Auditing I
Accounting 372
School of Accountancy & MIS
DePaul University

Winter Quarter, 2015

Professor: Dr. Sandra Waller Shelton
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Required Texts:


Auditing Cases for DePaul University, Knapp, Thomson/Southwestern

Course Description

This course covers the organization of the accounting profession, professional ethics, the auditor's legal responsibilities, financial audits by external auditors and the resulting audit reports. The course is designed to (1) broaden and deepen your conceptual and technical understanding of the CPA’s attest function, (2) provide you with a framework for analyzing contemporary auditing and assurance issues, and (3) develop your research and communication skills. Discussion of current academic and professional literature and analysis of auditing case studies will enhance your understanding of audit issues. Prerequisite: Accounting 305 and Junior standing.

Course Objectives

This course has two primary objectives: First, the course provides an introduction to auditing standards and the theory of the audit. Second, the course emphasizes the judgment required of the auditor as a professional in a changing and demanding legal, ethical, and business environment.

Since all topics covered on the auditing part of the CPA Examination cannot be covered in this course, most students will need to supplement their preparation through further study before taking the CPA Examination. A secondary objective is to provide direction in personal skills and attributes of a professional accountant.
Assignments

Your success in this course requires your careful attention to and use of the course outline and assignment sheet that accompanies this syllabus. It is your guide through the material in your textbook and the professional standards. In order to cover the required material, only one or two days will be devoted to a chapter and the relevant professional standards. As a result, this course requires more reading (and less problem solving) than you are used to in your other accounting courses. Systematic preparation for each class is an absolute must for success.

Chapter Assignments

Reading is an important aspect of the study of auditing. The assigned chapters must be read in advance of class. In class, we will be covering the principal points from your readings and clarifying questions that may have arisen in them. We will not have time to cover every topic that might appear on an examination. The questions at the end of each chapter of your text provide a review of the important content of the chapter. It is suggested that you develop answers to these questions as you review the content of the chapters.

Comprehensive Questions and Case Studies

The assigned questions and cases should be prepared in advance of the class on which they are assigned. Preparation of the questions and cases consists of notes or an outline as to how you would answer them. They will serve as a basis for class discussion. Class participation is strongly encouraged.

Team Assignments

The team approach was chosen because becoming an effective auditor requires learning to operate successfully as a team member. Assignments will consist of questions relating to assigned readings and cases. The assignments will be completed in a group setting. Students are expected to read each assigned case and to be prepared to discuss key concepts in the case. Cases presentations should include a 20 minute PowerPoint presentation, accompanied by a written document addressing each case question. The purpose of these assignments is to generate discussion of important issues in the text. A student team will be assigned to present a case, followed by a critique and discussion by an assigned student team.

USEFUL WEB SITES

American Accounting Association (AAA) http://aaahq.org/index.cfm
Auditing Section http://aaahq.org/audit/index.htm
Institute of Certified Public Accountants (AICPA) http://www.aicpa.org/index.htm
Public Company Accounting Oversight Board (PCAOB) http://www.pcaobus.org/
Institute of Internal Auditors (IIA) http://www.theiia.org/iiia/index.cfm
Financial Accounting Standards Board (FASB) http://www.fasb.org/
Committee of Sponsoring Organizations of the Treadway Commission (COSO)
http://www.coso.org/
International Auditing and Assurance Standards Board http://www.ifac.org./IAASB/
CPA Exam Update http://www.cpa-exam.org/
CFO Direct http://www.cfodirect.com/

Grading

Mid-term examination 35%
Final examination 35%
Team assignments:
   Cases 10%
   Term Project 15%
   Analytical Procedures Project 5%

Grading Scale

A   =  93% and Above                C+  =  77% to 79%
A-  =  90% to 92%                   C    =  73% to 76%
B+  =  87% to 89%                   C-  =  70% to 72%
B   =  83% to 86%                    D+  =  67% to 69%
B-  =  80% to 82%                    D    =  60% to 66%
F    =  59% and Below

Exams

The mid-term and final examinations may contain multiple choice questions and essay questions. The final will be comprehensive.

Other Policies

Assignments are to be handed in on the due dates. Examinations are to be taken when scheduled. Cases of academic dishonesty are viewed as a serious violation of professional ethics and will result in an F Grade. The link to more detailed information about the student code of conduct can be found at http://www.accounting.depaul.edu
## Course Outline and Assignments

<table>
<thead>
<tr>
<th>Week</th>
<th>Topics</th>
<th>Assignments</th>
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</table>
| 1/5  | Course Overview  
Review Syllabus  
Group assignments | Chapter 1  
1-2, 1-3, 1-23, 1-25, 1-28, 1-29 |
| 1/7  | The Role of the Public Accountant in the American Economy |  |
| 1/12 | Assurance Services  
Professional Standards | **Group assignment**: Consumer Product Assurance  
Chapter 2  
2-1, 2-6, 2-14, 2-15, 2-18, 2-20, 2-24, 2-25, 2-28, 2-29 |
| 1/14 | Sarbanes-Oxley Act of 2002 | **Group assignment**: Enron Case |
| 1/19 | Earnings Management  
Materiality | Group assignment: Worldcom |
| 1/21 | Consideration of Fraud in Financial Statement Audit (SAS 99)  
Skepticism | **Group assignment**: *ZZZZ* Best Case  
Presentation by Reference Librarian-Chris Hoeppner |
| 1/26 | *Term Project (Planning and Resources)* |  |
| 1/28 | Professional Ethics | Chapter 3  
3-1, 3-3, 3-4, 3-6, 3-7, 3-8, 3-11, 3-14, 3-23, 3-24  
Auditor Independence Case Studies |
| 2/2  | Legal Liability of CPAs | Chapter 4  
4-2, 4-4, 4-7, 4-10, 4-20, 4-22,, 4-26, 4-30, 4-31  
**Group assignment**: Health Management |
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<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapters</th>
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<tr>
<td>2/4</td>
<td><strong>Midterm</strong></td>
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<td>2/10</td>
<td>Audit Evidence and Documentation</td>
<td>5-1, 5-2, 5-3, 5-30, 5-31, 5-35, 5-36, 5-37, 5-38, 5-39, 5-41, 5-45</td>
<td>Crazy Eddie Case</td>
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<td>2/9</td>
<td>Analytical Procedures</td>
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<td>2/11</td>
<td>Planning the Audit; Linking Audit Procedures to Risk</td>
<td>6-1, 6-2, 6-3, 6-6, 6-7, 6-16, 6-18, 6-24, 6-26, 6-27, 6-28, 6-32, 6-34, 6-36</td>
<td>Madoff</td>
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<td>2/16</td>
<td>Internal Control</td>
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<td>Integrated Audits of Public Companies</td>
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<td>2/23</td>
<td>Integrated Audits (continued)</td>
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<td>Completing the Audit</td>
<td>16-1, 16-2, 16-3, 16-27, 16-31, 16-33, 16-34</td>
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<td>Completing the Audit (continued)</td>
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<td>3/4</td>
<td>Auditors’ Reports</td>
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<td>3/9</td>
<td>Auditors’ Reports (continued)</td>
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<td>3/11</td>
<td>Term Project: Audit Plan Presentations</td>
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<td>3/16</td>
<td>Final Examination</td>
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READING LIST: Additional Readings are posted to D2L

TERM PROJECT

Analysis and Audit Plan

The objectives of this project are as follows:

1. To acquaint students with the annual report and Form 10-K of a publicly held company audited by a CPA firm.

2. To provide data for the practical application of certain steps in the audit process.

3. To allow students to experience working on a team, as is done in actual auditing.

Detailed Instructions

1. Form a group of four persons. Discuss how you organize (assign responsibilities) to complete this project in a suitable format.

2. Obtain a copy of a recent annual report of a publicly held company with stock actively traded on the New York, American or over-the-counter exchange. Answer the following questions:

   a. What is the company's industry?
   b. What are its primary products?
   c. What raw materials does the company use?
   d. How large is the company:
      • sales
      • assets
      • employees
   e. Where is the company located?
   f. What other people/companies are closely associated with this company?
   g. Look at the annual report:
      • What image does it intend to convey?
      • What are the segments and functional contents of the report?

3. Obtain a copy of the Company's 10-K report for the same date as the annual report. Answer the following questions:

   a. How does the 10-K differ from the annual report?
b. Supplement the answers to the questions under 2 as appropriate.

4. Obtain outside information about the company and its industry. Answer the following questions.

   a. What are the key economic factors about the industry?
   b. Where is the company in its life cycle?
   c. What are the five or six most important factors for success in this business?
   d. How does this company stand with respect to these factors?
   e. What notable accounting considerations are there for companies in this industry?
   f. What legal or regulatory matters are of concern?
   g. What social matters are of concern?

5. Analyze the company's financial strength:

   a. Is this a financially strong company?
   b. Which way is it moving?
   c. What are its sources of capital and what is the value of the company's capital?
   d. How has the capital market place responded to the company?
   e. What is the quality of earnings?
   f. How does the company compare with the rest of its industry?

6. Prepare a broad audit plan:

   a. What material types of transactions and transaction cycles are involved?
   b. What are the high-risk areas?
   c. What are the low-risk areas?
   d. To what extent do you believe it will be appropriate to reduce assessed control risk?
   e. How will audit effort be allocated among geographical areas?
   f. What form of auditors’ report do you expect will be issued; what does it mean?

7. Indicate as an appendix to the report how the project team was organized and how it functioned on the project.

The project will be graded as follows:

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<th>ITEM</th>
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