AUDITING 413 – 060
Summer 2006
CAB 206
M-F 11:00-12:30

"Thinking is the hardest work in the world. That’s why so few of us do it.” Emerson

Professional in Residence
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Course Description
Auditing 413 is an introduction to auditing procedures and other assurance services. This course is designed to provide the essential concepts for an integrated understanding of the audit process. Auditing is different from other accounting courses in that there are few rules to memorize. Auditors rely on professional judgment to assess the risk of fraud, evaluate the reliability of evidence and determine the materiality of misstatements. This sometimes makes Auditing both fascinating and frustrating. In this course you will spend little time memorizing but considerable time working to develop sound judgment.

Course Prerequisites
Enrollment in Auditing 413 requires successful completion of Accounting 304.

Special Accommodations
Any student who feels that an accommodation for a disability is in order is encouraged to consult with the Office of Disabled Student Services early in the quarter.

Topic Coverage
The textbook is divided into five parts:
- Responsibilities and Reporting
- The Audit Process and Internal Control
- Auditing the Revenue/Receipt and the Expenditure/Disbursement Cycles
- Auditing Other Cycles and Completing an Audit
- Other Assurance and Attestation Services, Compliance and Internal Auditing

Course Objectives
The objectives of Auditing 413 are as follows:
(1) Develop an understanding of the purpose and methods of a financial statement audit by independent public accountants.
(2) Develop an understanding of the attest function.
(3) Prepare a framework to help you prepare for the CPA exam.
(4) Find the professional skepticism and the logic of the audit process that can be helpful in your daily life.
(5) Develop analytical skills through problem assignments relating to the analysis of real-world companies.
(6) Develop critical thinking through problem assignments and examinations that will require you to use critical thinking skills to apply auditing concepts to various situations.
(7) Develop communication skills by reporting your findings.
(8) Develop technology skills through additional assignments that require the use of excel, word-processing packages, etc. You will be required to retrieve class outlines and assignments using blackboard and electronic mail.

Learning Outcomes
Upon completion of this course, you should be able to:
(1) Describe the accounting principles as applied to fundamental auditing standards.
(2) Describe the structure of auditing.
(3) Describe the auditing process.

Text Requirements
Written Communications
At least 10% of your grade will be determined from written communication. The purpose of this requirement is to test your understanding of key concepts and to improve written communication skills. Since effective communication is essential in practice, this skill will be emphasized throughout the course.

My Mission
To create a learning environment so that you can master the course content and actively apply with confidence what is learned. Falling behind is the most common cause of poor performance. You should read and study each chapter before it is discussed in class. It would be beneficial for you to work extra problems or exercises from the text or from Gleim. Doing so will allow you to gain more from the classroom discussions and facilitate successful completion of the course.

Attendance Requirements
Regular attendance is required in this course and will be checked each class meeting. The class attendance policy as stated in the 2005-2006 Louisiana Tech University Bulletin will be followed.

Statement of Ethics and Scholastic Dishonesty
The accounting profession has a long-established reputation for its high level of ethical conduct. This reputation reaches into the academic arena where the profession’s future leaders are being prepared. Academic dishonesty will not be tolerated in accounting courses. Academic dishonesty includes, but is not limited to copying, sharing or obtaining information from any unauthorized source during examinations or quizzes. It also includes copying from or unauthorized sharing of homework assignments, attempting to take credit for the intellectual creation of another person, or falsifying information. Any student involved in academic dishonesty will be penalized in accordance with published University rules.

Cell Phone
Please turn your cell phone off or to silent mode during class period. Due to picture-taking and text-messaging abilities of cell phones, all phones must remain in your book bag, pocket or purse on test day. Cell phones are not to be used as calculators during a test.

Grading System
Grading Scale: Grades based on total points using 10-point scale. (90%=A, 80%=B, 70%=C, 60%=D, Below 60%=F)
Regular Exams: There are four regular exams valued at 100 points each.
Projects: An out-of-class group project will be assigned and will be worth 120 total points. A portion of your grade will be based on communication quality and presentation. There will be no make-ups for this project.
A 50-point, in-class group project will be assigned using Auditing Alchemy, Inc. There will be no make-ups for this project.
Quizzes: A number of 10-point quizzes will be given. There will be no make-ups for quizzes, but your lowest quiz grade will be dropped.

Homework
Homework assignments are due on the date indicated on the syllabus and will be collected at the beginning of class. Collected assignments will be checked for effort and completeness. Each satisfactory homework assignment will be worth three points each. Late homework assignments will not be accepted.

Internet Case - CPA Requirements:
In order for an individual to practice as a CPA, they must be licensed by the state in which they plan to practice. Each state has different requirements. Go to the AICPA website at http://www.aicpa.org. Select CPA Candidates, CPA Exam Facts and click on Apply Now. Click on Click Here. Scroll down to the bottom of the page and click on the state of Louisiana on the map. Find the requirements and write a one-page paper explaining in your own words how to become a CPA in Louisiana. This assignment must be typed. Use good grammar, complete sentences and paragraphs. Bring to class on Tuesday, July 11th. (10 Points)

Internet Case - Reports:
As a result of Sarbanes-Oxley Act of 2002 and the creation of the PCAOB, the requirements for the audit and audit reports have changed significantly. Now the auditor must evaluate management’s assessment of the effectiveness of internal controls and make an independent evaluation of their effectiveness. The results of both the auditor’s evaluation of management’s assessment and the auditor’s own assessment of the effectiveness of internal controls must be included in the auditor’s report. Access the following website and answer the four related questions. Your questions and answers should be typed and turned in at the beginning of class on Thursday, July 13th (10 Points)
http://www.sec.gov/rules/pcaob/34-49544.htm#toc14
1. Can the auditor issue separate reports regarding internal controls and financial statements? Can the report on internal controls be combined within the report on financial statements?

2. Can the auditor issue mixed opinions on internal controls, that is, unqualified opinion on management’s assessment of internal controls but qualified or adverse opinion on the controls themselves?

3. Is the audit and reporting on internal controls a separate engagement from the audit of financial statements? Define “reasonable assurance.” Is this standard applied in the same manner to the audit or internal controls and to the financial statement audit?

4. Who provides a suitable framework for devising and maintaining internal controls in the United States? What are the three primary objectives of this framework?

**Internet Case – Fraud in a Financial Statement Audit**

A continuing issue for accountants in the audit of financial statements is: What is the responsibility of the public accountant for detecting fraud in the financial statement audit? Prior to the issuance of SAS 82, public accountants decried responsibility for detecting fraud during the annual audit. SAS 82, which has been superseded by SAS 99, made clear that the auditor has a responsibility for detecting fraud. SAS 99 identified a fraud triangle composed of: incentives and pressures, opportunities and attitudes, and rationalizations specific to a client’s financial and operational environment. Information can be found at:


Use this information to answer the following questions:

1. What areas is the auditor responsible for assessing fraud risk? During what phase of the audit should the assessment occur?
2. Give an example of how brainstorming by the audit team can lead to a more directed approach for the audit?
3. In the context of SAS 99 and the fraud triangle, how does the auditor formulate fraud risk?
4. For specific fraud risks identified, what is the auditor’s responsibility?

Questions and answers should be typed and turned in at the beginning of class on Wednesday, July 21st. (10 Points)

**PROJECTS:**

**Annual Report** - A team approach will be used to complete this out-of-class project. You may form your own team of three to four persons. I will form teams for students who do not form their own team. I reserve the right to add a student to any team. For your group, obtain a three-ring or other binder in which to maintain and submit your assignment for evaluation and grading. I will look at each assignment and you will receive review notes as applicable. These review notes must be cleared prior to completing your project. You will also maintain a time sheet.

The objectives of the Project are:

1) To acquaint you 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 you to experience working in teams, as done in actual auditing.

Your work papers will be graded and each team member will receive this grade. Each team member will assign a grade to their fellow team members based on their contribution to the team effort. Each group will spend approximately 15 minutes presenting their findings. The presentation will be worth 20 of the 120 total points. Your final grade for this project will be a combination of the three grades—the one for the working papers, the one given by your team members for your effort on the work papers and the grade for your presentation. Your peers will evaluate your presentation and your presentation grade will be determined from this evaluation. It is possible for different team members on the same group to receive a different grade.

**Auditing Alchemy Inc.** – Section 404 of the Sarbanes-Oxley Act has established a framework that requires in-depth audits of a company’s internal controls. Alchemy Inc. is a fictitious company based in the U.S. that specializes in the processing of small gold spheres used in the aerospace industry. This CD is provided by PricewaterhouseCoopers and will be an in-class project. You will:

- Learn how to perform an application control review, from planning through reporting;
- Detect, evaluate and design application controls within business processes; and
- Identify the linkage between application controls, information technology general controls and monitoring controls. (50 Points)

**In-Class Financial Analysis Project** – to be assigned

**Make-up Policy**

No makeup exams will be given without prior permission. Absolutely no makeup will be given for missed quizzes, projects, or in-class work.
**BLACKBOARD**
The syllabus, assignment sheet and other class information will be available on blackboard. Test grades, quiz grades and final grades will be posted to blackboard. The discussion board will be available for posting and answering questions. The digital drop box on blackboard will be used for turning in many of your assignments and projects. If you are unsure how to use blackboard, please stop by my office.

**Auditing 413 Homework Assignment Schedule**

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