- **RPT-964 Report on Information Accompanying the Basic Financial Statements When the Auditor's Report Contains a Qualified Opinion** has been deleted to avoid duplication.

- **NEW RPT-980 Report on Required Supplementary Information: Some Required Supplementary Information Is Omitted and Some Is Presented in Accordance with the Prescribed Guidelines through RPT-985 Separate Report on Supplementary Information in Relation to the Financial Statements as a Whole: Adverse Opinion on the Financial Statements** address clarified standards.

Resource Documents (RESs)

- **RES-001 Knowledge-Based Audit Methodology Overview** has been updated to reflect the organizational and instructional changes noted above and also to provide additional discussion of construction and contractor-specific topics such as the nature of the construction industry including audit risk and considerations related to the unique risks of construction contractors (including, for example, uncompleted contract issues for job gain or fade considerations, management estimates, inherent risk issues, internal controls important to the construction industry and how to group and evaluate them).
- **NEW RES-010 2011 Construction Entities 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.

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-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*
- AICPA Statement on Quality Control Standards No. 7, *A Firm's System of Quality Control*
- FASB Accounting Standards Codification as of September 30, 2010

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 requirements 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 Construction Companies and Contractors* support the AICPA's Auditing Standard Board's Risk Assessment Standards by providing guidance to help address audit requirements. The Knowledge-Based-Audit (KBA) methodology will assist auditors of construction companies and contractors by:

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

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 Overall Tailoring Questions*).

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 Construction Companies and Contractors Guide* on CCH's Accounting Research Manager, 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 Notes

- If you are updating from the *2010 Knowledge-Based Audits™ of Construction Companies and Contractors* title, you must install Knowledge Coach 1.6 update to ensure that your content updates correctly. Also, make sure to update all related and independent workpapers at once until you have installed the upcoming Knowledge Coach 1.7 update. More information on Knowledge Coach 1.7 will be available shortly.
- Risks cannot be entered directly into findings tables found at the bottom of several workpapers. Those tables can still be used to capture significant matters that are not risks and control deficiencies, but risks must be entered using the Risk Summary task pane.
- 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 crashes, 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 6.5 and higher. If you are upgrading from ProSystem *fx* Engagement 6.0, 6.1 or 6.1.2, please contact Technical Support at 1-800-PFX-9998, option 4 for detailed instructions.
- A minimum of 2GB of RAM is needed and 4 GB is recommended for optimal performance when opening and navigating through ProSystem *fx* Knowledge Coach documents.

Download Instructions

Download the *2011 Knowledge-Based Audits™ of Construction Companies and Contractors* title 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 Construction Companies**. 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 6.5 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 Construction Companies and Contractors (5/9/11).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 Construction Companies and Contractors*, 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 Construction Companies and Contractors 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 Construction Companies and Contractors* 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. There is no need for each user to run the *Knowledge Coach Title Update*, as the necessary files will be deployed with the content for the newly released 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 6.5 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 AuditsSM of Construction Companies and Contractors*.

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 Construction Companies and Contractors*, 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 construction companies and contractors. 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.

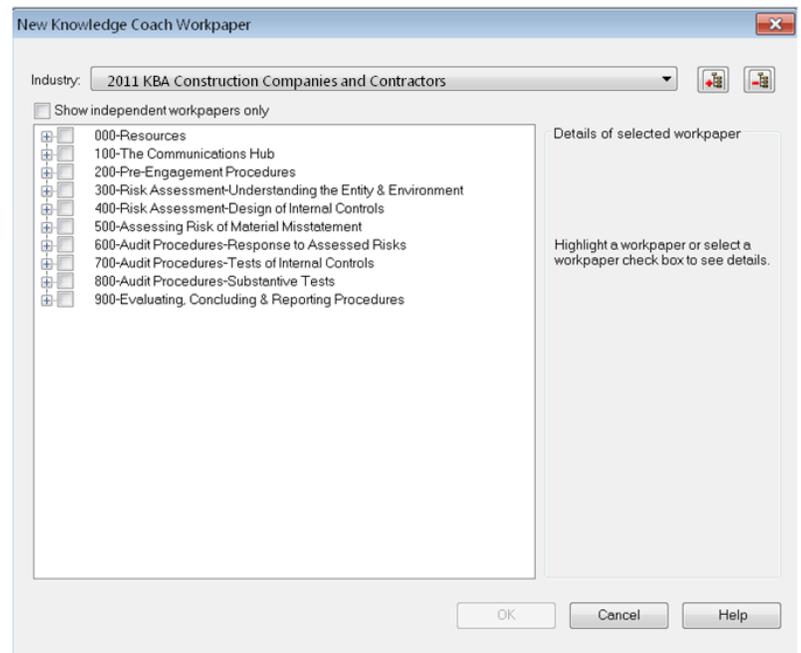


Figure 1 – New Knowledge Coach Workpaper

Download Description:	2011 Knowledge-Based Audits of Construction Companies and Contractor (5/9/11)
Version:	Engagement v. 6.5 with Knowledge Coach 1.6 or higher
Release Date:	May 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

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>.