FLORIDA GULF COAST UNIVERSITY

ACG 4632 – AUDITING AND ASSURANCE SERVICES I

FALL 2003

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Office Hours	:	Mondays & Wednesdays: 10 am– 12 noon Tuesdays & Thursdays: 10-11 am
Classroom	:	Griffin Hall – Room 107
Class Times	:	Monday 5:00pm – 7:45pm
Last Day to Withdraw	:	October 31, 2003
Final Exam Date	:	To be announced
Required Materials	:	1) Modern Auditing, 7th edition, by Boynton, Johnson & Kell 2) Contemporary Auditing: Issues & Cases, 5th edition, by Michael Knapp
Suggested Materials	:	CPA Exam Review Manual For Auditing
Prerequisite	:	ACG 3401 with a minimum grade of C and ACG 3113 with a minimum grade of C

YOU ARE EXPECTED TO READ AND UNDERSTAND THE CONTENTS OF THIS SYLLABUS. IT IS VERY POSSIBLE THAT I COULD ASK YOU AN EXAM QUESTION THAT IS BASED ON MATERIAL IN THIS SYLLABUS.

Course Background (using a Strategic Audit Systems Approach) :

Accounting plays a central role in the efficient allocation of resources in market-based economies. By adding credibility to accounting measurements and disclosures, auditing has for centuries made it possible for accounting to play such a role. Today's global economy and the business organizations operating within it, however, have become so complex and interdependent that new approaches to auditing must be developed.

The traditional "risk based" audit focuses the auditor's assessment of risk through a narrow "accounting lens" – a lens that directs his or her attention, and his or her related assessment and testing activities to the nature of account balances, classes of transactions, and properties of the client's accounting system for the purpose of assessing the risk that financial statements are materially misstated. This "bottom up" focus can inhibit the auditor's development of the level of business understanding needed to effectively judge the risk of material misstatements in the financial statements.

The use of a "top down," aggregative, strategic systems lens increases the likelihood that the auditor will have obtained a sufficient understanding of the client's business and industry for the purpose of conducting a financial statement audit. The strategic systems audit approach directs the auditor's attention to the client's system dynamics: its business strategy and the economic niches it has chosen to occupy; the strengths of its connections to outside agents, including customers, suppliers, investors, and regulators; and the external and internal forces that threaten the viability of its chosen niches and the achievement of its objectives.

One example of the strategic systems audit approach is the Business Measurement Approach (BMP) used by KPMG Peat Marwick. The BMP audit approach is a holistic, business-risk orientation. It guides the focus, breadth, and depth of the auditor's knowledge acquisition and the integration of business knowledge into expectations about financial statement assertions.

Course Objectives :

To provide a knowledge of the societal significance of auditing, the legal and professional responsibilities of the CPA to clients and third parties and the nature of generally accepted auditing standards

To provide an understanding of audit planning and program development, audit risk and materiality considerations, and the significance of the various kinds of evidence examined during an audit in support of an audit opinion

To gain an understanding of the significance of internal controls in planning and performing an audit

To gain an appreciation of the Internet and other databases, such as Lexis-Nexis, Edgar and Research Insight, for auditors

To help prepare each student for the CPA, CMA, CIA, CFSA or CFE exam(s)

To provide an overview of assurance services, including the role of the CPA/CA WebTrust in promoting electronic commerce and CPA/CA SysTrust in promoting systems reliability

To apply auditing concepts and procedures to real cases to obtain a better understanding of auditing practices

To gain an understanding of basic fraud examination concepts

To learn planning and analytical skills and communication skills

Program Outcomes : This course is designed to help the student achieve the following outcomes:

To encourage and promote critical thinking, a skill necessary to succeed today as an accounting professional. This means each student should be able to comprehend an unfocused set of facts, identify, and if possible, anticipate problems, and find acceptable solutions.

To improve the student's communication skills. Each student should be able to locate, obtain, and organize information from both human and electronic sources. Each student will also learn to defend his or her views through written work.

To enhance the student's interpersonal skills.

Cooperative learning or working in teams is one key way of promoting achievement of this outcome.

To promote a sense of professional skepticism and promote a spirit of willingness to investigate anomalous situations when rendering professional accounting and assurance services.

Core Competencies: In addition to the program outcomes noted above, this course promotes the following core competencies:

Acquisition of a global perspective by each student to help their future employers (or their own businesses) better compete in international and domestic markets;

Development of an ability to formulate decisions that integrate practical, economic and ethical considerations; and

Appreciation of the vagaries and uncertainties of real life business situations and the importance of life-long learning.

ATTENDANCE AND PARTICIPATION

Attendance and completion of assignments are considered minimum requirements for all students. Penalties may be assessed in the final determination of your course grade for unreasonable deficiencies in either or both of these requirements. The penalty may take the form of a reduction in letter grade, the assignment of a failing grade or a grade of incomplete. This penalty assessment policy applies regardless of performance on written examinations and the form of the penalty is at the discretion of the instructor.

Please note that 70 points toward your final grade involves attendance. Each student starts the semester with 70 points for attendance. Each time you miss class after two absences you lose 7 points from your attendance grade. The instructor retains the discretion to approve excuses on a case-by-case basis. If you miss class for a medical reason, do not ask the instructor to be excused without written documentation from a medical doctor or nurse practitioner. Participation in FGCU team athletic events is also a reasonable excuse for missing class.

Quizzes: The instructor will administer several quizzes during the semester. The quizzes are worth 50 points. Each quiz will be worth 10 to 20 points. The instructor reserves the right to give both **announced and unannounced** quizzes. Quizzes may contain both multiple choice and short-answer essay questions. Makeup quizzes will not be given except in extraordinary circumstances. Failure to be in class when a quiz is given will result in a score of 0.

Grading : Each student starts this class with an A. It is your job to keep it.

Two exams will be given in this course. Each exam will contain objective questions and short-answer essays. Each exam will be cumulative. It is assumed that each student will remember the material already learned that is necessary to answer a given question. Each student's grade will be based on the following:

Exam 1	100 points
Exam 2	100 points
Forensic Auditing Team Project	150 points
Homework	80 points
Attendance/Participation	70 points
TOTAL	500 points

The grading scale for final grades is:

Grade	Total Points
A	460-500
A-	445-459
B+	435-444
B	415-434
B-	395-414
C+	385-394
C	350-384
D	300-349
F	Below 300

Any grade challenge to a test, quiz, homework assignment, project or assignment of any kind must be in writing to be considered. An oral or verbal grade challenge will not even be considered. A written grade challenge (even for 1 point) must clearly describe what is being challenged and provide a rational basis for the challenge.

Make-up exams will not be given without the instructor's approval. If you miss an exam without a reason approved by the instructor, you may receive a "0". The instructor's discretion is final. If you hand in the AAER project or a homework assignment late, you may have points deducted from your grade.

Please bear in mind that you are responsible for all material assigned even if it is not covered in a class lecture. You are also responsible for material presented in class that is not covered in the textbook. You are also responsible for any outside reading material assigned by the instructor. IT IS ALMOST CERTAIN THAT YOU WILL BE ASSIGNED MATERIAL TO READ OUTSIDE CLASS. QUESTIONS ON THIS MATERIAL MAY SHOW UP ON AN EXAM.

Homework Assignments: Numerous cases from *Contemporary Auditing: Issues and Cases* and various AAERs will be covered in this course. Each student is responsible for writing out the answers to assigned questions for class. Your answers may be collected by the instructor at any time. The maximum number of points for any given assignment is 10. You must do at least one AAER out of the eight homework assignments. You may receive up to 80 points from case homework assignments. The cases and AAERs that are the subject of homework assignments are listed in the Schedule of Assignments. **ALL HOMEWORK ASSIGNMENTS ARE TO BE WORD-PROCESSED. HANDWRITTEN ASSIGNMENTS WILL NOT BE ACCEPTED.**

Accounting & Auditing Enforcement Releases (AAERs): The SEC Accounting and Auditing Enforcement Releases describe cases of fraudulent financial reporting. In many of these cases, the auditor is disciplined because of a failure to meet professional standards. The AAERs provide students a unique opportunity by presenting real-world auditing problems and how they are dealt with by the SEC. One source for the AAERs since September, 1995, is the Edgar database maintained by the SEC at www.sec.gov. Another source is Lexis-Nexis.

Questions to be considered in your homework assignment should include:

1. What auditing deficiencies were there in this case?

2. What is the proper accounting based on the facts?

3. What were the red flags?

4. What should the auditor have done differently?

Forensic Auditing
Team Project: Teams of auditing students (no more than 3 on a team) will be auditing the books of the Tallahassee BeanCounters (TBC), a minor league baseball team in Tallahassee, Florida, home of the mighty Florida State Seminoles. During your audit the team's owner, Franklin Kennedy, approaches you and offers an additional fee if you will quietly investigate the possibility of fraud within the firm. Mr. Kennedy reports that he received an anonymous tip and based on that information, believes that someone within the firm could be perpetrating fraud. Your team's task is to use the information given here (the financial books and backup documents) as a starting point for your investigation. From that starting point, use creativity and investigative skills to determine what other information you need. After obtaining requested information, use all the material you have gathered to determine whether fraud was committed. To completely solve a fraud, you must show the following: who committed the fraud, how it was committed, that it was intentional, the economic impact of the fraud, and that it was your suspect who gained financially from the fraud.

You will receive a case packet after we cover the material on SAS 99 and fraud examination. You will be given about 6 weeks to complete the case as a team. The instructor will give you a deadline when the case packet is made available.

Schedule of
<u>Assignments:</u>

		ASSIGNMENT
Ch. 1	Auditing and the Public Accounting Profession	1-21, 1-22, 1-23 & 1-28
	<u>Case</u> – Livent, Inc.	All questions
Ch. 22	Assurance Services	22-12 & 22-13
	<u>Case:</u> CPA2 Biz, Inc.	All questions
Ch. 2	Financial Statement Audits and Auditors' Responsibilities	2-18, 2-19, 2-20 & 2-21
	<u>Case</u> – Star Technologies, Inc.	All questions

Various materials on fraud examination, money laundering and/or terrorist financing (including a discussion on SAS 99—Consideration of Fraud in a Financial Statement Audit)

Ch. 3	Professional Ethics (including Sarbanes-Oxley Act)	3-23, 3-24 & 3-25
	<u>Case</u>-Mallon Resources, Inc.	All questions

AAER #192-Professional ethics-auditor received stock from the client firm. Extensive discussion of independence.

AAER #564-Professional ethics, independence, Evidence-fictitious assets and auditor-owned shares in an IPO.

Ch. 4	Auditor's Legal Liability	4-22 & 4-23
	Case-Equity Funding Corp of America	All questions
	Case-Congregation of the Passion v. Touche Ross	See below

You are to find this court case (Congregation of the Passion) in Lexis-Nexis or elsewhere (decided in the 1990s) and analyze the implications of the holding with regard to limitation of an accountant's liability to a client through the use of an engagement letter. Your analysis should not overlook the importance of SAS 83 and an article by Crawford, Franz, Zimmerman and Fink (use ABI Inform or other source) on this issue. You must do the research on your own to find the materials necessary to complete the assignment. **This assignment is worth up to 15 bonus points if you hand it in and it is substantially correct. Your project paper must be at least four pages double-spaced using 12 point font.**

Ch. 5	Overview of the Audit Process	5-17, 5-18 & 5-19
Case:	Leslie Fay Companies	#s 3,4, and 5

EXAM 1—CHS. 1,2,3,4,5, and 22 and any outside material

Ch. 6	Audit Evidence, Audit Objectives, Audit Programs and working Papers	6-22, 6-23 & 6-24
	Case-Capital Banc Corp.	All questions
Ch. 7	Accepting the Engagement and Planning the Audit	7-25, 7-26 & 7-27
	Case-National Medical Transportation Network	All questions
Ch. 8	Materiality, Risk and Preliminary Audit Strategies	8-24 & 8-25

AAER #1142-Due professional care and professional skepticism-materiality judgment related to reserves.

Ch. 9	Understanding Internal Control (excluding Appendix 9A)	9-32 & 9-34

Case-Goodner Brothers, Inc. All questions

Ch. 20 Reporting on Audited Financial Statements 20-20, 20-21, 20-22 & 20-23

AAER #1207-the senior management of Power Phone, Inc. orchestrated a fraudulent scheme to falsify and inflate the firm's financial condition.

Ch. 21 Other Services and Reports 21-18, 21-19 & 21-20

Videos presented during class time may be the source of exam questions.

EXAM 2 – All material covered during the semester including outside readings

The syllabus may be changed at the discretion of the instructor as circumstances warrant.

Ethics : Ethics have become an extremely important topic in today's environment. An accountant's only product is his/her service which is measured by his/her integrity and professionalism. It is expected that no academic dishonesty will occur. Cheating on any assignment will be pursued according to the appropriate procedures outlined in the Student Conduct Code. Cheating includes plagiarism on any of the assigned projects.

All students are expected to demonstrate honesty in their academic pursuits. The university policies regarding issues of honesty can be found under the Student Code of Conduct on page 11, and under Policies and Procedures on pages 18-24 of the Student Guidebook. All students are expected to study this document which outlines their responsibilities and consequences for violations of the policy.

DISABILITY ACCOMMODATION SERVICES

Florida Gulf Coast University, in accordance with the Americans with Disabilities Act and the university's guiding principles, will provide classroom and academic accommodation to students with documented disabilities. If you need to request accommodations in this class due to a disability, or you suspect that your academic performance is affected by a disability, please see me or contact the Office of Multi-Access Services. The Office of Multi-Access Services is located in the Student Services Building, Room 214. The phone number is (941) 590-7925.