COURSE MATERIALS

REQUIRED:


The KPMG Judgment Framework. 2011 – Available on Blackboard

PCAOB Auditing Standards – Available at [www.pcaobus.org](http://www.pcaobus.org)

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COURSE OBJECTIVES

Yeats once said about teaching and learning that it is “Not filling a bucket but lighting a fire.” The goal of this class is to light a fire of curiosity about auditing. There has never been a time in our profession where there has been such a revolution in the way auditing operates and the way in which auditing is perceived by the external public. Our course is anchored by the overarching principle of maintaining in auditing **professional skepticism.** We will attempt to get the “big picture” of auditing to understand what competing pressures auditors face. For example, how do we reconcile that auditing is both a “public good,” as well as being a lucrative business. We will also spend a large amount of effort understanding the general procedures of auditing. However, for students going into auditing, you will learn more about the nuts and bolts of auditing after one week on the job than what you can learn in a year at school.

Further, there is never a need to memorize in the profession as auditors in the “real world,” will have access to a vast amount of supporting software, firm specific auditing procedures and the ability to search and ask for information from your audit team members. Thus, at all times we will emphasize what does it all mean, how did the profession get here and where will it go in the future. For example, when learning controls, we will understand what controls we will be looking at, attempt to evaluate sets of controls and to understand why we are evaluating the controls from a risk perspective. We will also evaluate if auditors and regulators are in conflict with each other and we will need to evaluate why this occurs. Since auditing is a monopoly, we need to emphasize how and why independence is so important. Auditing is a wonderful profession but since it is performed by human beings we need to understand why we need to be vigilant in our professional skepticism. At the end of the course, I will consider it a success if you simply remember that when following the principle of **professional skepticism,** the most important question an auditor can learn to ask is the question “WHY?” Therefore, you will learn to think critically about accounting and auditing issues, primarily through case analysis and group projects.
**Key objectives:**

- Document the rationale for an auditor’s professional judgment in a difficult accounting context.
- Apply knowledge of the environment of public accounting (including professional standards, legal liability, and regulation) in performing written analyses of real world cases.
- Differentiate financial auditing from other types of auditing (e.g. compliance, fraud).
- Identify the stages of an audit and the tasks completed at each stage.
- Identify audit risks and objectives and the appropriate audit procedures to address the risks and objectives identified.
- Evaluate the characteristics of audit evidence and appropriateness of audit evidence.
- Identify strong vs. weak internal controls; make recommendations to improve weak controls.
- Identify auditors’ responsibility on an audit engagement and determine whether the auditors fulfilled their responsibility.
- Identify the different types of audit reports and which audit report should be issued under specific circumstances.

**EXPECTATIONS:**

Learning is a self-motivated process. Your success depends on a combination of experience, open-mindedness, and practicing new skills. You must develop answers without the security blanket of an answer key. In the real world there is no answer key.

It is my responsibility to provide a supportive atmosphere and challenging assignments that will improve your ability to make rational, supported decisions. It is your responsibility to be prepared to actively participate in class discussions.

As a professor, *I have the following responsibilities:*

- Be prepared for class.
- Create a mutually respectful classroom environment and treat you as responsible adults.
- Help you understand the material after you’ve put in a good effort on your own towards that goal.

My responsibility is to provide a process and environment that assists you in acquiring new knowledge. Thus, you have to be an active participant in your learning. This means reading the text and working on the cases prior to class and participating in class activities.

As a student, *you have the following responsibilities:*

- Behave in a professional manner.
- Complete all assigned work on time and with proper thought and effort.
- Contribute professional quality services to any group activities/assignments.

Auditing is challenging in that it requires a different way of thinking than the traditional accounting class. Many students find it difficult because significant judgment and analytical thinking is involved and there are no formulas to apply as in other accounting courses. However, if you apply yourself consistently you will soon find that you can master the material. Be diligent and don’t be shy about asking for my help – that’s why I’m here. My expectation is that you will work hard and gain an understanding of (and appreciation for) what a financial statement audit represents. If you work hard, you might even have some fun! This class will challenge you to think and use analytical thinking skills. If you apply yourself, not only will you have an enjoyable semester in this class but also, you will gain critical thinking skills that will be useful in life in general.
TEACHING APPROACH:

Students are organized into groups that will be established on the first day of class. The team approach has been chosen because, in practice, audits are conducted by teams and becoming an effective auditor requires learning to operate successfully as a team member. Your team’s evaluation of your contribution and my observation of teams during the in-class assignments will be factored into your grade for group assignments. Failure to submit assignments on the due date will result in a 25% reduction in the available points for each calendar day that the assignment is late.

A note about working with others - when you eventually obtain a job in your chosen profession, you will likely find yourself working in a group. Experiencing the difficulties and rewards of working as a group in a business or organizational setting is an intended part of the learning process of the course.

You will work in your groups in almost every class period. Based on your in-class group work you will be expected to discuss answers and ideas with the class. You will be expected to participate on a daily basis, both within your group and within the class as a whole. Peer evaluations motivate students to participate in group efforts and serve as a control mechanism empowering students to penalize group members who shirk group responsibilities. A Peer Evaluation Form will be posted on the website.

Students are expected to carefully read the assigned chapters prior to coming to class, to take notes of important points, and to write down questions on confusing material. Class will be more lively and enjoyable for all if you can discuss/debate the topics.

COURSE GRADING:

Your course grade will be based on the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
</tr>
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<tbody>
<tr>
<td>Class Participation</td>
<td>50</td>
</tr>
<tr>
<td>Group Cases (2)</td>
<td>100</td>
</tr>
<tr>
<td>Group Project Write-up</td>
<td>80</td>
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<tr>
<td>Group Project Presentation</td>
<td>20</td>
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<tr>
<td>Examinations (2)</td>
<td>250</td>
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<tr>
<td><strong>Total Points</strong></td>
<td><strong>500</strong></td>
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**Class Participation**

This is a graduate level course where we develop, share, and question ideas and opinions. Accordingly, I expect you to actively participate in the class discussion. Developing opinions and learning to express those opinions in a group setting is critical to your success as a professional. Although this level of participation may initially be outside your comfort zone, remember that we are on the same team in the learning process, and that we will be dealing with many issues that lack a right answer. Daily class activities provide important feedback to me about how much you know about the subject matter and your level of effort and preparation. Emphasizing participation allows us to take advantage of the talents and experiences of everyone in the class.

Please note; you do not get participation points merely because you attend class! The grade for participation will vary from 0-50. As a guide, a 50 will be given to a person who attends class every day, is prepared, volunteers answers, asks good questions, and discusses interesting opinions. A person who does all of the above, but only occasionally volunteers thoughtful questions and opinions will receive 25-30 points and a person who attends every day, but rarely volunteers an answer will get 10-15 points. Lack of meaningful participation and sporadic attendance will result in 0 points.

**Case Preparation and Write-Up**
You are required to turn in cases at the beginning of the class the day that they are due. I expect each team member to participate in the analysis and to be ready to discuss the team response. Each case is followed by a series of questions. I will indicate which of these questions your analysis should address. In addition to these questions, for each case you should identify the relevant authoritative auditing guidance, including AS/AU Section numbers. Depending on the individual case, your case analysis should total approximately 1-3 pages (12-point font and double spaced). All groups are required to turn in a brief write-up for all of the assigned cases.

I will also ask you to provide evaluations of percent of contribution of the other members of your group. These percentages will be multiplied by the final grade to get your score. I will provide you with an evaluation form explaining how to complete the group evaluation. This evaluation should be turned in when your group submits the last case for the semester.

**Group Project**

The Group Project is related to the audit process. The group’s report determines the grade for each member of the group. The project requires your group to complete an integrated audit case, which is based on a fictional company. The case consists of multiple, connected parts and each part of the case is designed to give you hands-on experience with the audit process. Each part is followed by requirements that you, along with your group will be required to complete. In addition, for each part you should identify the relevant authoritative auditing guidance, including AS/AU Section numbers. Upon completion of the case, you will gain a better understanding of how the parts of the audit are integrated by the audit process.

In addition to the analysis and write-up, I will randomly assign your group to lead the class discussion for one section of the case. For example, your group will be required to make a 15 minute class presentation based on their analysis of the case. I will expect your group to lead the class in interactive discussions that illustrates the major issues and identifies the audit implications. I will be looking for professionalism, as well as creativity in these presentations. I will notify you in advance which part of the case your group will present to the class. Additionally, all groups are required to complete and turn in all parts of the integrated audit case.

The report is due on December 1st and group presentations will be made on December 10th. I will evaluate the project based on accuracy, originality, thoroughness, integration of class material, conciseness, organization, support of conclusions, style, overall professional appearance, and grammar (very important).

I will also ask you to provide evaluations of percent of contribution of the other members of your group. These percentages will be multiplied by the final grade to get your score. I will provide you with an evaluation form explaining how to complete the group evaluation.

**Examinations**

Exams will include multiple choice, short answer, and problems, and will not be cumulative. The exam questions will be based on reading assignments; lectures and case materials covered in class. Additionally, I have provided suggested study questions and problems from the textbook to help facilitate your review of the concepts covered in class. Selected problems will be covered in class.

The dates and times for the examinations are shown on the schedule. Students are expected to be in attendance at every examination. If a student has an acceptable excuse for missing an examination (death in the family, provable illness), the student must inform me and obtain permission to miss the examination before the examination. Failure to obtain the necessary permission will result in a zero grade. There will be no make-up exams!!!
After you’ve reviewed your exam in class, I retain all exams. You may come during office hours or by appointment to review your exams. After you’ve received any graded work, if you would like to have any part of the grading reconsidered, please give me a written explanation by the following class period specifying exactly what you want me to reconsider and why you want me reconsider it. Please do not attempt to discuss grades during class.

LEARNING ENVIRONMENT

1. Classroom considerations

It is important that the classroom environment be conducive to learning for all students. Accordingly, I ask that you do not engage in behaviors that can negatively affect the learning environment for other students such as:

◊ Side conversations with classmates; talking while the professor is speaking (these make it difficult for your classmates to actively listen)
◊ Your pagers, cell phones and other electronic devices ringing during class. (Even more unprofessional: Answering your cell phone)
◊ Preparing to leave class before class is dismissed.
◊ Inattention/non-participation during group discussion and case analysis.
◊ Laptops will be permitted only if used to take notes and follow course material. Sending text messages to friends, reading the paper and other online activities are not permitted. I reserve the right to ban laptops if this occurs.

I realize that most students do not need to be advised on what constitutes poor behavior as listed above and apologize to those for whom this may be unnecessary. However, experience has shown that for some students, such specification is necessary.

2. Students with Disabilities

The community of Rutgers University is committed to providing equal educational access for individuals with disabilities in accordance with Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the Americans with Disabilities Act Amendments (ADAA) of 2008. An individual with a disability who is qualified for admission will have the same access to programs, services, and activities as all other students. Rutgers University will make reasonable modifications to its policies, practices, and procedures unless doing so would fundamentally alter the nature of the service, program, or activity, or pose an undue administrative or financial burden. The university will provide services in a manner that promotes independence and inclusion in all aspects of university life. Please refer to the website for the Office of Disability Services for Students at http://disabilityservices-uw.rutgers.edu/ for answers to your questions.

Students with disability concerns in the Rutgers School of Business-Newark should contact:
Ms. Genevieve Sumski, Office of Disability Services—Newark, famoso@andromeda.rutgers.edu

3. Honor Code and Academic Dishonesty

“I pledge, on my honor, that I have neither received nor given any unauthorized assistance on this examination (assignment).”
Students are expected to demonstrate ethical behavior. Students, who raise their GPA by cheating, place honest students at a competitive disadvantage in the job market. Unethical individuals are a cost and an embarrassment to the companies that hire them, to their families, and to the schools from which they graduate. If a school's reputation is damaged because of the unethical behavior of its graduates, potential negative ramifications include reduced employment opportunities for past and future graduates, reduced quality of future applicants to the school, and reduced financial contributions from alumni and businesses.

Depending on the seriousness, a violation of these policies will result in a failing grade on the assignment, failure in the course, and/or report of the incident to the dean. A link to the Rutgers University policy and guidance on academic integrity can be found at http://academicintegrity.rutgers.edu/integrity.shtml

**IMPORTANT WEB SITES:**

Text Web page: [http://www.mhhe.com/louwers6e](http://www.mhhe.com/louwers6e)
American Institute of Certified Public Accountants (www.aicpa.org)
Committee of Sponsoring Organizations of the Treadway Commission (COSO) [http://www.coso.org/](http://www.coso.org/)
Institute of Internal Auditors ([www.theiia.org](http://www.theiia.org))
International Federation of Accountants ([www.ifac.org](http://www.ifac.org))
The Public Company Accounting Oversight Board ([http://www.pcaob.org/](http://www.pcaob.org/))
PCAOB Standards: [http://pcaobus.org/Standards/Auditing/Pages/default.aspx](http://pcaobus.org/Standards/Auditing/Pages/default.aspx)
Securities and Exchange Commission’s EDGAR Database ([www.sec.gov/edgarhp.htm](http://www.sec.gov/edgarhp.htm))
CLASS SCHEDULE

Week 1) September 1 - The Sarbanes-Oxley Act & the Importance of Professional Judgment

Topics:  The Sarbanes-Oxley Act of 2002
          Independence
          Due Professional Care
          Professional Judgment
          Responsibilities as a Professional
          Mitigating Known Judgment Biases
          Professional Skepticism

Read:    Elevating Professional Judgment in Auditing and Accounting (2011) – available on
          Blackboard
          Module B – Independence (pgs. 600-609)
          Summary of Sarbanes-Oxley Act of 2002 (available on website)

In-Class Case:  “If You Need Love, Get a Puppy”: Professional Skepticism (available on
                Blackboard)

Assignments: Carefully complete all assigned readings; there are no written
             assignments due. However, please review all questions in the
             professional judgment reading.

Week 2) September 8 - Introduction to the Audit Process and Management Assertions

Topics:  User Demand for Reliable Financial Statements
          Management’s Financial Statement Assertions
          Professional Skepticism
          Generally Accepted Auditing Standards
          Audit Evidence
          PCAOB Inspection Process

Read:    Chapter 1
          Chapter 2

Case Reading:  “The Market for Auditing Services”, Case C17 in textbook

Assignments: Complete the Ethics Position Questionnaire. The questionnaire can be found on
             Blackboard and should be forwarded to me electronically no later than Friday, September
             11, 2015.

Week 3) September 15 – Professional Ethics

Topics:  Philosophical principles of ethics
          AICPA Rules of Conduct

Read:    Module B (pgs. 588-599; 609-622)
Case Reading: Ethical Vignettes – handout during class

Assignments: There are no written assignments. You will work on discussion questions in class.

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**Week 4) September 22- Audit Planning**

Topics: Pre-engagement Activities
- Understanding the Client’s Business
- Considering the work of Internal Auditors
- Planning in a Computerized Environment

Read: Chapter 3
- PCAOB Audit Standard #5 (paragraphs 1-15)
- PCAOB Audit Standard #12 (paragraphs 1-17)

Case Reading: Toy Central Company (available on Blackboard)

Assignments: There are no written assignments. You will work on discussion questions in class.

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**Week 5) September 29 – Audit Risk**

Topics: The Ultimate Risk – A Blown Opinion
- The Audit Risk Model
- Audit Risk Assessment
- Materiality
- Audit Procedures

Read: Chapter 4 (pages 118-124 and 130-152)
- PCAOB Audit Standard #5 (paragraphs 16-38)
- PCAOB Audit Standard #8
- Audit Risk Model (available on Blackboard)
- Materiality (available on Blackboard)

Case Reading: None

Assignments: Carefully complete all assigned readings; there are no written assignments.

Case # 1 Due

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**Week 6) October 6 - Fraud Risk Assessment**
Topics: Risk Assessment
Fraud Triangle
Management Fraud
Misappropriation of Assets

Read: Chapters 4 (124-129) and 6 (pages 221-232)

Case Reading: Fraud Case

Assignments: Carefully complete all assigned readings; there are no written assignments. You will work on discussion questions in class.

Week 7) October 13 – Examination #1

Week 8) October 20 – Internal Control Evaluation and Risk Assessment

Topics: The integrated audit process
COSO report on internal control
Section 404 of the Sarbanes-Oxley Act of 2002
Tone at the Top
Top-Side Adjusting Journal Entries
Company Level Controls

Read: Chapter 5
PCAOB Audit Standard #5 (paragraphs 39-61)

Case Reading: Sunshine Center

Assignments: Carefully complete all assigned readings; there are no written assignments. You will work on discussion questions in class.

Week 9) October 27 - Auditing the Revenue Cycle

Topics: Auditing Complex Economic Transactions
Internal Control Design Evaluation & Walkthroughs
Testing of Internal Control Activities
Linkage of Internal Control Objectives to the Financial Statement

Assertions
Substantive Testing of Balances

Read: Chapter 7

Case Reading: “Resolving Complex Accounting Issues”

Assignments: Carefully complete all assigned readings; there are no written assignments. You will work on discussion questions in class.
Week 10) November 3 – Auditing the Purchasing Cycle & Audit of Cash

Topics:  Segregation of Duties  
          Internal Control Design Evaluation & Walkthroughs  
          Testing of Internal Control Activities  
          Linkage of Internal Control Objectives to the Financial Statement  

Assertions  Substantive Testing of Balances  

Read:  Chapters 6 (pages 232-253) and 8  

Case Reading:  None  

Assignment:  Carefully complete all assigned readings  

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Week 11) November 10 – Information Technology Auditing

Topics:  Impact of Sarbanes-Oxley Act of 2002  
          General Computing Controls  
          Application Level Controls  
          Linkage between internal control objectives and FS assertions  
          Internal Control Design Evaluation  
          Linking Systems Auditing to Financial Statement Auditing  

Read:  Module H  

Case Reading:  TBA  

Assignments:  

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Week 12) November 17 – Examination # 2  

Week 13) November 24 – Auditor Legal Liability & Completing the Audit

Topics:  Liability under Statutory Law  
          Liability under Common Law  
          Contingent Liabilities  
          Subsequent Events  
          Final Evaluation of Evidence  
          Responsibility to detect fraudulent financial reporting  
          Responsibility to detect misappropriation of assets  
          Communication with Audit Committee  

Read:  Module C
Chapter 11

Case Reading: HealthSouth

Assignments: Carefully complete all assigned readings; there are no written assignments. You will work on discussion questions in class.

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**Week 14) December 1 – Audit Reports**

Topics: Reporting on Financial Statements
- Reporting on Internal Controls
- Departures from GAAS
- Departures from GAAP

Read: Chapter 12

Case Reading: None

Assignments: **Final Group Projects Due**

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**December 10 – Group Presentations**