School of Accountancy

Shidler College of Business

University of Hawaii at Manoa

**ACC 418 Auditing**

Fall 2016

Professor: Jian Zhou, Ph.D.

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Office hours: W 10:00 a.m. – 11:00 a.m. or by appointment

Class: Section 002: W 0600-0845p BUSAD E201

Section 003: W/F 1200-0115p BUSAD E202

Required Text:

Auditing and Assurance Services, Student Value Edition Plus MyAccountingLab with Pearson eText -- Access Card Package, 16/E, ISBN-13: 9780134417301, ISBN-10: 0134417305

**1. Course Objective**

The objective of the auditing course is to help each student obtain the skill, knowledge, and personal characteristics necessary to practice successfully as an auditor. Because auditing is concerned with the use and evaluation of information, auditing skills are valuable for all accountants. Specific course objectives include:

* Understand the demand for auditing and assurance services.
* Understand and apply the ethical principles in the Code of Professional Conduct.
* Know the transaction- and balance-related audit objectives, their relationship, and application to audit cycles.
* Use and apply materiality criteria and the audit risk model to make audit planning and evidence evaluation decisions.
* Understand the Sarbanes–Oxley Act and PCAOB auditing standards and their effects on current audit practice.

**2. Course Content**

The primary objective of this course is to provide an in-depth understanding of audit and assurance services, with an emphasis on financial statement audit opinions by independent auditors. In the first part of the course, we examine the demand for audits and other types of assurance services offered by CPAs, and examine external factors that impact on the overall nature of the audit process. These factors include auditing standards, audit reporting requirements, professional ethics, legal liability, and regulation, including the requirements of the Sarbanes–Oxley Act and the PCAOB.

The remainder of the course will be devoted to improving our understanding of the underlying concepts and the procedures utilized in performing and completing the audit process. Selected topics that will be covered in the latter part of the course include identifying audit objectives, assessing risk and materiality, evaluating evidence, performing analytical procedures, designing tests of transactions and tests of balances, and applying audit sampling techniques.

A large amount of material is covered in this class. By reading the Powerpoint slides and text material before class, you should be prepared to actively participate in class discussion. You should attempt to answer the multiple choice questions on the course companion website prior to class. The solutions to all non-collected homework problems are available. Course material will be presented on Powerpoint slides. Copies of the slides can be downloaded from Laulima.

Each of you is expected to gain an understanding of the subject matter by (1) attending class (and being on time), (2) participating in class discussion and learning, (3) completing the assigned readings, (4) completing the assigned homework problems, and (5) participating fully in completing the group audit case. You are encouraged to discuss any concerns you have regarding the conduct of the course with the instructor.

**3. Course Routine**

A portion of each class will be devoted to discussion and illustration of selected items from the Powerpoint slides, text and assigned homework. This format is designed to highlight difficult items and will not substitute for a careful reading of the text. All students are expected to have read the text material and completed the assigned problems prior to class. All students are encouraged and expected to ask questions or provide comments that add to class discussion. Cases will be a regular component of class discussion, and each member of the class is expected to be able to provide input to these case discussions.

**4. Grade Determination**

The points used in determining your grade are as follows:

|  |  |
| --- | --- |
|  | Points |
| First Examination  Second Examination  Third Examination    Total examination points | 100  100  100  300 |
| Audit Case  Group Evaluation - Audit Case  Article Write-ups  Homework Presentation  Headline News Presentation  Group Assignment - Presentation  Group Assignment - Paper  Homework (18 at 1 point each)  Participation  Total other points  Total points | 70  10  75  10  5  15  85  18  12  300  600 |

Group assignment - presentation: 20% grade from group members, 20% grade from instructor, and 60% grade from other students in the class

Group assignment - paper: 20% grade from group members, 80% grade from the written paper

Grading Scale - The following is the grading scale:

Letter Grade Minimum Points

A+ 586

A 558

A- 540

B+ 522

B 504

B- 480

C+ 462

C 438

C- 414

D 372

Students must adequately complete all writing assignments to pass the course with a D grade or better. Students who do not complete all writing assignments will get a D- or an F and will not earn W Focus credit.

5. **Examinations**

There will be three exams given during the semester. Makeup exams will be provided only for students notifying the instructor prior to the exam with legitimate reasons such as written medical excuses. Each exam will be curved if the mean/median grade (whichever is lower) falls below 80.

Examinations will be designed and graded to evaluate your understanding of auditing concepts *and* your ability to communicate the results of your analysis of the textbook, class projects, homework assignments, and class discussion.

#### 6. Article/Case Write-ups

Three articles (cases) related to this course will be distributed throughout the semester. These articles will be discussed in class and there will be questions related to the articles on the exams. Each student must hand in 3 (15 points each) written article summaries & analyses during the semester. Each article summary & analysis should be made up of two parts – a summary and a detailed analysis part commenting on the issues raised by the article. A write-up must be handed in (in type format, no other format is accepted) on the day of the discussion. A write-up should be two **FULL** pages (Times New Roman, double-spaced, 12 fonts). The assigned article is discussed one week after being distributed.

Another article (case) related to this course will be distributed throughout the semester. Students are encouraged to find relevant info for this article (case). Each student is required to hand in a 6 page summary and analysis for this assignment, which is worth 30 points.

7. **Group Project - Audit Case**

The text includes the Pinnacle Company comprehensive case assignment. The audit case assignments are to be completed as a group assignment. Only one solution for these assignments should be turned in; each member of the group will receive the group score. The case is graded on completeness, neatness, effort, and appropriate research and application of accounting and auditing standards. Because the emphasis is on decision-making, "correct answers" are less important, but do impact upon the grade.

At the conclusion of the case, each class member will evaluate each of the other members of his or her group for their contribution to the project and the overall success of the group. Ten points are allocated to the group evaluation. You must significantly participate in the group activities to receive credit for the group project.

The use of groups is to simulate the real world of accounting and auditing where most work is done in groups. The purpose is to develop your interpersonal skills in cooperating with others and coordinating as a team player such that group goals are accomplished.

The points allocated to the case are as follows (excluding the evaluation by group members):

|  |  |
| --- | --- |
| Pinnacle I – Preliminary analytical procedures  Pinnacle II – Assess risks  Pinnacle III – Assess control risk  Pinnacle V – Plan tests of transactions  Pinnacle VI – Perform tests of transactions  Pinnacle VII – Tests of balances  Total points | Points 10  10  10  10  15  15  70 |

8. **Group Activities**

Students will form in groups (group size can range from two to four people and the preferred size is four people) to do the presentation/paper project. This should be the same group as for the auditing case. Presentations/papers must be on subjects relating to course topics. Possible topics include: the case histories of a particular audit failure; regulation of auditing profession; merger trends in auditing firms; or the effect of the PCAOB auditing standards on auditing. Topics should not focus on the same topics you are doing in other classes. Topics also must be up-to-date, more specifically, the disclosure of the main event should occur after January 1, 2016 (although the event can happen before January 1, 2016).

Groups will present the results of their research on their chosen topic to class. Presentations must use PowerPoint or slides created using PowerPoint. Each group will be responsible for preparing a written paper around 16 pages (double-spaced, excluding exhibits and appendices). The paper must cite at least six references to newspapers, periodicals or websites. And the paper is due on Wednesday Dec. 7, 2016.

9. **Homework**

Homework will be collected at the beginning of the class on the due date listed on the course outline. No late homework is accepted one week after the original due date. The late homework will be graded at the 50% of original.

Homework assignments will be graded on effort, neatness and completeness. Homework should be legible, organized, and submitted on a separate sheet of paper (no torn-out sheets). Because homework problems are designed to reinforce text material, it is permissible to discuss homework problems with other class members. However, all homework is expected to be original work.

Solutions for problems that will not be collected are available. Accordingly, these problems will not necessarily be covered in detail in class. It is important that you attempt these problems before looking at the solution, and ask about any solutions that you did not understand in class.

For online homework, please follow the due dates per publisher’s website. Online homework needs to be 80% correct to get the credit.

**10. Homework Presentation**

Students are required to present two homework solutions during the semester. The presenter may face questions from the instructor and other students in the classroom, so it is very important for the student to demonstrate his/her understanding of the problem, relevant concepts and solution. The problem itself needs to be converted into a file, which will be used as part of the presentation. The homework solution needs to be posted on Laulima.

**11. Headline News Presentation**

Students are required to present once during the semester about an accounting or auditing (preferably auditing) related news that appeared in various sources over the last couple of weeks. Sources of the news may include the New York Times, Wall Street Journal, Bloomberg Business Week, among other sources. Please upload the presentation file to Laulima.

**12. Class Attendance and Participation**

Class participation is an important element of the course. Class participation will be considered in determining the final grade for the semester. Attendance will be taken randomly. Excuses for attendance will be considered only if the excuse is communicated to the professor prior to the beginning of the class.

Students are expected to conduct themselves in a professional manner. That is, students are expected to be on time, and are expected to respect the ideas and opinions of other students. Please note specifically that disruptive behavior, for example conducting side conversations in class, arriving late, and leaving early, will not be tolerated. The instructor reserves the right to reduce a student’s course grade due to consistent behavior problem.

**13. Academic Honesty**

Students are expected to behave with integrity in all academic endeavors.  Cheating, plagiarism, as well as any other form of academic dishonesty, will not be tolerated. All incidents will be handled in accordance with the UH *Student Code of Conduct.* The UH Student Code of Conduct, is available at: [http://www.studentaffairs.manoa.hawaii.edu/policies/conduct\_code/](http://www.hawaii.edu/student/conduct).Please become very familiar with the [University Student Conduct Code](http://www.studentaffairs.manoa.hawaii.edu/policies/conduct_code/) so you can make conscience and informed choices about your behavior. Some relevant portions of the code are included below for your convenience.

“Acts of dishonesty, types of behavior that conflict with the community standards that the UH values and expects of students, include but are not limited to the following:

a. cheating, plagiarism, and other forms of academic dishonesty,

b. furnishing false information to any UH official, faculty member, or office,

c. forgery, alteration, or misuse of any UH document, record, or form of identification.

The term "cheating" includes, but is not limited to: (1) use of any unauthorized assistance in taking quizzes, tests, or examinations; (2) use of sources beyond those authorized by the instructor in writing papers, preparing reports, solving problems, or carrying out other assignments; (3) the acquisition, without permission, of tests or other academic material belonging to a member of the UH faculty, staff or student (4) engaging in any behavior specifically prohibited by a faculty member in the course syllabus or class discussion.  
  
The term "plagiarism" includes, but is not limited to, the use, by paraphrase or direct quotation, of the published or unpublished work of another person without full and clear acknowledgement. It also includes the unacknowledged use of materials prepared by another person or agency engaged in the selling of term papers or other academic materials.”

In addition to the above, the instructor specifically prohibits the following behaviors, and includes them within the definition of academic dishonesty:  (1) providing another student with any form of direct or indirect, unauthorized assistance on any assignment, quiz, test or exam; and (2) copying, or recording in any manner, test or exam questions or answers.

**Please NOTE:**

UH disciplinary proceedings may be instituted against a student charged with conduct that potentially violates both the criminal law and this Student Conduct Code (that is, if both possible violations result from the same factual situation) without regard to the pendency of civil or criminal litigation in court or criminal arrest and prosecution.

If a student is caught committing an act of Academic Dishonesty, as defined in the [**University Student Conduct Code**](http://www.studentaffairs.manoa.hawaii.edu/policies/conduct_code/), they will receive a grade of “F” for the course and be referred for disciplinary action as provided for by the [**University Student Conduct Code**](http://www.studentaffairs.manoa.hawaii.edu/policies/conduct_code/).

**14. Accommodation**

If any student needs an accommodation for any type of disability, please schedule an appointment to see the instructor to discuss his/her needs.

GRADING CRITERIA FOR PRESENTATIONS AND PAPERS:

PRESENTATION ASSESSMENTS ARE BASED ON:

Presentation/communication style -- speak clearly? avoid reading notes?

Preparedness -- well organized? well rehearsed?

Structure of presentation -- key points emphasized? right level of detail?

Ability to teach class something new -- did the presenters know their material? did they convey it well to the class?

Visual aids -- added to presentation? readable?

Interesting topic? Did it capture the class’s attention? Add to their knowledge of business or accounting?

EVALUATION OF WRITTEN PAPERS:

CONTENT:

Reflects up to date research on topic

Coverage is accurate and complete

Material presented is relevant to topic

Follows a logical order

Conclusions and recommendations derived from evidence

Paper develops a theme, point of view, and conclusion

FINISH:

Spelling, punctuation and grammar correct

Writing style easy and fluid

References listed at back of paper

**Homework Presentation**

These are the homework problems which will be presented by individual student at the end of each chapter during the semester. Please choose a total of two problems from two different chapters.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Chapter 1 | 1-17 | 1-18 |  |  |
| Chapter 2 | 2-18 | 2-21 |  |  |
| Chapter 3 | 3-26 | 3-27 |  |  |
| Chapter 4 | 4-20 | 4-23 |  |  |
| Chapter 5 | 5-21 | 5-22 |  |  |
| Chapter 6 | 6-24 | 6-25 |  |  |
| Chapter 7 | 7-32 | 7-34 |  |  |
| Chapter 8 | 8-30 | 8-31 |  |  |
| Chapter 9 | 9-31 | 9-33 |  |  |
| Chapter 10 | 10-33 | 10-34 |  |  |
| Chapter 11 | 11-23 | 11-24 |  |  |
| Chapter 13 | 13-24 | 13-29 |  |  |
| Chapter 14 | 14-24 | 14-26 |  |  |
| Chapter 15 | 15-26 | 15-28 |  |  |
| Chapter 16 | 16-23 | 16-28 |  |  |
| Chapter 17 | 17-27 | 17-28 |  |  |
| Chapter 21 | 21-20 | 21-21 | 21-22 | 21-23 |
| Chapter 24 | 24-25 | 24-26 | 24-27 | 24-28 |

**Auditing**

**Fall 2016**

**Assignment Schedule**

(Tentative, subject to change for a better learning experience)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Day/Date | Session | Subject | Reading  Assignment | Case Discussion  or Project |
| Wed Aug. 24 | 1 | Introduction |  |  |
| Fri Aug. 26 | 2 | The Demand for Audit and Other Assurance Services | Ch. 1 |  |
| Wed Aug. 31 | 3 | The CPA Profession | Ch. 2 |  |
| Fri Sep. 2 | 4 | Audit Reports | Ch. 3 |  |
| Wed Sep. 7 | 5 | Professional Ethics | Ch. 4 |  |
| Fri Sep. 9 | 6 | Legal Liability | Ch. 5 |  |
| Wed Sep. 14 | 7 | Audit Responsibilities and Objectives | Ch. 6 |  |
| Fri Sep. 16 | 8 | Audit Evidence | Ch. 7 |  |
| Wed Sep. 21 | 9 | Catch up and Review |  |  |
| Fri Sep. 23 | 10 | **FIRST EXAMINATION** (Ch. 1-7)  Online homework for Ch. 1-7 due. |  |  |
| Wed Sep. 28 | 11 | Audit Planning and Materiality | Ch. 8  [SAS #59 (AU §341)](http://www.aicpa.org/download/members/div/auditstd/AU-00341.PDF) | Pinnacle I – 8-40 |
| Fri Sep. 30 | 12 | Audit Planning and Materiality |  |  |
| Wed Oct. 5 | 13 | Assessing the Risk of Material Misstatement | Ch. 9 | Pinnacle II – 9-40 |
| Fri Oct. 7 | 14 | Assessing the Risk of Material Misstatement |  |  |
| Wed Oct. 12 | 15 | Assessing and Responding to Fraud Risks | Ch. 10 | Pinnacle III – 10-36 |
| Fri Oct. 14 | 16 | Internal Control and COSO Framework | Ch. 11  [SAS #99](http://www.aicpa.org/download/members/div/auditstd/AU-00316.PDF) (AU §316) |  |
| Wed Oct. 19 | 17 | Overall Audit Strategy and Audit Program | Ch. 13 |  |
| Fri Oct. 21 | 18 | Audit of the Sales and Collection Cycle | Ch. 14 | Pinnacle V – 14-35 |
| Wed Oct. 26 | 19 | Audit of the Sales and Collection Cycle |  |  |
| Fri Oct. 28 | 20 | Catch up and Review |  |  |
| Wed Nov. 2 | 21 | **SECOND EXAMINATION** (Ch. 8-11, 13-14)  Online homework for Ch. 8-11, 13-14 due.  Pinnacle I, II, III due. |  |  |
| Fri Nov. 4 | 22 | Audit Sampling | Ch. 15 | Pinnacle VI – 15-37 |
| Wed Nov. 9 | 23 | Completing the Tests in the Sales  and Collection Cycle | Ch. 16 | Pinnacle VII – 16-37 |
| Wed Nov. 16 | 24 | Audit Sampling for Tests of Details of Balances | Ch. 17 |  |
| Fri Nov. 18 | 25 | Audit of the Inventory and Warehouse Cycle | Ch. 21 |  |
| Wed Nov. 23 | 26 | Completing the Audit | Ch. 24 |  |
| Wed Nov. 30 | 27 | Catch up and Review / Pinnacle Case |  |  |
| Fri Dec. 2 | 28 | **Group project presentation** |  |  |
| Wed Dec. 7 | 29 | **Group project presentation**  Online homework for Ch. 15-17, 21, 24 due.  Pinnacle V, VI, VII due.  Group paper due. |  |  |
| **FINAL EXAMINATION** (Ch. 15-17, 21, 24) **Sec 002** W Dec 14 6:00 pm – 8:45pm **Sec 003** Mon Dec 12 12:00 – 2:00 pm | | | | |

**Auditing**

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(Tentative, subject to change for a better learning experience)

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