

2011 Knowledge-Based Audits™ of Governmental Entities (6/28/11) for Knowledge Coach

ProSystem fx
Knowledge Coach
June 2011



Release
Bulletin

Welcome to the *2011 Knowledge-Based Audits of Governmental Entities (6/28/11)*, 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 Governmental Entities is designed to

help the auditor efficiently and effectively perform financial statement audits of state and local governments in accordance with auditing standards generally accepted in the United States of America (GAAS) and generally accepted government auditing standards (GAGAS). 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. 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 governmental entities are often unique and complex and require specialized accounting and auditing knowledge. This edition includes specific up-to-date guidance for auditing state and local governmental entities.

The 2011 edition of *Knowledge-Based Audits of Governmental Entities* includes the very latest information and has been updated to take into account new or pending auditing standards and guidance, including the requirements of SASs 118, 119, 120, and 121; clarified standards under the AICPA ASB's Clarity project; changes made to OMB Circular A-133 through May 1, 2011; and guidance in the most recent editions of the AICPA Audit and Accounting Guides, *Government Auditing Standards and Circular A-133 Audits* and *State and Local Governments*. In addition, various practice alerts have been added to address the applicability of new or pending audit standards and guidance to audits of state and local governments. The workpapers have been updated, where applicable, with links to the guidance in CCH's *Knowledge-Based Audits of State and Local Governments with Single Audits*. 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 Governmental Entities:

You **must** download and install Knowledge Coach 1.7 Update before updating to the 2011 Governmental Entities content. The Knowledge Coach 1.7 Update will ensure that all the 2011 content is updated correctly. For more information on the Knowledge Coach 1.7 Update, review the Release Notes and associated Knowledge Base article at the following link:

<http://support.cch.com/updates/KnowledgeCoach/>. If you have not installed Knowledge Coach 1.7, 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-101 Overall Audit Program** has been revised with additional program steps to accommodate early implementation of GASB-61.
- **AUD-604 Audit Program: Using the Work of a Specialist:**
 - **Roll Forward/Update Content Note:** Changes have been made to the Specialists Qualifications table so that multiple specialist names flow from the Specialists table above. Any additional rows that were inserted manually will not be retained on content update. If you have added additional rows, you may wish to keep a copy of this data before content update.
- **AUD-801 Audit Program: Cash** through **AUD-818 Audit Program: Derivative Instruments** have been updated for recently issued GAAS and GAGAS requirements (including GASB-54, 59, and 62), to take into account, where applicable, clarified standards, and the provisions of SASs 118, 119, and 120, to incorporate control testing steps, and to better document the linkage between risks identified and procedures performed in an improved "Linking Risks to Further Audit Procedures" section.
- **AUD-814 Audit Program: Related-Party Transactions, Commitments and Contingencies, Estimates, and Concentrations** provides improved procedures for auditing related-party transactions and management's accounting estimates.
- **AUD-815 Audit Program: Fair Value Measurements and Disclosures** includes updated steps for auditing fair value measurements.
- **AUD-901 Audit Program: Subsequent Events** has been updated to include a new step for disclosures and in consideration of GASB-56 requirements.
- **AUD-902 Audit Program: Going Concern** includes additional going concern considerations.
- **NEW AUD-905 Audit Program: Consideration of Omitted Procedures after the Report Date** has been designed to help the auditor document the procedures performed when, after the report date, the auditor determines that additional procedures need to be completed, determine the appropriate course of action, and document conclusions.

Practice Aids (AIDs)

- **AID-302 Determining the Financial Reporting Entity, Including Component Units** has been updated to reflect the provisions of GASB-61.
- **AID-304 Understanding the Entity's Revenue Streams and Revenue Recognition Policies** has been revised to include documentation of significant changes in revenue streams from year to year.
- **NEW AID-703 Control Testwork Template** has been designed to aid the auditor in performing tests of the operating effectiveness of internal controls.
- **NEW AID-704 Summary Control Testing Plan** has been designed to aid in the documentation of the auditor's plan for testing the operating effectiveness of internal controls.

Knowledge-Based Audit Documents (KBAs)

- **KBA-103 Significant Matters** has been updated; coverage of significant estimates has been moved into new **KBA-106 Review of Significant Estimates**.
- **KBA-104 Evaluating and Communicating Internal Control Deficiencies** includes new examples and practice points.
- **NEW KBA-106 Review of Significant Estimates** has been designed to aid auditors in performing and documenting the review of significant estimates (formerly addressed in KBA-103).
- **KBA-302 Understanding the Entity and Its Environment** now includes new example factors (e.g., financial reporting, attitudes and rationalizations, opportunities) for consideration.
- **KBA-303 Inquiries of Management and Others within the Entity about the Risks of Fraud** has been expanded with a new section to address inquiries of employees involved in the financial reporting process and includes other additional inquiry examples.
- **KBA-400 Understanding Internal Controls: Scoping and Mapping** has been revised with updated instructions and tables and now includes documentation of whether reconciliation controls have been implemented and selected for operating effectiveness testing.

- **KBA-401 Understanding Entity-Level Controls** includes new example control objectives and example controls.
- **KBA-403 Understanding Activity-Level Controls: Revenue, Accounts Receivable, and Cash Receipts** through **KBA-408 Understanding Activity-Level Controls: Financial Reporting and Closing Process** have been revised to include documentation of controls selected for operating effectiveness testing.
 - **Roll Forward/Update Content 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** provides presentation and disclosure checklists that are unique to governmental GAAP. These are updated annually and are current through the issuance of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Correspondence Documents (CORs)

- **COR-204 Audit Engagement Letter** has been updated to accommodate SASs 118, 119, and 120.
- **COR-206 Principal Auditor’s Response Letter to Inquiries from the Other Auditor** and **COR-207 Principal Auditor’s Request for Representations from Other Auditor Who Audits the Financial Statements of a Component Unit or Other Reporting Unit** have been revised for ET 101-10 and materiality.
- **NEW COR-211 Communication with Predecessor Auditor Prior to Client/Engagement Acceptance** provides a sample letter from successor auditor to predecessor auditor requesting information regarding management’s integrity prior to making the client acceptance decision.
- **NEW COR-212 Request from Client to Predecessor Auditor to Release Information to Successor Auditor** provides a sample letter from client to predecessor auditor asking them to release information and respond to successor auditor inquiries.

Auditor’s Reports (RPTs)

- **RPT-901 Unqualified Opinions on Basic Financial Statements of a General-Purpose Government, Accompanied by Required Supplementary Information and Supplementary Information –RPT-922 Special Report on Modified Cash Basis Financial Statements of a General-Purpose Government: Unqualified Opinions on the Basic Financial Statements, Accompanied by Required Supplementary Information and Supplementary Information** have been revised, where applicable, to take into account the impact of SASs 118, 119, and 120.

Resource Documents (RESs)

- **RES-001 Knowledge-Based Audit Methodology Overview** and **RES-003 Index of Audit Programs, Forms, and Other Practice Aids** have been updated where applicable, to reflect organizational and instructional changes noted above and below and revised to eliminate examples that are not relevant to audits of governmental entities.
- **NEW RES-010 2011 Governmental 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.
- **NEW RES-QCA MEETING QUALITY CONTROL STANDARDS USING KBA AUDIT TOOLS** has been added to aid users understanding of how the requirements of Statement on Quality Control Standard No. 7 (SQCS-7) are met using the Knowledge-based Audit methodology tools.

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

- Clarified standards, and new literature, standards, and developments applicable to state and local governments that are reflected in the following current audit and accounting guidance:
 - Statements on Auditing Standards (SASs):
 - SAS-117 *Compliance Audits*
 - 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 Audit and Accounting Guides:
 - *State and Local Governments, with conforming changes as of March 1, 2010*
 - *Government Auditing Standards and Circular A-133 Audits, with conforming changes as of May 1, 2010*
 - *Audit Sampling—New Edition as of May 1, 2008*
- AICPA Audit Risk Alerts:
 - *State and Local Governmental Developments—2010*
 - *Government Auditing Standards and Circular A-133 Developments—2010*
 - *Current Economic Instability: Accounting and Auditing Considerations—2010*
- AICPA Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control (Redrafted)*
- Governmental Accounting Standards Board Statements (GASBs):
 - GASB 59 *Financial Instruments Omnibus*
 - GASB 61 *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*
 - GASB 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- Governmental Accounting Standards Board Exposure Drafts (EDs):
 - *Government Auditing Standards—2010 Exposure Draft*
 - *ED Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
 - *ED Accounting and Financial Reporting for Service Concession Arrangements*
- Government Accountability Office Exposure Draft (ED):
 - *ED Government Auditing Standards—2010 Exposure Draft*
- OMB Circular A-133 through May 1, 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 in many common situations.
- **Knowledge-Based Audit** documents, integral to the risk assessment and overall audit processes, that contain steps and procedures required by GAAS, GAGAS, and OMB Circular A-133.

Risk Assessment Standards - The practice aids and tools in the *2011 Edition of Knowledge-Based Audits of Governmental Entities* are designed around the AICPA's risk assessment standards to assist auditors of governmental entities by:

- Facilitating compliance with GAAS, GAGAS, and U.S. Office of Management and Budget Circular A-133 (OMB Circular A-133).
- Encouraging more effective audits through tailored audit programs and comprehensive practice aids.
- Helping auditors to focus on and respond to identified 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 Tailoring Question Workpaper**).

Important Notes

- **Note:** If you are updating from the *2010 Knowledge-Based AuditsSM of Governmental Entities* title, you must install Knowledge Coach 1.7 Update to ensure that your content updates correctly.
- 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 AuditsSM of Governmental Entities* 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 Governmental Entities**. 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.

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 accounting standards under the GASB and FASB Accounting Standards Codifications and the auditing standards issued by the AICPA and the U. S. Government Accountability Office (GAO). Also, if you subscribe to the Knowledge-Based Governmental Entities 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: 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 Governmental Entities (6/24/11).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 Governmental Entities*, 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 “unreleased” previous versions of the title.

To unrelease a title:

1. Select a previous version of the KBA Governmental Entities 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 Governmental Entities* 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 Audits™ of Governmental Entities*.

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 GASB, 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 Governmental Entities, 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 state and local governments. 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 to the accounting standards under the GASB and FASB Accounting Standards Codifications and the auditing standards issued by the AICPA and the U. S. Government Accountability Office (GAO).

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.

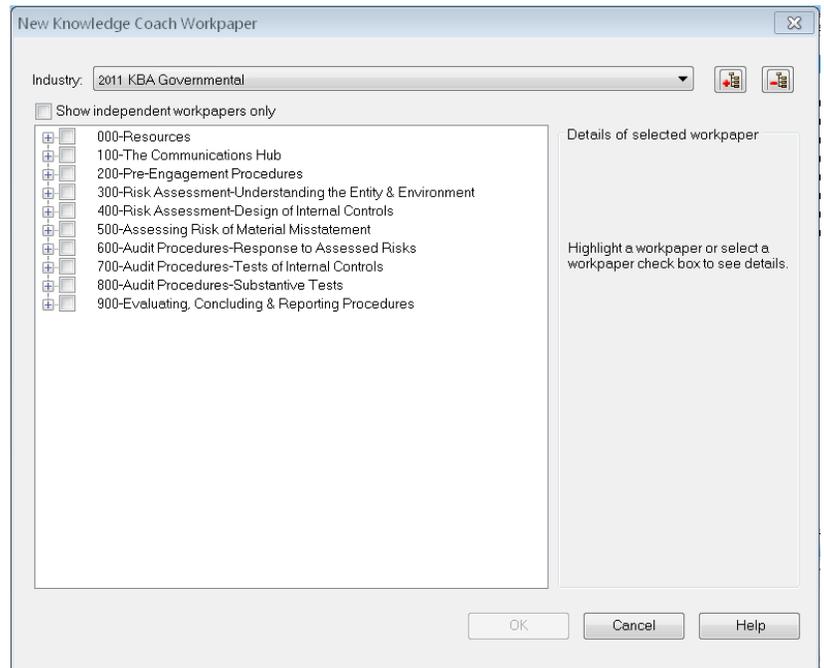


Figure 1 – New Knowledge Coach Workpaper

Download Description:	2011 Knowledge-Based Audits of Governmental Entities (6/28/11)
Version:	Engagement v. 6.5 with Knowledge Coach or higher
Release Date:	June 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
 Technical Support

1-800-PFX-9998, option 1
 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>.