2011 Knowledge-Based Audits™ of Governmental Entities

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Welcome to *2011 Knowledge-Based Audits™ of Governmental Entities*, the latest addition to the ProSystem *fx Knowledge* Tools library!

Please review this bulletin prior to installation and use. If you have any questions, call Technical Support at **1-800-PFX-9998, option 4**.

Release Bulletin

IN THIS RELEASE

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. 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* is current through SAS-121 and GASB-62 and includes the following updates:

2011 ProSystem *fx* Knowledge Tools have 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*.

Links to Accounting Research Manager (ARM). If you subscribe to an ARM library that includes audit content, you can now link directly to source material from Resources within Knowledge Tools 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 CCH's Accounting Research Manager, you can take advantage of brand new links to the audit guide material from within the Knowledge Coach documents.

Workpaper Updates

Knowledge-Based Audit Documents (KBAs):

- **KBA-103** has been updated; coverage of significant estimates has been moved into new **KBA-106**.
- **KBA-104** includes new examples and practice points.

- **NEW KBA-106** has been designed to aid auditors in performing and documenting the review of significant estimates (formerly addressed in KBA-103).
- **KBA-302** now includes new example factors (e.g., financial reporting, attitudes and rationalizations, opportunities) for consideration.

- **KBA-303** 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** 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** includes new example control objectives and example controls.
- **KBAs 403–408** have been revised to include documentation of controls selected for operating effectiveness testing.
- **KBA-901** 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*.

Audit Programs (AUDs):

- **AUD-101** has been revised with additional program steps to accommodate early implementation of GASB-61.
- **AUDs 801** through **818** 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** provides improved procedures for auditing related-party transactions and management's accounting estimates.
- **AUD-815** includes updated steps for auditing fair value measurements.
- **AUD-901** has been updated to include a new step for disclosures and in consideration of GASB-56 requirements.
- **AUD-902** includes additional going concern considerations.

- **NEW AUD-905** 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.

Auditor's Reports (RPTs):

- **RPTs-901–922** have been revised, where applicable, to take into account the impact of SASs 118, 119, and 120.

Correspondence Documents (CORs):

- **COR-204** has been updated to accommodate SASs 118, 119, and 120.
- **CORs 206** and **207** have been revised for ET 101-10 and materiality.
- **NEW COR-211** 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** provides a sample letter from client to predecessor auditor asking them to release information and respond to successor auditor inquiries.

Practice Aids (AIDs):

- **AID-302** has been updated to reflect the provisions of GASB-61.
- **AID-304** has been revised to include documentation of significant changes in revenue streams from year to year.
- **NEW AID-703** has been designed to aid the auditor in performing tests of the operating effectiveness of internal controls.
- **NEW AID-704** has been designed to aid in the documentation of the auditor's plan for testing the operating effectiveness of internal controls.

Resource Documents (RESs):

- **RES-001** and **RES-003** 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.

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.

Important Roll Forward Information

Due to changes made in our documents to ensure they are compliant with standards, some information will not roll forward from previous versions. To ensure as much information as possible will roll forward, please do not roll forward from the 2010 *Knowledge-Based Audits™ of Governmental Entities* to the 2011 *Knowledge-Based Audits™ of Governmental Entities* until you have installed the ProSystem *fx* Engagement release 5.7.1 or higher. For any title-specific roll forward information, please refer to the Help icon found in the roll forward wizard.

Note: While working through your Word documents, it is important to follow certain steps to avoid any data loss upon roll forward. If you save the workpaper before tabbing out of a cell, you risk losing data when rolling forward. If upon roll forward you experience any data loss in a workpaper, please follow these steps:

1. Open the workpaper.
2. Update the problem cell with random text (only after experiencing data loss).
3. Tab out of the cell.
4. Go back into the cell and remove random text.
5. Once again, tab out of the cell.
6. Save the document.

Important Notes

- Knowledge Coach customers should download and use the Knowledge Coach formatted version of this title that will be released and posted to **http://support.cch.com/updates/KnowledgeCoach** in August 2011. This Knowledge Tools title release is NOT compatible with the Knowledge Coach module. Knowledge Coach customers can still use this Knowledge Tools title, but they will not have Knowledge Coach functionality and integration available in these workpapers.

- A minimum of 1GB of RAM is highly recommended for optimal performance when opening and navigating through ProSystem *fx* Knowledge Tools documents.

- ProSystem *fx* Engagement version 4.9 with Knowledge Tools or higher must be installed on the computer in order to install this Knowledge Tools title. Additional requirements include Microsoft Office Professional 2003 SP2 or higher, Microsoft Office 2003 Primary Interop Assemblies (PIA) and Visual Studios 2005 Tools for Office Second Edition Runtime (VSTOR). The installations of PIA and VSTOR can be found on the Engagement CD in the Applications\Knowledge Tools Prerequisites folder.

Download Instructions

Download the 2011 *Knowledge-Based Audits™ of Governmental Entities* title from the **Program Updates** section of the ProSystem *fx* Engagement support Web site at the following URL: **http://support.cch.com/updates/KnowledgeTools/**, then select the download link next to **2011 *Knowledge-Based Audits™ of Governmental Entities.***

Password: The password will be included in the copy of the release bulletin that is mailed to subscribers of this title.

Installation Instructions

Your Knowledge Tools title will integrate itself directly into ProSystem *fx* Engagement. The only additional system requirement is approximately 75MB of disk space to store your Knowledge Tools program content files. Please refer to the ProSystem *fx* Engagement with Knowledge Tools Release Notes for any other system requirements.

After extracting the 2011 *Knowledge-Based Audits™ of Governmental Entities*.msi, do the following to install the Knowledge Tools templates:

1. Double-click on the 2011 *Knowledge-Based Audits™ of Governmental Entities*.msi to begin the installation.
2. Select **Next** on the Welcome screen.
3. Accept the License Agreement, and then select **Next**.
4. Select the destination location for the templates, and then select **Next**.
5. Review the installation settings, and then select **Install** to begin copying the files.
6. Select **Finish** to complete the installation.

   Note: You must add and assign the Knowledge Tools license in ProSystem *fx* Engagement Administrator before using the workpaper templates.

   Important: The 2011 *Knowledge-Based Audits™ of Governmental Entities*.msi allows for mass deployment/installation by way of pushing the install to computers.

ProSystem *fx* Engagement Update Utility Instructions

If the Knowledge Tools title is not shown in the list of available products in the License Assignment dialog, the title's licensing information will need to be updated with the ProSystem *fx* Engagement Update Utility prior to adding the licenses for the title or assigning the licenses to staff members.

Follow these steps to download the utility and update file:

1. Download the ProSystem *fx* Engagement Update Utility from the **Program Updates/Knowledge Tools Series** page of the ProSystem *fx* Engagement support Web site.
2. To download the utility, click **ProSystem *fx* Engagement Update Utility**.
3. To download the update file (LicenseUpdate.upd), click **License Update File**.

Note: We recommend you save the files to your computer to run the utility.

After downloading the files, perform the following steps:

1. Close ProSystem *fx* Engagement Administrator and ProSystem *fx* Engagement.
2. Double-click the ProSystem *fx* Engagement Update Utility (PfxEngUpdateUtility.exe) file.
3. Enter the login name and password for an authorized ProSystem *fx* Engagement administrator.
4. Browse for or enter the path for the license update file you just downloaded (LicenseUpdate.upd).
5. Click **OK** to update the ProSystem *fx* Engagement database and add the Knowledge Tools title to the License Assignment dialog in ProSystem *fx* Engagement Administrator. You may now add and assign the Knowledge Tools title to the users.

Online Permission Key

Permission key files may be downloaded from our Web site at https://prosystemfxsupport.tax.cchgroup.com/service/accountadmin/ or when adding or updating the new licenses within ProSystem *fx* Engagement with Knowledge Tools 4.9 and higher. After updating the license file in the ProSystem *fx* Engagement Admin module, and running the Update License Utility for 4.9 users, licenses need to be assigned to the staff who will use 2011 *Knowledge-Based Audits™ of Governmental Entites*. 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.

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 from the ProSystem *fx*® Engagement Other Shortcuts bar in the Binder window.

Using Your Knowledge Tools Content

Knowledge Tools Workpaper Templates

To use Knowledge Tools Workpaper Templates, do the following:

1. Open a binder in ProSystem *fx* Engagement.

2. Select the workpaper tab into which you would like to insert the workpaper.

3. Select **New Knowledge Tools Workpaper** from the toolbar or File menu. The New Knowledge Tools Workpaper dialog appears (*Figure 1*).

4. Select the New Knowledge Tools 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.

5. Select the Knowledge Tools Workpaper Templates to insert into your binder.

6. Click **OK** to display the Selected Workpaper Properties dialog. Each workpaper name is automatically loaded into the Name field.

7. Add a workpaper index in the Index field and make any needed Name modifications. You can also modify the tab location or the roll forward settings for each workpaper.

8. Click **OK**. The integrated Knowledge Tools workpaper is now inserted into your engagement binder.
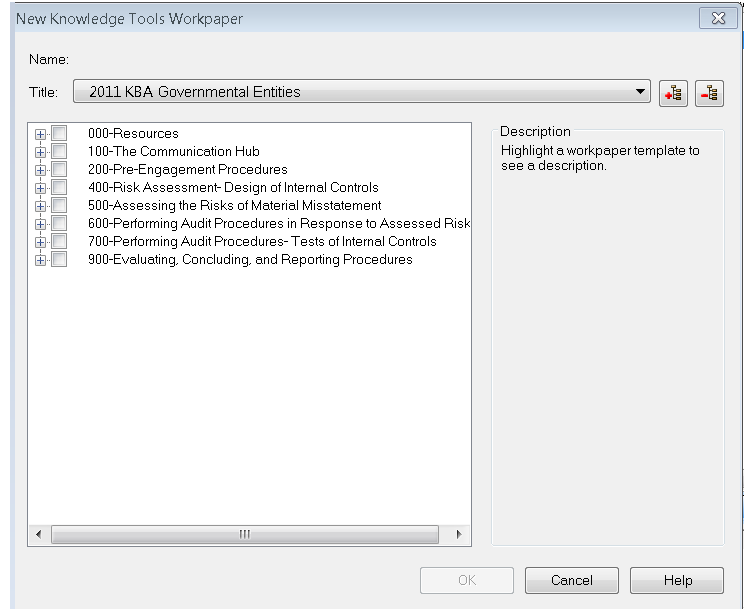

Figure 1 – New Knowledge Tools Workpaper

Binder Templates

ProSystem *fx* Engagement provides powerful engagement templates with integrated Knowledge Tools content.

To start engagements pertaining to your purchased title with a binder template populated with programs and worksheets, select **New Binder Wizard** from either the toolbar or File menu in the File Room window. The New Binder Wizard dialog appears (*Figure 2*). To setup the binder, do the following:

1. Select **Create binder from template**.

2. Click on the **Knowledge Tools** tab.

3. Select the appropriate binder template for your engagement. You will see binder templates for the Knowledge Tools titles installed.

4. Select **Next**.

5. Complete the binder properties information as needed.

6. Select **Finish**. The new binder displays in the file room. Refer to the ProSystem *fx* Engagement User Guide, accessible from the Help menu in ProSystem *fx* Engagement, for more information.
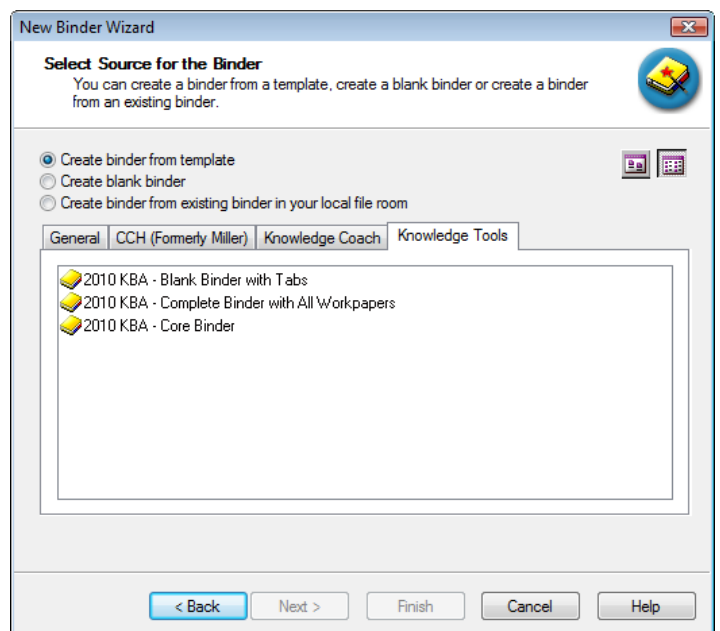

Figure 2 – New Binder Wizard

The *2011 Knowledge-Based Audits™ of Governmental Entites* provides three binder templates. One binder template contains all workpaper templates from the title, one binder template contains only the core workpaper templates, and the third binder template contains only workpaper tabs using the Knowledge Tools indexing system. This allows you to build your own binder template by populating the tabs with the workpapers of your choice.

Contact Information

For a demo or to purchase additional titles	1-800-PFX-9998, option 1
Technical Support	1-800-PFX-9998, option 4 or online at http://support.cch.com

The ProSystem *fx* Engagement version of the Knowledge Tools Integrated Engagement 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.

After the 2011 Knowledge-Based Audits™ of Governmental Entities.msi installation file has been extracted, follow the Installation Instructions included in the Release Bulletin.

Download Description:	2011 Knowledge-Based Audits of Governmental Entities (9/1/11)
Version:	Engagement v. 4.9 with Knowledge Tools or higher
Release Date:	September 2011
File size:	14MB
Approx. Download Time:	45 minutes at 56 kbps
License:	Full Version
Platforms:	Windows XP/Vista