



MERCER
COUNTY COMMUNITY COLLEGE

COURSE OUTLINE

Course Number
ACC 204

Course Title
Auditing

Credits
3

**Hours: 3 Lecture/ 1
Lab**

ACC201 with a minimum grade of C

Implementation
Fall 2022

Catalog description:

Investigation into and application of the objectives and procedures governing auditing requirements, standards, and examinations.

General Education Category: **Not Gen Ed**

**Course coordinator: Program Coordinator Josie Mathias, 609-570-3441, mathiasi@mccc.edu
Course coordinator: Prof Ken Horowitz, 609-570-3468, horowitk@mccc.edu**

Required texts & Other materials:

**Auditing: A Risk-Based Approach to Conducting a Quality Audit, 10th Edition
Johnston, Gramling, Rittenberg, South Western, Cengage, ISBN: 9781305080577**

Integrated Audit Practice Case, Seventh Edition, Kerr, Elder, Arens, ISBN: 9780912503684

Course Student Learning Outcomes (SLO):

Upon successful completion of this course the student will be able to:

1. Analyze the degree to which internal control will assure proper reporting of transactions [ILG#2, #11] (PLO#4)
2. Recommend changes in processes, procedures and controls to improve the reliability and integrity of information [ILG #1] (PLO#4)
3. Design audit programs that will detect errors, omissions, and frauds [ILG #9, ILG 9] (PLO#4, PLO#6)
4. Write adequate footnotes to financial statements [ILG #1] (PLO#3)
5. Form opinions on the fairness of financial statements and other reports [ILG #9, #11] (PLO#3)
6. Write reports, including opinions or disclaimers, as appropriate, for audit, attest and assurance Engagements [ILG #1, #9, ILG#11] (PLO#3)

Course-specific Institutional Learning Goals (ILG):

Institutional Learning Goal 1. Written and Oral Communication in English. Students will communicate effectively in both speech and writing.

Institutional Learning Goal 2. Mathematics. Students will use appropriate mathematical and statistical concepts and operations to interpret data and to solve problems.

Institutional Learning Goal 9. Ethical Reasoning and Action. Students will understand ethical frameworks, issues, and situations.

Institutional Learning Goal 11. Critical Thinking: Students will use critical thinking skills understand, analyze, or apply information or solve problems.

Program Learning Outcomes for AAS Accounting (PLO)

#3 Analyze financial statements, prepare managerial reports, and suggest appropriate actions to alleviate or eliminate problems;

#4 Implement an effective system of internal control;

#6 Research printed and electronic resources, evaluate the quality of the information, and report findings orally and/or in written reports.

Units of study in detail – Unit Student Learning Outcomes:

[**Unit I Auditing: Integral to the Economy** [Supports Course SLO #1]

Learning Objectives

The student will be able to:

1. Define the objective of external auditing and describe its role in meeting society's demands for reliable financial and internal control information.
2. Determine parties involved in preparing and auditing financial statements and briefly describe their roles.
3. List the types of audit service providers and the knowledge needed by professionals entering the external auditing profession.
4. Identify organizations that affect the external auditing profession and the nature of their effects.
5. Define audit quality and identify drivers of audit quality as specified by the Financial Reporting Council's *Audit Quality Framework*.
6. Specify professional requirements that help to achieve audit quality and minimize auditor exposure to lawsuits.
7. Describe the process by which audit firms make client acceptance and continuation decisions.

Unit II The Auditors Responsibility Regarding Fraud and Mechanisms to Address Fraud: Regulation, Corporate Governance and Audit Quality [Supports Course SLOs #1]

Learning Objectives

The student will be able to:

1. Iterate the various types of fraud that affect organizations.
2. Explain the fraud triangle and describe the three elements of the fraud triangle.
3. Describe implications for auditors of recent fraudulent financial reporting cases and the third COSO report on fraud.
4. Discuss auditors' fraud-related responsibilities and users' related expectations.
5. Explain how various requirements in the Sarbanes-Oxley Act of 2002 are designed to help prevent the types of frauds perpetrated in the late 1990s and early 2000s.
6. Define corporate governance, identify the parties involved, and describe their respective activities.

Unit III Internal Control over Financial Reporting: Management's Responsibilities and Importance to the External Auditors [Supports Course SLO #1]

Learning Objectives

The student will be able to:

1. Articulate the importance of internal control over financial reporting for organizations and their external auditors.
2. Define internal control as presented in the COSO *Internal Control-Integrated Framework* and identify the components of internal control.
3. Describe the control environment component of internal control, list its principles, and provide examples of each principle.
4. State the risk assessment component of internal control, list its principles, and provide examples of each principle.
5. Describe the control activities component of internal control, list its principles, and provide examples of each principle.
6. List the information and communication component of internal control, list its principles, and provide examples of each principle.
7. Describe the monitoring component of internal control, list its principles, and provide examples of each principle.
8. Identify management's responsibilities related to internal control over financial reporting.
9. Distinguish between material weaknesses, significant deficiencies, and control deficiencies in internal control over financial reporting.
10. Articulate the importance of internal control over financial reporting for the external audit and apply the concepts related to management's and the auditor's assessment of internal control effectiveness.

Unit IV Professional Liability, Auditor Judgement Frameworks, and Professional Responsibility [Supports Course SLO #1]

Learning Objectives

The student will be able to:

1. Discuss the liability environment in which auditors operate and explore the effects of lawsuits on audit firms.
2. List laws from which auditor liability is derived and describe the causes of legal action against auditors
3. Describe auditor liability under contract law common law, and statutory law.
4. Articulate a framework for making quality professional decisions and apply this framework to selected audit settings.
5. Articulate a framework for making quality ethical decisions and apply this framework to selected settings.
6. Identify guidance on auditor's professional responsibilities and make audit decisions informed by appropriate professional guidance.

Unit V Professional Auditing Standards and the Audit Opinion Formulation Process [Supports Course SLO #1]

Learning Objectives

The student will be able to:

1. Discuss the liability environment in which auditors operate and explore the effects of lawsuits on audit firms.
2. List laws from which auditor liability is derived and describe the causes of legal action against auditors
3. Describe auditor liability under contract law common law, and statutory law.
4. Articulate a framework for making quality professional decisions and apply this framework to selected audit settings.
5. Articulate a framework for making quality ethical decisions and apply this framework to selected settings.
6. Identify guidance on auditor's professional responsibilities and make audit decisions informed by appropriate professional guidance.
7. Determine situations requiring the auditor to use a specialist/expert in gathering and evaluating evidence and describe the auditor's responsibilities related to that specialist/expert.
8. List the evidence needed for related-party transactions.
9. Describe the characteristics of quality audit documentation.
10. Explain the nature, design, and purposes of audit programs.
11. Apply the framework for professional decision-making and ethical decision making to issues involving audit evidence.

Unit VI A Framework of Audit Evidence [Supports Course SLO #1]

Learning Objectives

The student will be able to:

1. Discuss the importance of evidence concepts of appropriateness and sufficiency and explain how those concepts are related to the risk of material misstatement.
2. Identify factors that determine the appropriateness of audit evidence.
3. Make professional judgments about the type and timing of audit procedures to use to obtain audit evidence.
4. Discuss the use of, and apply, substantive analytical procedures.
5. Identify factors that determine the sufficiency of audit evidence.
6. Identify issues related to audit evidence needed for accounts involving management estimates.
7. Determine situations requiring the auditor to use a specialist/expert in gathering and evaluating evidence and describe the auditor's responsibilities related to that specialist/expert.
8. List the evidence needed for related-party transactions.
9. Describe the characteristics of quality audit documentation.
10. Explain the nature, design, and purposes of audit programs.
11. Apply the framework for professional decision-making and ethical decision making to issues involving audit evidence.

Unit VII Planning the Audit: Identifying and Responding to the Risks of Material Misstatement [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Define the concept of material misstatement and discuss the importance of materiality judgments in the audit context.
2. Identify the risks of material misstatement and describe how they relate to audit risk and detection risk.
3. Assess factors affecting inherent risk, including fraud risk factors.
4. Assess factors affecting control risk.
5. Use planning analytical procedures to identify areas of heightened risk of material misstatement.
6. Describe how auditors make decisions about detection risk and audit risk.
7. Respond to the assessed risks of material misstatement and plan the procedures to be performed on an audit engagement.
8. Apply the framework for professional decision making and ethical decision making to issues involving materiality, risk assessment, and risk responses

Unit VIII Specialized Audit Tools: Sampling and Generalized Audit Software [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Describe how auditors use sampling and generalized audit software to gather sufficient appropriate audit evidence.
2. Explain the objectives of sampling for testing controls and account balances, and describe the risks associated with sampling.
3. Compare and contrast non-statistical and statistical sampling and apply these sample approaches.
4. Apply attribute sampling and use it to test controls.
5. Describe the sampling process used to gather evidence about misstatements in account balances and assertions.
6. Implement monetary unit sampling (MUS) and use it to test account balances.
7. Describe how to use general audit software (GAS) to automate the audit process.
8. Apply the frameworks for professional decision making and ethical decision making to issues involving sampling and generalized audit software.

Unit IX Auditing the Revenue Cycle [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Identify the significant accounts, disclosures, and relevant assertions in the revenue cycle.
2. Identify and assess inherent risks of material misstatement in the revenue cycle.
3. Identify and assess fraud risks of material misstatement in the revenue cycle.
4. Identify and assess control risks of material misstatement in the revenue cycle.
5. Describe how to use planning analytical procedures to identify possible material misstatements for revenue cycle accounts, disclosures, and assertions.
6. Determine appropriate responses to identified risks of material misstatements for revenue cycle accounts, disclosures, and assertions.
7. Iterate appropriate tests of controls and consider the results of tests of controls for revenue cycle accounts, disclosures, and assertions.
8. Determine and apply sufficient appropriate and substantive audit procedures for testing revenue cycle accounts, disclosures, and assertions.
9. Apply the framework for professional decision making and ethical decision making to issues involving the audit of revenue cycle accounts, disclosures, and assertions.

Unit X Auditing Cash and Marketable Securities [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Explain the significant accounts, disclosures, and relevant assertions in auditing cash accounts.
2. Identify and assess inherent risks of material misstatement in cash accounts.
3. Identify and assess fraud risks of material misstatement in cash accounts.
4. Identify and assess control risks of material misstatement in cash accounts.
5. Describe how to use preliminary analytical procedures to identify possible material misstatements for cash accounts, disclosures, and assertions.
6. Determine appropriate responses to identified risks of material misstatements for cash accounts, disclosures, and assertions.
7. Explain the appropriate tests of controls and consider the results of tests of controls for cash accounts, disclosures, and assertions.
8. Determine and apply sufficient appropriate and substantive audit procedures for testing cash accounts, disclosures, and assertions.
9. Identify types of marketable securities, articulate the risks and controls typically associated with these accounts, and outline an audit approach for testing these accounts.
10. Apply the framework for professional decision making and ethical decision making to issues involving the audit of cash accounts, disclosures, and assertions.

Unit XI Auditing Inventory, Goods and Services, and Accounts Payable: The Acquisition and Payment Cycle [Supports Course SLO #3, #4]

Learning Objectives

The students will be able to:

1. Determine the significant accounts, disclosures, and relevant assertions in the acquisition and payment cycle.
2. Identify and assess inherent risks of material misstatement in the acquisition and payment cycle.
3. Identify and assess fraud risks of material misstatement in the acquisition and payment cycle.
4. Identify and assess control risks of material misstatement in the acquisition and payment cycle.
5. Describe how to use planning analytical procedures to identify possible material misstatements for acquisition and payment cycle accounts, disclosures, and assertions.
6. Determine appropriate responses to identified risks of material misstatements for acquisition and payment cycle accounts, disclosures, and assertions.
7. Determine appropriate tests of controls and consider the results of tests of controls for acquisition and payment cycle accounts, disclosures, and assertions.
8. Apply sufficient appropriate and substantive audit procedures for testing acquisition and payment cycle accounts, disclosures, and assertions.
9. Implement the framework for professional decision making and ethical decision making to issues involving the audit of acquisition and payment cycle accounts, disclosures, and assertions.

Unit XII Audit of Long-Lived Assets: Use, Impairment, and Disposal [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Identify the significant accounts, disclosures, and relevant assertions in auditing long-lived assets.
2. Identify and assess inherent risks of material misstatement associated with long-lived assets.
3. Identify and assess fraud risks of material misstatement associated with long-lived assets.
4. Identify and assess control risks of material misstatement associated with long-lived assets.
5. Describe how to use planning analytical procedures to identify possible material misstatements associated with long-lived assets.
6. Implement appropriate responses to identified risks of material misstatement in auditing long-lived assets.
7. Perform appropriate tests of controls and consider the results of tests of controls in auditing long-lived assets.
8. Determine and apply sufficient appropriate and substantive audit procedures in auditing long-lived assets.
9. Apply the framework for professional decision making and ethical decision making to issues involving the audit of long-lived assets.

Unit XIII Auditing Debt Obligations and Stockholder's Equity Transactions [Supports Course SLO #3, #4]

Learning Objectives

The student will be able to:

1. Identify the significant accounts, disclosures, and relevant assertions in auditing debt obligations and stockholders' equity transactions.
2. Identify and assess inherent risks of material misstatement associated with debt obligations and stockholders' equity transactions.
3. Identify and assess fraud risks of material misstatement associated with debt obligations and stockholders' equity transactions.
4. Identify and assess control risks of material misstatement associated with debt obligations and stockholders' equity transactions.
5. Describe how to use planning analytical procedures to identify possible material misstatements associated with debt obligations and stockholders' equity transactions.
6. Perform appropriate responses to identified risks of material misstatement in auditing debt obligations and stockholders' equity transactions.
7. Determine appropriate tests of controls and consider the results of tests of controls in auditing debt obligations and stockholders' equity transactions.
8. Apply sufficient appropriate and substantive audit procedures in auditing debt obligations and stockholders' equity transactions.
9. Apply the framework for professional decision making and ethical decision making to issues involving the audit of debt obligations and stockholders' equity transactions.

Unit XIV Activities Required in Completing a Quality Audit [Supports Course SLO #4, #5]

Learning Objectives

The student will be able to:

1. Review, summarize and resolve detected misstatements and identified control deficiencies.
2. Review and assess the appropriateness of the client's accounting for and disclosure of loss contingencies.
3. Review and assess the appropriateness of the client's significant account estimates.
4. Review the adequacy of disclosures.
5. Review and assess the implications of noncompliance with laws and regulations.
6. Review the appropriateness of the going-concern assumption using relevant professional guidance.
7. Perform review analytical procedures.
8. Review management representations in certifications required under the Sarbanes-Oxley Act (for public clients) and describe the contents of a management representation letter.
9. Review subsequent events that occur after the balance sheet date and assess proper treatment.
10. Identify the procedures and documentation to perform an engagement quality review.
11. Address situations in which omitted audit procedures come to the auditor's attention after the audit has been issued.
12. Identify issues to communicate to the audit committee.
13. Identify issues to communicate to management via a management letter.
14. Apply the frameworks for professional decision-making and ethical decision-making to issues involved in completing the audit.

Unit XV Audit Reports on Financial Statements [Supports Course SLO #2, #6]

Learning Objectives

The students will be able to:

1. Identify and describe the principles underlying audit reporting on financial statements.
2. Describe the information that is included in a standard unqualified audit report on financial statements and list the requirements for issuing a standard unqualified audit report on financial statements.
3. Describe financial statement audit reports requiring an unqualified report with explanatory language and identify the appropriate audit report modifications.
4. Describe financial statement audit reports requiring a qualified report and identify the appropriate audit report modifications.
5. Describe financial statement audit reports requiring an adverse report and identify the appropriate audit report modifications.
6. Describe financial statement audit reports requiring a disclaimer of opinion and identify the communication the auditor is required to provide.
7. Assess various reporting situations requiring other than a standard unqualified report and determine the appropriate audit report that should be issued.
8. Describe the information that is included in a standard unqualified audit report on internal control over financial reporting and identify the appropriate audit report modifications for situations requiring other than an unqualified report on internal control over financial reporting.
9. Apply the framework for professional decision-making and ethical decision-making to issues involving audit reporting situations.

Unit XVI Advanced Topics Concerning Complex Auditing Judgments [Supports Course SLO #2, #6]

Learning Objectives

The students will be able to:

1. Discuss the nature and types of complex judgments that permeate audit engagements and identify complex audit judgments based on a review of a company's financial statements.
2. Assess whether misstatements, including prior-period misstatements, are material.
3. Describe audit considerations for long-term liabilities involving significant subjectivity.
4. Describe audit considerations for merger and acquisition activities, including restructuring.
5. Describe audit considerations for assessing management's fair value estimates and related impairment judgments.
6. Describe audit considerations for financial instruments.
7. Describe the activities of an internal audit function, assess the quality of the client's internal audit function, and determine the effect of a client's internal audit function on the financial statement audit.
8. Apply the framework for professional decision-making and ethical decision-making to issues involving complex audit judgments.

Unit XVII Other Services Provided by Audit Firms [Supports Course SLO #2, #6]

Learning Objectives

The student will be able to:

1. Identify and describe non-audit attestation services provided by audit firms and discuss relevant professional standards.
2. Explain review and compilation engagements, relevant procedures performed, and reports issued.
3. Explain the procedures and reporting requirements for providing assurance on interim financial information.
4. Discuss special reporting considerations for unique financial statement audit situations.
5. Describe attestation engagements relating to agree-upon procedures, financial forecasts and projections, and pro forma financial information and the types of reports that will be issued for these engagements.
6. Explain forensic accounting and distinguish between forensic accounting and auditing.
7. Describe sustainability reporting and articulate the auditor's role in providing assurance on management sustainability reports.

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Evaluation of student learning:

All course student learning outcomes will be assessed by the following activities.
Test questions will be selected to evenly assess all expected outcomes.
Grades will be assigned as detailed below

Tests (4 @ 15% each)	60%
Integrated Audit Practice Case	25
Writing Assignment(s) and class participation	<u>15</u>
	100%