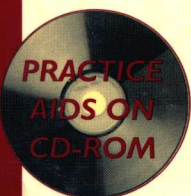


2009-2010

KNOWLEDGE-BASED
AUDITS™ OF
NOT-FOR-PROFIT
ORGANIZATIONS
with SINGLE AUDITS

WARREN RUPPEL



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Knowledge-Based Audits™ of Not-for-Profit Organizations with Single Audits

Warren Ruppel, CPA

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4025 W. Peterson Ave.
Chicago, IL 60646-6085
1 800 248 3248
<http://CCHGroup.com>

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Knowledge-Based Audits™ of Not-for-Profit Organizations with Single Audits

by Warren Ruppel, CPA

Highlights

CCH's *Knowledge-Based Audits™ of Not-for-Profit Organizations with Single Audits* combines, in one, easy-to-use volume, everything an auditor needs to perform audits of financial statements, audits in accordance with *Government Auditing Standards*, and single audits in accordance with OMB Circular A-133. Comprehensive coverage of the relevant technical literature is combined with user-friendly advice based on actual experience, resulting in a technically sound and extremely usable audit guide. Electronic versions of audit programs, workpapers, reports, correspondence, and a comprehensive disclosures checklist eliminate much of the time-consuming clerical work.

2009–2010 Edition

This edition of *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits* includes comprehensive coverage of the current authoritative literature from the American Institute of Certified Public Accountants (AICPA), the U.S. Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Financial Accounting Standards Board (FASB).

The edition also includes extensive revisions and updated discussions to reflect the following:

- New auditing pronouncements through SAS-115, *Communicating Internal Control Related Matters Identified in an Audit*, and accounting pronouncements through FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*. In addition, the CD-ROM, which includes the Knowledge-Based Audit workpapers, has

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been revised to reflect, where applicable, the effects of the new pronouncements.

- Eight new Statements on Auditing Standards (SASs) (SAS-104 through SAS-111) relating to the auditor's risk assessment process (collectively referred to as the *Risk Assessment Standards*), as well as three subsequent, but related, SASs, SAS-112 through SAS-114.

In addition, the new Knowledge-Based Audit (KBA) documents, audit programs, practice aids, correspondence, and example reports, which incorporate the requirements of the Risk Assessment Standards, have been included on the accompanying CD-ROM and are referenced throughout the chapters. The Knowledge-Based Audit is a risk-based audit methodology that emphasizes using knowledge of the entity to make the risk assessments in connection with a financial statement audit. The KBA approach is designed to facilitate the flow of information gained through the performance of risk assessment procedures and throughout the audit.

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11/09

About the Author

Warren Ruppel, CPA, is a partner at Marks Paneth & Shron LLP, where he is a key member of the Nonprofit and Government Services Group as well as a leader in the firm's Professional Practices Group. He was most recently the Assistant Comptroller for Accounting of The City of New York, where he was responsible for the city's accounting and financial reporting.

Mr. Ruppel began his career in 1979 with KPMG after graduating from St. John's University, New York. He served numerous audit clients, including many not-for-profit organizations and governments that received federal financial assistance. In 1989, he joined Deloitte & Touche to specialize in audits of not-for-profit organizations and governments. Mr. Ruppel has also served as the chief financial officer of a not-for-profit organization subject to the requirements of A-133. He has written and conducted numerous training courses and seminars over the course of his career and is widely published in the areas of not-for-profit and governmental accounting and auditing. In addition, he has taught for the New York State Society of CPAs and has been an Adjunct Lecturer of Accountancy at the Bernard M. Baruch College of the City University of New York.

Mr. Ruppel is a member of the American Institute of Certified Public Accountants and the New York State Society of CPAs, where he is the former chair of the Audit Committee and currently serves on the Not-for-Profit Accounting and Governmental Accounting and Auditing Technical Committees. He is a former president of the New York chapter of the Institute of Management Accountants. He is also a member of the Special Review Committee of the Government Finance Officers Association.

Our Peer Review Policy

Thank you for ordering the 2009–2010 *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits*. Each year we bring you the best accounting and auditing reference guides available with accompanying electronic workpapers and practice aids. To confirm the technical accuracy and quality control of our materials, CCH, a Wolters Kluwer business, voluntarily submitted to a peer review of our publishing system and our publications (see the Peer Review Letter on the following page).

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Updated annually, peer reviewed, technically accurate, convenient, and practical—the 2009–2010 *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits* shows our commitment to creating books and practice aids and workpapers you can trust.

Note that the most recent Peer Review Statement will be included in our next edition and is available upon request by emailing sandra.lim@wolterskluwer.com.

Peer Review Letter



Caldwell, Becker, Derwin, Petrick & Co., L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

April 25, 2006

Executive Board
CCH INCORPORATED

We have reviewed the system of quality control for the development and maintenance of Not-for-Profit Organization Audits with Single Audits, (2006–2007 Edition)* of CCH INCORPORATED (the company) applicable to non-SEC issuers in effect for the year ended March 31, 2006, and the resultant materials in effect at March 31, 2006. The design of the system, and compliance with it, are the responsibilities of the company. Our responsibility is to express an opinion on the design of the system, and the company's compliance with that system based on our review.

Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Committee of the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants. In performing our review, we have given consideration to the following general characteristics of a system of quality control. A company's system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of a company's quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the company and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned quality control materials of CCH INCORPORATED and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of CCH INCORPORATED was suitably designed and was being complied with during the year ended March 31, 2006, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards in the United States of America applicable to non-SEC issuers. Also, in our opinion, the quality control materials referred to above are reliable aids at March 31, 2006.

CALDWELL, BECKER, DERWIN, PETRICK & Co., L.L.P.
CALDWELL, BECKER, DERWIN, PETRICK & Co., L.L.P.

*Editions beginning in 2008 have been renamed *Knowledge-Based Audits*TM of Not-for-Profit Organizations with Single Audits.

20750 Ventura Boulevard, Suite 140 • Woodland Hills, CA 91364
(818) 704-1040 • FAX (818) 704-5536

Preface

The 2009–2010 *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits* explains the special characteristics of not-for-profit organizations and the unique accounting conventions that they employ. It provides a comprehensive audit approach to performing audits of not-for-profit organizations, including additional specific guidance relating to audits of organizations that receive federal awards that require a single audit in accordance with OMB Circular A-133. *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits*, designed to be a complete reference, brings together in one place all the tools necessary to comply with generally accepted auditing standards and *Government Auditing Standards*, along with practice management information specific to audits of not-for-profit organizations, including suggestions on marketing and proposal development, staff administration and training considerations, risk assessment and client acceptance considerations, and techniques to improve the profitability of audits of not-for-profit organizations. The accompanying CD-ROM contains electronic versions of audit programs, Excel workpapers, reports, sample correspondence, a comprehensive disclosures checklist, and various government documents. The practice aids are based upon CCH's newly developed Knowledge-Based Audits Methodology.

Analysis of current authoritative literature aids in the implementation of new pronouncements and the understanding of the unique characteristics of the relevant professional organizations. The audit approach presented is comprehensive, flexible, and can be easily modified to meet the auditor's specific requirements.

The book is divided into two parts—*Part I, Financial Statement Audits*, and *Part II, Single Audits Under OMB Circular A-133*. Part I covers the requirements for performing an audit of the financial statements of a not-for-profit organization. It incorporates essential guidance for implementing the numerous professional standards affecting not-for-profit organizations, including AICPA auditing standards, Statements of Position, and the AICPA *Audit and Accounting Guide* for not-for-profit organizations. New auditing standards are covered completely. Unique accounting requirements are also discussed. The 12 chapters in Part I follow the natural progression of a financial statement audit—from preplanning through conclusion and reporting. Part II covers the additional procedures that must be performed in conducting audits of not-for-profit organizations in accordance with *Government Auditing Standards* and OMB Circular A-133. The format of Part II, similar to that of Part I, enables the auditor to easily build

the additional requirements onto the requirements of a financial statement audit.

Throughout the book, “Observation” points provide additional insights into the technical material being covered, “Audit Cost-Savings Tips” provide practical suggestions for saving audit hours—resulting in lower costs for the not-for-profit organization and higher profit margins for the auditor—and “Practice Alerts” call attention to recent or anticipated pronouncements of the AICPA, GAO, OMB, and the FASB.

A pronouncement locator that cross-references original pronouncements and the chapters in which they appear, to quickly direct you to the information that you need, can be found in the back of the book.

Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits is designed to make your audit engagements as efficient as possible. To that end, the Guide includes a CD-ROM that contains Excel workpapers, sample reports, sample letters, a comprehensive disclosures checklist, and model audit programs. It also includes a number of government documents for handy reference. The electronic versions of the practice aids found in the book can be printed and used as is or they can be customized by using a word processing or spreadsheet program for specific engagements and clients. A disc icon indicates that the item—workpaper, report, or other practice aid—is on the accompanying CD-ROM and can be customized and completed on a computer. Complete audit programs for both financial statement audits and single audits, though not reproduced in the book, are included on the CD-ROM. These programs, and the other workpapers, are designed to be flexible to meet your needs; they may be used as standalone materials or as supplements to your existing audit materials.

Acknowledgments

Thomas J. Goodfellow, M.B.A., CPA, Managing Director of TG Associates CPAs, PLLC, a BST affiliate, deserves thanks for his technical review of this book and his practical suggestions, which have been incorporated into this edition. Sandra Lim, Debra Rhoades, and Peggy Rehberger of CCH provided thoughtful oversight of this project, which is instrumental in ensuring that the book lives up to the expectations of its readers.

On a personal level, my wife, Marie, and my sons, Christopher and Gregory, are a constant source of support and inspiration, for which I am truly grateful.

Warren Ruppel
Woodcliff Lake, New Jersey

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INTRODUCTION

The 2009-2010 edition of *Knowledge-Based Audits of Not-for-Profit Organizations with Single Audits* has been extensively updated to reflect the set of eight Statements on Auditing Standards (SASs) (SAS-104 through SAS-111) relating to the auditor's risk assessment process (collectively referred to as the *Risk Assessment Standards*), as

well as SAS-112 through SAS-116. Although these recent standards represent significant changes to existing audit practice, the Auditing Standards Board believes that adoption of the standards will enhance the auditor's application of the audit risk model in practice and will result in better quality and more effective audits. The new standards primarily require:

- The auditor to obtain a deeper understanding of the audited entity and its internal controls for purposes of identifying the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration.
- A better linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks.
- Enhanced communications between auditors and management and those charged with governance of the audit client.

The Risk Assessment Standards consist of the following eight SASs:

1. SAS-104, *Amendment to SAS-1, "Codification of Auditing Standards and Procedures,"* which amends AU 230, "Due Professional Care in the Performance of Work."
2. SAS-105, *Amendment to SAS-95, "Generally Accepted Auditing Standards,"* which amends AU 150.
3. SAS-106, *Audit Evidence*, which supersedes SAS-31, *Evidential Matter* (AU 326).
4. SAS-107, *Audit Risk and Materiality in Conducting an Audit*, which supersedes SAS-47, *Audit Risk and Materiality in Conducting an Audit* (AU 312).
5. SAS-108, *Planning and Supervision*, which supersedes "Appointment of the Independent Auditor" of SAS-1 (AU 310), and SAS-22, *Planning and Supervision* (AU 311).
6. SAS-109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, which is an entirely new standard.
7. SAS-110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, which supersedes SAS-45, *Substantive Tests Prior to the Balance-Sheet Date* (AU 313), and together with SAS-109, supersede SAS-55, *Consideration of Internal Control in a Financial Statement Audit* (AU 319).