

Knowledge-Based Audit™ (KBA) Methodology

Ensure compliance with risk-based audit standards.

With the introduction of the AICPA's risk-based audit standards, auditors found themselves in need of an automated and streamlined system to meet new and ever-changing requirements. In answer to that need, CCH® developed the Knowledge-Based Audit™ (KBA) methodology to help auditors plan and produce higher-quality audits that minimize compliance risk and maximize effectiveness and efficiency.

Trusted Guidance for Risk-Based Audit Standards

CCH's Knowledge-Based Audit methodology was developed from the ground up by audit experts with years of professional engagement experience. Our KBA methodology provides a best-in-process approach that aids auditors in performing accurate, efficient and effective financial statement audits that are compliant with both GAAS and IFRS. And, it has passed AICPA Peer Review.

The entire CCH accounting and audit solution set is built upon our KBA methodology, including our award-winning ProSystem fx® Engagement, ProSystem fx® Knowledge Coach, and Accounting Research Manager® (ARM). In short, CCH's KBA methodology assists the auditor in performing audits with ease, while simultaneously providing relevant and up-to-date expert guidance, risk assessment tools and comprehensive practice aids.

AICPA Risk-Based Standards Require a New Approach

Today's auditors work under intense scrutiny. With the addition of risk-based standards, there's a greater burden on auditors to understand their clients' business environments and controls better than ever before. The AICPA standards were put into place to strengthen the auditing process, placing greater emphasis on industry and client-specific planning, and requiring auditors to directly link their audit programs to identified risks.

CCH's decision to develop a new approach that would combine the latest technology with specialized audit methodology was made specifically to assist firms in meeting the demands of these ever-changing standards. CCH's KBA methodology emphasizes using knowledge of the entity to make the risk assessments in

connection with a financial statement audit. The more accurately an auditor assesses an entity's risks of material misstatement, the more assurance the auditor has that the procedures performed in response to the risk assessments will detect material misstatements. That's why the KBA approach is aimed at:

- Obtaining an understanding of the entity and its environment, sufficient to accurately assess the risks of material misstatement, including its internal control
- Designing and performing audit procedures that are responsive to the risks of material misstatement

A Dynamic Auditing Process

CCH's KBA methodology encompasses eight processes. For an audit to be effective, information must flow through each phase of the process:

1. Pre-engagement procedures
2. Risk assessment procedures: Obtaining an understanding of the entity and its environment
3. Risk assessment procedures: Evaluating the design of internal controls
4. Assessing the risks of material misstatement
5. Designing audit procedures in response to assessed risks
6. Performing audit procedures: Tests of the operating effectiveness of internal controls
7. Performing audit procedures: Substantive tests
8. Evaluating, concluding and reporting procedures

A Knowledge-Based Audit in Action

CCH's Knowledge-Based Audit methodology ensures a strategic and well-structured flow of information through the auditing process and documentation. The approach, as applied through Knowledge Coach — the engine of the audit — is designed to aid the seamless flow of information throughout the audit, as follows:

1. Knowledge gained from pre-engagement procedures, the determination of materiality and preliminary analytical procedures, is used to customize the audit plan for risk assessment procedures.
2. Knowledge gained from risk assessment and other procedures is used to identify and assess the risks of material misstatement.
3. Knowledge gained from risk assessment procedures and the risks of material misstatement is used to customize the audit plan for further audit procedures.
4. Evidence gained from further audit procedures is evaluated to determine whether the audit risk has been reduced to an acceptably low level, and the appropriate auditor's report is issued.

The Benefits of KBA Methodology

With the KBA methodology in place, auditors can work more efficiently and feel confident in their results, because the methodology:

1. Ensures the auditor is focusing on what needs to be done, without under- or over-auditing
2. Is scalable and flexible — with proper auditor judgment, it can be used for audits of all sizes and complexity
3. Is always consistent with the most current risk assessment standards
4. Promotes communication among team members
5. Promotes a logical organization of workpapers
6. Emphasizes auditor judgment
7. Ensures proper documentation of procedures by easily identifying workpapers that are consistent with GAAS
8. Links to Accounting Research Manager® within workpapers
9. Ensures that the "Musts, Shoulds and Should Considers" are properly addressed

Methodology that Makes a Difference

CCH's Knowledge-Based Audit methodology, delivered through Knowledge Coach, takes auditing to a higher level, going beyond checklist-based auditing programs. Knowledge Coach audits are tailored to an entity using industry-specific guidance, dynamic tailoring questions, active diagnostics and the auditor's own professional judgment. The solution combines seamless integration with ProSystem fx Engagement's proven electronic binder functionality with peer reviewed, industry-specific KBA content and dynamic links to the comprehensive source material and expert guidance of Accounting Research Manager.

Rather than starting with all potential audit steps and eliminating those that are unnecessary, Knowledge Coach's KBA approach prompts the auditor to add steps based on an understanding of the entity, connecting each step to a specific risk.

Knowledge Coach audit programs link each procedure to the relevant assertion it addresses, and to the specific risk identified by the auditor. The linkage is clear, facilitating supervisory and partner review of the audit file, along with internal and external engagement quality control reviews — something that can often be missed in other traditional "flat file" audit programs.

The Right Tool for the Right Job

KBA software and research titles provide audit standards and regulations for specific industries like commercial entities, financial institutions, employee benefits plans and many others. Written by practicing CPAs, each title includes audit plan documents, practice aids, and time-saving templates.

The KBA methodology, driven through our content, becomes part of the workflow engine that facilitates an auditor's thinking while working through an audit. Content is available as interactive titles used with Knowledge Coach or as a flat file version through Accounting Research Manager.

Training and Consulting Options to Fit Your Needs

CCH offers valuable training, consulting and CPE to keep you ahead of the curve. From live training and consulting to on-demand, online learning, CCH provides training for everyone.

The CCH® Learning & Development Academy — School of Audit offers a Knowledge-Based Audit methodology program that focuses on risk assessment standards and how to adapt your firm to meet these requirements utilizing the KBA approach. Additionally, training programs are available on specific products, such as Knowledge Coach, Accounting Research Manager and more.

For more information on CCH's Knowledge-Based Audit Methodology, please contact your CCH Account Representative at **800-PFX-9998 (800-739-9998)**, or visit **CCHGroup.com**



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